UCRS Advisory Board

Meeting of June 19, 2020

AGENDA ITEM E

Retirement Savings Program – Addition of Roth Accounts – Discussion

At the request of the Chair, the Board will discuss the option and merits of adding Roth accounts to both the UC Tax-Deferred 403(b) Plan (403(b) Plan) and 457(b) Deferred Compensation Plan (457(b) Plan).

Currently, participant contributions to the 403(b) Plan and 457(b) Plan are made on a pretax basis, thereby lowering participants' taxable income for the year(s) in which contributions are made. Upon distribution, both the contributions and earnings are subject to taxation. These types of traditional tax-deferred arrangements are generally suitable for those participants who wish to lower their current taxable income and expect to be subject to lower tax rates when they begin taking distributions, usually in retirement.

If Roth accounts were added to the 403(b) and 457(b) plans, Roth contributions would be made on an after-tax basis, which would not reduce participants' taxable income for the year(s) in which contributions are made. However, upon a qualified distribution (see attachment), neither the amounts contributed nor the earnings would be subject to taxation. Roth accounts are generally suitable for those participants who may currently be subject to lower tax rates, but expect to be subject to higher tax rates in retirement. Additionally, a Roth account may be suitable for those who would prefer non-taxable distributions in retirement for a variety of reasons.

Please note that the plan documents for the 403(b) and 457(b) plans would need to be amended for the addition of Roth accounts, which would require a recommendation by the Plan Administrator and approval by the Regents.

The attached document provides further details and important considerations regarding Roth accounts.

Attachment