Introducing a new savings opportunity

Your guide to

ROTH 457(b) Contributions

MNDCP Minnesota Deferred Compensation Plan
Plan Now

Added choice in the MNDCP Plan

A unique opportunity for tax-free* retirement income.

The Minnesota Deferred Compensation Plan (MNDCP) offers you the opportunity to save pre-tax dollars for retirement. Beginning in 2012, you will also have the option to save on an after-tax basis through Roth contributions. The Roth doesn't change how much you can contribute nor does it change where you can invest. It gives you more control over when your contributions — and retirement income — will be subject to income tax.

Pre-Tax Contributions

- No taxes on contributions
- Taxes paid when withdrawn

Pre-tax contributions to your MNDCP account means taxes aren't withheld when you contribute. Instead, you pay ordinary income tax on both the contributions and any earnings at the time you withdraw your money. This tax-deferral means more money goes into your MNDCP account than comes out of your paycheck. For example, if you're in a 25 percent tax bracket and you contribute $100, only $75 comes out of your paycheck because you're deferring the tax until you withdraw the $100.

After-Tax Contributions

- Taxes paid on contributions
- Tax-free withdrawals*

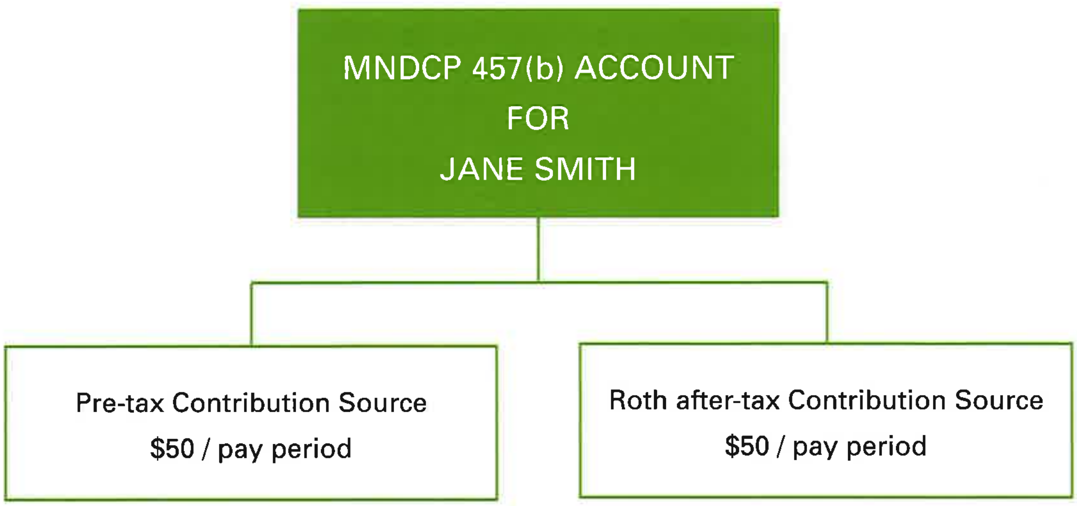
The Roth option provides an alternative to pre-tax investing. Roth contributions are considered "after-tax," which means taxes are withheld when you contribute. However, qualified distributions on your contributions plus any earnings are completely tax-free. As in the example above, if you contribute $100, the entire $100 comes out of your paycheck, but when you withdraw it from your MNDCP account, the entire amount plus any earnings are entirely tax-free.*

**Qualifying conditions apply.*

Now, you have a choice

Traditional pre-tax contributions, Roth after-tax contributions, or both

The choice is yours! For example, Jane Smith enrolls in the MNDCP. She has the option to contribute on a pre-tax basis, after-tax basis, or both. Jane has one MNDCP account, but for tax purposes, contributions are separated by source.



Use this guide to make informed decisions about your long-term savings goals. In the coming months, more information, including online calculators, will be available to help with your decision.

State of Minnesota employees will be able to contribute Roth after-tax dollars to their MNDCP account beginning January 2012. However, other Minnesota public employers may choose not to offer this feature or need more time to adjust their payroll procedures. Ask your employer if you will be able to make Roth contributions to your MNDCP account.

Compare pre-tax savings...

Now:	Later:
Pay no income taxes on contributions as you make them	Pay taxes on withdrawals at retirement

Contributions: Pre-tax contributions are deducted from your salary before taxes are taken. That can reduce your current taxable income.

Earnings, if any: Are tax-deferred until withdrawn.

Distributions: Are taxed as ordinary income.

Rollovers: Are allowed to another pre-tax 457(b), 403(b), 401(k), 401(a), or Traditional or Roth IRA.

(Rollovers to plans other than a governmental 457(b) may be subject to the IRS 10 percent early withdrawal penalty tax.)

Required Minimum Distributions: The IRS requires minimum distributions to begin at the later of age 70½ or retirement.

Who benefits? Employees who:

- expect to be in a lower tax bracket in retirement
- want to lower current taxes

...with Roth after-tax savings

Now:	**Later:**
Pay income taxes on contributions as you make them	Tax-free withdrawals at retirement

Contributions: Roth contributions are subject to federal, and where applicable, state and local income tax withholding.

Earnings, if any: Are tax-free as long as qualifying conditions are met (see "Roth-qualified Distributions" below).

Roth-qualified Distributions: Are tax-free as long as you've satisfied the 5-year holding period and are age 59½ or older (assuming you have separated from service, are disabled, or distribution is made to your beneficiary(ies) after your death).

Rollovers: Are allowed to another Roth account in a 457(b), 403(b), 401(k), 401(a) or Roth IRA.

(Rollovers to plans other than a governmental 457(b) may be subject to the IRS 10 percent early withdrawal penalty tax.)

Required Minimum Distributions: The IRS requires minimum distributions to begin at the later of age 70½ or retirement. However, if you roll over your MNDCP Roth balance to a Roth IRA before the calendar year in which you reach age 70½, minimum distributions are not required.*

Who benefits? Employees who:

- expect to be in a higher tax bracket in retirement
- are in a low tax bracket today or have other large tax deductions
- want tax-free withdrawals in retirement
- want the option of not taking required withdrawals at age 70½ (if you roll over to a Roth IRA)*
- exceed the Roth IRA income limitations (There are no income limits if you contribute Roth dollars to your MNDCP account.)

** Determine if Roth is appropriate for estate planning purposes.*

Whichever option you choose, you'll enjoy these key benefits:

Investing Convenience

You can put money aside using automatic payroll deductions.

Investment Flexibility

You can select from the same menu of investment options.

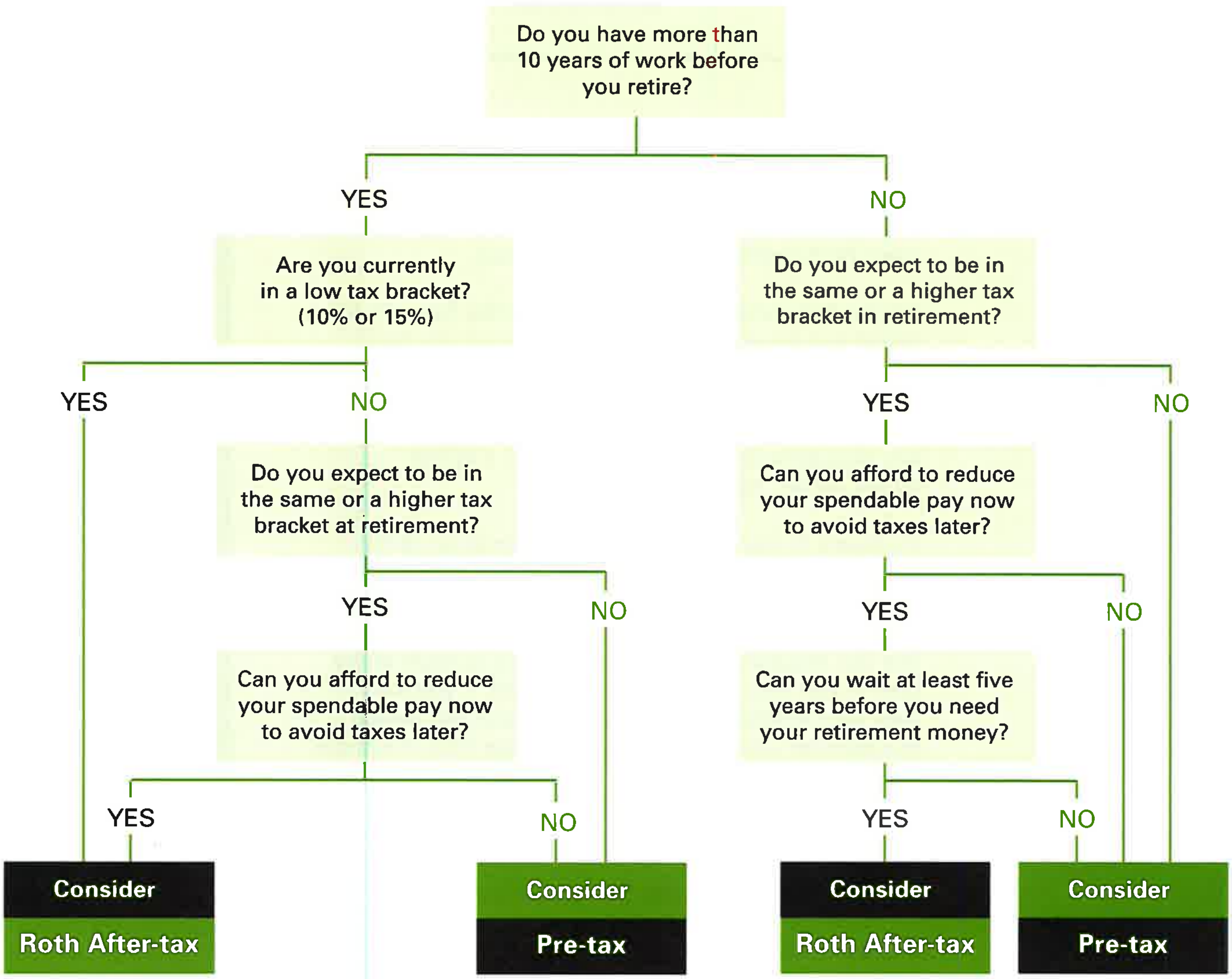
Higher Contribution Limits

You can contribute more in your MNDCP account than you can in an Individual Retirement Account (IRA) you set up on your own.

Which route is best for you?

Why would anyone choose to pay taxes now rather than later? The answer for some people is to have more tax-free income when they retire. The decision, however, is not the same for everyone and what is right for you depends on your individual situation.

Answer the questions below and follow the path indicated to make a preliminary determination as to which type of MNDCP plan contribution — traditional pre-tax or Roth after-tax — might be best for you.



The chart assumes you are contributing the same amount to the plan, whether you choose a traditional pre-tax contribution or a Roth after-tax contribution. With that approach, your spendable pay would be reduced during your working years by the amount of tax paid on the Roth after-tax contributions.

This chart is only intended to be a tool that can indicate which type of contribution might be right for you and is not intended to be tax, legal, or accounting advice. Your specific circumstances are not taken into account and may call for a different approach than the one indicated in the chart. Before deciding on a type of contribution, talk with a professional who can take into account any special factors that apply to you.

Can't decide?

Consider **both** pre-tax and Roth after-tax contributions.

A combination of pre-tax and Roth after-tax contributions may be right for you if:

- you like the idea of tax-free retirement income, but also like the current tax deduction on your pre-tax contributions.
- you believe your taxes in retirement will be about the same or are unsure where taxes are headed in the future.
- you would like the flexibility to optimize your tax strategy year-to-year as you withdraw your retirement income.

This information is provided for educational use only and is not intended as advice. Please consult with a professional to discuss these types of tax considerations before making a decision. MSRS Representatives are not able to personally advise on your decision.

Q&A

What are the features of the Roth?

- Roth contributions are deducted from your pay on an after-tax basis unlike pre-tax contributions that reduce your current taxable income.
- Roth contributions and earnings grow tax-deferred just like pre-tax contributions.
- A distribution of your Roth contributions and any earnings is not subject to federal or state income taxes (in most cases) as long as it is a "qualified distribution."

What is a "qualified distribution?"

To be considered a Roth qualified distribution, and therefore tax-free, there is a two-prong test that must be met:

1. 5-year holding period, and
2. Distribution on or after age 59½ (assuming you have separated from service, are disabled, or a distribution is made to your beneficiary(ies) after your death)

What is the 5-year holding period?

It determines when you can take tax-free income. To qualify for a tax-free distribution, your first Roth contribution must have been made to your MNDCP account at least five years prior to the date of distribution, and you must be age 59½ (assuming you have separated from service, become disabled, or upon death). The 5-year holding period begins on the first day of the taxable year in which you made an initial Roth contribution to your MNDCP account. It ends when five consecutive taxable years have passed.

If a distribution is not "qualified," how is it taxed?

A distribution taken before the end of the 5-year holding period or prior to age 59½ is considered a "non-qualified distribution." Any earnings would be taxed as ordinary income; however, the contribution portion of the distribution is tax-free since taxes were already paid.

Does the 10 percent IRS penalty tax for distributions prior to age 59½ apply?

No. However, the penalty tax could apply on distributions that represent amounts you previously rolled into your MNDCP account from another non-457(b) retirement plan (401(k), 401(a), 403(b), or IRA).

Can I contribute both pre-tax and after-tax dollars?

Yes. You may designate some or the entire amount as a Roth after-tax contribution or a traditional pre-tax contribution, or both. And, you can make adjustments at any time.

What are the contribution limits?

Your combined pre-tax and Roth after-tax contributions can't exceed the IRS annual limits. For 2011, you may contribute up to the lesser of 100 percent of eligible compensation or $16,500 if you are under age 50; $22,000 if age 50 or over; or up to $33,000 if you enroll in the "catch-up" provision.

How will contributing after-tax dollars affect my take-home pay?

It could reduce it. Unlike traditional pre-tax contributions, Roth after-tax contributions won't reduce your current taxable income. So you'll actually be paying taxes on a higher amount, which could reduce your take-home pay. (See example below.)

	Pre-tax contributions	Roth after-tax contributions
Gross income	$50,000	$50,000
Pre-tax contribution	-$5,000	N/A
Taxable income	$45,000	$50,000
25%[1] income tax rate	-$11,250	-$12,500
After-tax income	$33,750	$37,500
Roth after-tax contribution	N/A	-$5,000
Take-home pay	$33,750	$32,500

[1] *Based on current federal tax rates as of 2010*

Contributing Roth after-tax dollars may also affect your ability to take other tax credits and deductions (for example, student loan deductions, medical expense deductions, and child care tax credits). Whether you qualify for these credits and deductions depends on your income level. Since Roth contributions won't reduce your adjusted taxable income, your eligibility for these tax reductions could be impacted.

Can I contribute after-tax dollars to both MNDCP *and* a Roth IRA?

Yes, assuming you qualify for a Roth IRA (based on income limits). Participation in an employer-sponsored retirement plan like your MNDCP 457(b), 403(b), or 401(k) does not limit the contribution amount to a Roth IRA. You could contribute the maximum amount to a Roth 457 plan and, if eligible, to a Roth IRA.

I am currently contributing to my MNDCP account. How do I start making Roth contributions?

If your employer allows Roth after-tax contributions, you can make changes by calling the MSRS Service Center at 1-800-657-5757, option 3 or by accessing your account online at www.msrs.state.mn.us.

Note: State of Minnesota employees can make changes by calling the MSRS Service Center or on the state employee self-service website at http://www.state.mn.us/employee.

How do I make investment decisions if I decide to contribute after-tax dollars?

Your investment decisions are applied to all your contributions, whether pre-tax or Roth after-tax. Unless you want to change your current investment election, you won't have to make special investment decisions related to Roth after-tax contributions.

Will I be able to convert my MNDCP pre-tax savings to after-tax savings?

Federal regulations only allow you to convert your existing pre-tax savings to Roth after-tax amounts if you are eligible to take a distribution from your account. You become eligible:

- 30 days following retirement or termination of employment
- if disabled
- upon death. Your designated beneficiary may then initiate a distribution request

Also, pre-tax amounts previously rolled over from another type of retirement account (401(k), 401(a), 403(b), 457(b)) or Traditional IRA are eligible to convert to the Roth after-tax source.

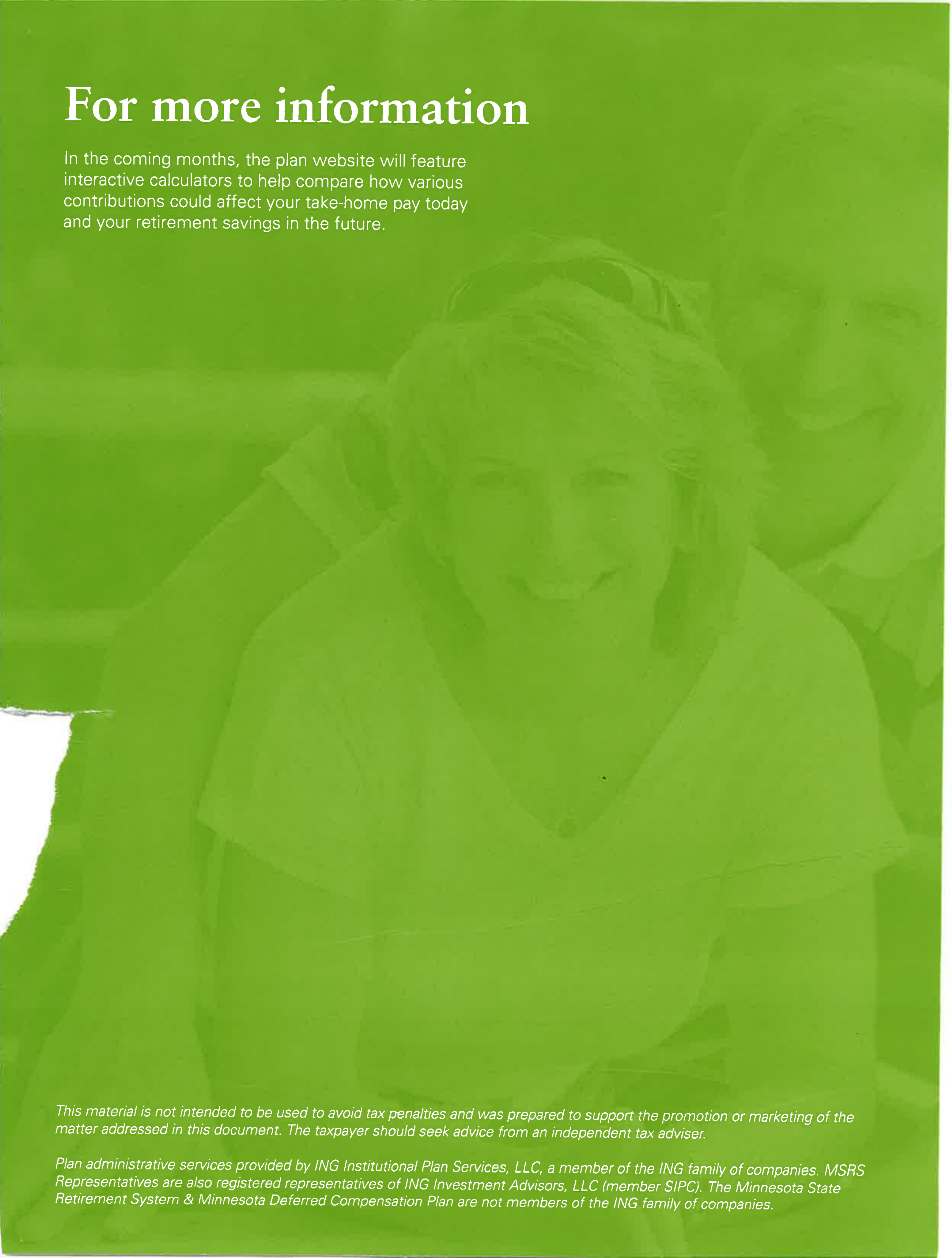
However, Required Minimum Distributions at age 70½, unforeseen emergency withdrawals, or distributions spread over long periods (i.e., life expectancy payments or payments that will last for 10 or more years) are not eligible to convert.

Some conversion points to consider:

- If you choose to convert your pre-tax savings to a Roth, the conversion amount is subject to income taxes in the year of the conversion. Such taxes must be paid outside of MNDCP.
- Once a conversion is processed, federal law does not allow it to be reversed.

For more information

In the coming months, the plan website will feature interactive calculators to help compare how various contributions could affect your take-home pay today and your retirement savings in the future.



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