



Plan Enhancements Starting 2025!

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Roth Option

Knox County Retirement participants may contribute to the 457b Plan on either a Pre-tax or Roth basis beginning January 1, 2025.

Basics of Knox County's Roth Option

Participants may elect to make pre-tax and/or Roth deferrals to the 457b Plan. If you are eligible for a 457b Employer match, that match will be based on the total contribution you make to the 457b Plan, including Roth deferrals. All Employer matching funds will go into your main retirement account (Asset or STAR). Rollover funds from qualified outside employers will be accepted.

Considerations

To take full advantage of the Roth option and receive tax-free distributions, **BOTH** of the following conditions must be met:

1. Roth contributions must be held for 5 years, AND
2. First distribution must take place on or after the age of 59 ½.

If the distribution conditions described above are not met, earnings on your Roth contributions may be taxed as ordinary income at the time of distribution.

Your pre-tax and Roth contributions will be separately accounted for in the 457b Plan.

All distributions from the 457b Plan are made on a pro-rata basis from your pre-tax and Roth deferrals.

Deferred Compensation SPD
available on Retirement website.

The More You Know About Roth...

Comparing Traditional & Roth Accounts

Feature	<i>Roth</i>	<i>Traditional Pre-Tax</i>
Contributions	Employee elective Post-tax contributions	Employee elective Pre-tax contributions
Income Limits	No Limitations	No Limitations
Maximum Elective Contributions	Subject to annually revised IRS contribution & catch-up limits <i>See Retirement website</i>	Subject to annually revised IRS contribution & catch-up limits <i>See Retirement website</i>
IRS limit considers the combination of these accounts contributions. ¹		
Taxation of Distributions	Contributions & earnings generally not subject to taxes if distribution is “qualified”. <u>Account must be held for at least 5 years</u> and distribution is made: <ol style="list-style-type: none"> 1. After age 59 ½; 2. Due to disability; or 3. After death 	Contributions & earnings subject to federal tax and applicable state income taxes. ²
Required Minimum Distribution (RMD)	No requirement to start taking distributions while owner is alive.	Must begin no later than age 73, unless actively employed.

¹ This limitation is by individual, rather than by Plan. Although permissible to split the annual employee elective contributions between designated Roth account contributions and traditional pre-tax account contributions, the combination cannot exceed the deferral limit. IRS limits posted on Knox County Retirement’s website (www.knoxcounty.org/retirement).

² Federal tax withholding is 20% on pre-tax portion of retirement account.

When should I consider enrolling in Roth?

- ✓ If you expect your tax rate to be the same or higher in retirement than it is now, you might consider Roth.
- ✓ If you are younger and have many years to contribute, over time, you may find that a greater proportion of your account will be made up of earnings. Since earnings may be tax free in a Roth, this can be a powerful tax benefit.
- ✓ If you are a highly compensated employee, a Roth account may be appealing. Unlike a Roth IRA, there are no income limitations to participate. High income earners are able to save in a retirement account that offers the potential for tax-free distributions.
- ✓ If you would like to diversify your future risk, you may want to put some of your retirement money in a Roth. Since qualified distributions are tax-free, you won’t have to worry about future tax rates and how they may reduce your retirement income.
- ✓ If you have already reached your retirement savings goals and are more concerned with transferring assets to your heirs, you may want to consider making Roth contributions.

How to enroll:

Go to www.knoxcounty.org/retirement and select FORMS at the top of the page. Go to bottom of the page and select VOLUNTARY 457 PLAN then *Voluntary 457 Form*.

Return 457 Forms by mail or...
Email: retirement@knoxcounty.org

Please contact the Knox County Retirement Office with any questions you may have.

Roth Q & A

What is a Roth account?

A Roth account allows you to contribute after-tax dollars to your 457b Plan. Unlike traditional 457b contributions, which are made pre-tax and taxed upon withdrawal, Roth contributions grow tax-free and are distributed tax-free provided certain conditions are met.

What is the key difference between traditional pre-tax contributions and Roth contributions?

Both types of contributions are withheld from your pay and deposited into your account. The difference is in the way the contributions (and eventual distributions) are taxed.

Traditional Account Contributions

Contributions are made pre-tax, so you reduce your current income and pay less in taxes now. When the time comes to take distributions from your account, your contributions (and earnings) will be taxed as ordinary income.

Roth Account Contributions

Although withheld from your pay, your Roth contributions are made after-tax so there is no immediate tax benefit in the year you contribute. Instead, you will realize a tax benefit when you take distributions from your account. Qualified distributions of the amounts you contributed, as well as the earnings on those contributions, will be free from federal (and in most cases) state taxes.

Can I make both traditional pre-tax and Roth contributions in the same year?

Yes, you can make contributions to both a Roth account and a pre-tax account in any proportion you choose. However, the total amount you may contribute in any one year is limited by the IRS. For 2025, this limit is \$23,500 (plus an additional \$7,500 catch-up contribution if you are age 50 or older or \$11,250 if you are age 60 to 63 in the calendar year).

If I start making Roth contributions and decide I want them treated as pre-tax contributions, can I recharacterize and transfer them to my pre-tax account?

No, this is an irrevocable election made at the time of the contribution. Once they are designated as Roth, they cannot be changed to pre-tax contributions.

Can I make contributions to both a Roth IRA and Roth retirement account?

Yes, provided you are otherwise eligible to make Roth IRA contributions. Participating in a Roth does not affect your eligibility to contribute to a Roth IRA and vice versa.

How will contributing to a Roth account affect my current take-home pay?

Although your Roth account contribution is withheld from your paycheck, it is made with after-tax dollars, so it does not decrease your current taxable wages. You will pay current taxes on your higher gross income amount. On the other hand, traditional account contributions are made pre-tax, so they reduce your current taxable compensation, and consequently reduce the amount of income taxes you owe for the current year.

Can I roll an existing Roth IRA into a new Roth Retirement Account?

Rollovers are not permitted from a Roth IRA to a Roth Retirement Account.

What is a “qualified” distribution?

In order for a Roth account distribution to be tax-free, it must be a qualified distribution. To be considered qualified, a distribution must be made after a 5 year period of participation and either:

- On or after the date you turn age 59 ½, or
- Upon your death or disability

What happens if I take a distribution from my Roth Retirement Account that is not a “qualified” distribution?

If the distribution is not “qualified”, then the portion of the distribution in excess of your Roth contributions (i.e. your investment earnings) is taxable.



The reality...

No one knows what tax rates will be 20, 30 or 40 years from now. This flyer is intended to help you consider your options in choosing to make Roth and/or traditional account contributions to your retirement plan.