

ROTH 403(b)

More savings opportunities for your employees

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The availability of Roth accounts in 403(b) plans is a welcome savings opportunity for many plan participants. Employees may appreciate the option of having their current contributions taxed now instead of their withdrawals at retirement.

Advantages for participants

- > Tax-free distributions, provided certain requirements are met
- > No income limits, unlike with a Roth IRA
- > Contribution and catch-up limits higher than those of a Roth IRA
- > Employees may still contribute to a Roth IRA, if they qualify
- > Reduce taxable income during retirement, potentially helping reduce taxation of Social Security benefits under current law

VALIC is ready with the expertise to help you develop and communicate a comprehensive Roth 403(b) program to your employees.

We've developed educational material and financial calculators, modified our recordkeeping and tax reporting system and changed our participant statements and enrollment forms. We can track the five-year aging period, the combined elective contribution limits, the after-tax cost basis for the Roth contribution and much more. In short, we make offering the Roth 403(b) an attractive option.

Roth 403(b)

Roth 403(b) accounts have higher contribution and catch-up limits than a Roth IRA.

Features

- > Employees must be eligible to participate in their employer's 403(b) plan, and their Roth contributions must satisfy requirements applicable to the 403(b) plan.
- > Although Roth 403(b) accounts are subject to required minimum distribution (RMD) rules, rolling a Roth account into a Roth IRA prior to age 70½ would avoid this requirement.
- > Roth account balances are portable to Roth IRAs or other Roth accounts if the receiving plan accepts such rollovers.

Contribution limits

Contributions to a Roth 403(b) account must always be separately accounted from other contributions offered in the retirement plan. Also, employer contributions and plan forfeitures, if any, cannot be allocated to a Roth account.

Contributions to a Roth 403(b) account are aggregated with pretax contributions for purposes of:

- > The aggregated IRC 402(g) annual dollar limit for all elective contributions, which cannot exceed \$16,500 in 2009.
- > The IRC 415 annual limits, \$49,000 in 2009, for aggregated employee elective contributions, employer contributions and any reallocated forfeitures.
- > Catch-up contribution limits (both age 50 catch-up and special catch-up, if applicable).

Distributions and rollovers

Because Roth account contributions are elective contributions (like pretax contributions) subject to plan provisions, a distribution can only be made upon attainment of age 59½, termination of employment, death, disability or retirement and, if permitted by the plan, for hardship reasons or for loans. Tax-free treatment applies only to qualified distributions. Income taxes must be paid on nonqualifying withdrawals from Roth account earnings. Federal restrictions and tax penalties can apply to early withdrawals.

A qualified distribution is one that is made after:

- > Five years from the date the first Roth contribution was made (known as the five-year aging rule) **and**
- > Participant reaches age 59½, is disabled or dies.

Keep in mind that, unlike with a Roth IRA, a first-time home purchase is not considered a qualified distribution from a Roth 403(b) account.

If Roth contributions are matched by the employer, the matching contributions are made on a pretax basis and are taxed at distribution.

Plan comparison

Issue	Traditional 403(b) contribution	403(b) Roth contribution
Subject to 402(g) limitation	Yes	Yes — 403(b) Roth contributions are aggregated with pretax contributions for a total of one 402(g) limit per participant.
Subject to 415 annual addition limit	Yes	Yes, aggregated with pretax contributions
Taxable upon contribution	No	Yes
Subject to income limitation (ability to defer)	No	No — Different from Roth IRAs where the ability to defer is limited by the employee's income.
Contributions taxable on distribution	Yes	No
Earnings taxable on distribution	Yes	No, if qualifying distribution
Eligible for rollover to non-Roth tax-favored plan or traditional IRA	Yes	No
Eligible for direct rollover to Roth IRA or other Roth accounts	Yes	Yes
Subject to Required Minimum Distributions (RMD)	Yes	Yes — Participant can avoid an RMD from the Roth account by rolling it over to a Roth IRA, which has no RMD requirement during the participant's lifetime.
Subject to distribution restrictions (severance, hardship, age 59½, death, disability and plan termination)	Yes	Yes
Eligible for safe harbor treatment	Yes	Yes
Distributions of excess contributions taxable	Yes	Yes — Earnings only
Highly compensated employees (HCE) may choose how excess contributions are treated	N/A	Yes — Subject to plan provisions, if any, an HCE with both pretax and Roth elective contributions may elect whether the excess contributions are to be attributed to pretax or Roth contributions.
Subject to ACP testing on employer matching contributions that are based on Roth contributions	Yes, if required	Yes, if required
Nonforfeitable	Yes	Yes
Available for loans	Yes	Yes
Eligible for match	Yes	Yes
Subject to separate accounting	Yes	Yes
Eligible for participant direction	Yes	Yes
Eligible for catch-up contributions	Yes	Yes
Included in account balance for cash-out purposes	Yes	Yes
Subject to Qualified Domestic Relations Order (QDRO)	Yes	Yes
Subject to USERRA make-up contribution rules	Yes	Yes
May receive forfeitures	Yes	No

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