Massachusetts
Institute of
Technology

Introducing A New 401(k) Option – Roth Post-Tax Contributions

Available Beginning January 1, 2017

MIT is committed to helping you build financial security for your retirement years. Our retirement program has three complementary parts:

The MIT Basic Retirement Plan:

A pension plan paid for entirely by MIT that provides lifetime retirement income for faculty and staff with at least three years of service.

The MIT Retiree Medical Plan:

A plan that provides subsidized retiree medical benefits for faculty and staff who retire at age 55 or later with at least 10 years of MIT service after age 45.

The MIT Supplemental 401(k) Plan:

A savings plan that provides a 100% MIT match on your contributions up to 5% of your pay, up to IRS limits.

The 401(k) Plan provides an opportunity for you to save as much as $18,000 (or $24,000 if you are age 50 or older) in 2017. Currently, your contributions are made on a pre-tax basis.

Beginning January 1, 2017, you will have the option to save for retirement by making post-tax contributions to the 401(k) Plan, referred to as Roth contributions.

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Starting January 1, 2017, you can elect to make Roth post-tax contributions on Fidelity NetBenefits®. Follow the instructions on page 7.

What's New

Currently, your contributions to the 401(k) Plan are made on a pre-tax basis. This means your 401(k) contributions are taken out of your paycheck before taxes are deducted, which reduces your taxable income and therefore your current taxes. Once you retire and access your 401(k) account, however, you will pay taxes on your contributions, MIT's matching contributions and accumulated investment earnings.

Beginning January 1, 2017, you will have the additional option to save for retirement by making Roth post-tax contributions to the 401(k) Plan. If you choose the Roth option, you will pay taxes now on your 401(k) contributions, but those 401(k) contributions and accumulated investment earnings will be tax-free when you access your account upon retirement, as long as you meet certain criteria (as described in the next section).

Simply put, the Roth feature gives you another savings option that can help you maximize your retirement income.

Roth 101

The Basics of Roth Post-Tax Contributions

Roth post-tax contributions are an additional savings option in the 401(k) Plan. All other features of MIT's 401(k) Plan are staying the same. Here's what you need to know:

- Your contributions will continue to be deducted from your paycheck.
- You will continue to receive a 100% MIT match on the first 5% of pay you contribute, whether on a pre-tax or Roth post-tax basis.
- You can continue to make pre-tax contributions, change your contributions to Roth post-tax, or choose a combination of pre-tax and Roth post-tax contributions.
- You pay no taxes on your Roth contributions when they're paid out to you from the plan. You can withdraw Roth funds tax-free if you become disabled. If you die, your beneficiary will be eligible to make a tax-free withdrawal. This is based on current tax law, which is subject to change.
- Investment earnings on your Roth post-tax contributions will be tax-free when you withdraw them from the 401(k) Plan, as long as you are age 59½ and it has been at least five calendar years since you started making Roth post-tax contributions to the MIT 401(k) Plan. This five-year period starts on January 1 of the calendar year of your first Roth contribution. If you begin making Roth post-tax contributions on July 1, 2017, for example, your five-year period will be measured from January 1, 2017.

Comparing Traditional Pre-Tax and Roth Post-Tax Contributions

The table below compares the key features of traditional pre-tax and Roth post-tax contributions to the 401(k) Plan.

Feature	Traditional Pre-Tax Contributions	Roth Post-Tax Contributions
Annual contribution limit	The IRS limits your total contributions each year – pre-tax, Roth or a combination. Your combined contributions (pre-tax plus Roth post-tax) cannot exceed the annual IRS contribution limit ($18,000 in 2017 or $24,000 if you are age 50 or older) or 95% of your pay, whichever is lower.	
Current income taxes	None.	Taxed as part of your pay at the time you contribute.
Enrollment	You must make an active election – no automatic enrollment.	
Investment options	The same investment options are available for both pre-tax and Roth contributions. Visit **netbenefits.fidelity.com** for more detail.	
Loans	Yes – Pre-tax contributions are available to borrow.	No – Roth post-tax contributions are not available to borrow (but are counted as part of your account balance in determining the maximum loan amount).
MIT match	The 5% MIT match applies to combined pre-tax and Roth post-tax contributions. The MIT match is provided pre-tax, and therefore is fully taxable when you withdraw your matching contributions from the plan, along with associated investment earnings.	
Taxes on plan payouts	Contributions and investment earnings will be subject to income taxes at the time you receive payment and, if paid before you reach age 59½, an additional 10% penalty tax.	None if paid out to you after age 59½ and it has been five or more calendar years since you made your first Roth contribution. Otherwise, investment earnings on your Roth post-tax contributions will be subject to income taxes and, if paid before you reach age 59½, an additional 10% penalty tax.
Vesting	You always own 100% of your contributions – both pre-tax and Roth – as well as the MIT match, along with all associated investment earnings.	
Withdrawals	You can take withdrawals any time after you retire or leave MIT. You can make a withdrawal while working at MIT if you are at least age 59½ and your appointment is no more than 50% effort. Rollover contributions, including rollover Roth post-tax contributions, can be withdrawn at any time.	
When you can receive a plan payout	Any time after your employment with MIT ends. Tax penalties may apply if you receive distributions before age 59½.	

Two Examples

Sam and Jen: Current Tax Impact

Here are two examples that illustrate the impact of making traditional pre-tax versus Roth post-tax contributions on current taxes.

Sam and Jen, age 35, both earn $50,000 and pay taxes at the 30% rate. They both budget for take-home pay of $31,500 after deductions for their 401(k) contributions and taxes.

SAM

Sam is contributing **10%** of pay to the 401(k) Plan on a **traditional pre-tax** basis because he expects to be in a lower tax bracket in retirement. His 401(k) contribution of $5,000 reduces his taxable income to $45,000, so he pays taxes of $13,500 (30% of $45,000). His take-home pay after deducting his 401(k) contribution and taxes is $31,500.

JEN

Jen is contributing **7%** of pay to the 401(k) Plan on a **Roth post-tax** basis because she expects to be in a higher tax bracket after retirement. Her contribution of $3,500 does not reduce her taxable income, so she pays taxes of $15,000 (30% of $50,000). Her take-home pay after deducting her 401(k) contributions and taxes is also $31,500.

SAM: TRADITIONAL PRE-TAX		JEN: ROTH POST-TAX
$50,000	GROSS PAY	$50,000
$5,000	PRE-TAX 401(K) CONTRIBUTION	$0
$45,000	TAXABLE PAY	$50,000
$13,500	CURRENT INCOME TAXES PAID (30% RATE)	$15,000
$0	ROTH POST-TAX 401(K) CONTRIBUTION	$3,500
$31,500	NET TAKE HOME PAY	$31,500

Sam and Jen: 30 Years Down the Road

After 30 years, who will be better off? The answer is: it depends. Although Sam's 401(k) balance of $348,804 will be larger than Jen's balance of $244,163, he will pay taxes on all distributions from his balance and Jen's distributions will be tax-free.

As shown below, if both remain in the same tax bracket of 30% in retirement, their after-tax distributions will be identical. If Sam is in a lower bracket in retirement as he expects, the traditional pre-tax strategy is right for him. If Jen is in a higher bracket in retirement as she expects, the Roth post-tax strategy is right for her.

SAM: TRADITIONAL PRE-TAX		JEN: ROTH POST-TAX
$348,804	PROJECTED AGE-65 ACCOUNT BALANCE BEFORE TAXES	$244,163
	ANNUAL DISTRIBUTIONS AFTER TAXES	
$16,499	SAME TAX RATE IN RETIREMENT (30%)	$16,499
$15,321	HIGHER TAX RATE IN RETIREMENT (35%)	$16,499
$17,678	LOWER TAX RATE IN RETIREMENT (25%)	$16,499

Assumptions: 401(k) contribution made each year from age 35 to retirement at age 65. 5% investment return. Distribution period is 25 years after retirement at age 65.

The Bottom Line

Using the traditional pre-tax approach, Sam will save in taxes now, but upon retirement will pay taxes on his contributions plus investment earnings. Under the Roth post-tax approach, Jen's retirement distributions will be tax-free, but she will pay more taxes now.

As you can see, there are many factors to consider when deciding whether to make pre-tax versus Roth post-tax contributions — and each individual should have a tailored strategy depending on short- and long-term financial goals. Speak with your financial/tax advisor or MIT's dedicated Fidelity onsite representative who can help you make a decision right for you.

Another Factor to Consider: MIT's Pre-Tax Matching Contributions

Please keep in mind that Sam and Jen will also qualify for MIT's pre-tax matching contributions throughout their career, which together with investment earnings, will be distributed as taxable income to them when they retire. Additional retirement income will be payable to them from MIT's pension plan and Social Security.

The tax rates applicable to these other sources of retirement income can be affected by the choice of traditional pre-tax versus Roth post-tax contributions, so you are encouraged to consult with your financial/tax advisor or a Fidelity onsite representative as you consider your options.

Pre-Tax, Roth, or Both: Making a Decision Right for You

What should you consider when determining the best strategy for your retirement savings? The following questions can help you decide between traditional pre-tax and Roth post-tax contributions (or both), but speak with your financial/tax advisor or MIT's dedicated Fidelity onsite representative to help you make a decision right for you.

✓ **Do you want to pay taxes on your savings now, or later?** If you save pre-tax, your contributions aren't taxed, but your future distribution is. The opposite is true with Roth: your contributions are taxed up front, but no taxes are taken out when you receive a distribution (including any investment earnings).

✓ **Do you expect to be in a higher or lower tax bracket than you are in today?** This can help you determine if you want to pay taxes now or in the future.

Future *higher* tax bracket: You may want to consider Roth post-tax contributions. Your contributions will be taxed now, when you are in a lower tax bracket, instead of later, when you would be in a higher tax bracket.

Future *lower* tax bracket: Consider sticking with pre-tax contributions. You can contribute tax-free now and your distributions will be taxed later, when you're in a lower bracket.

The examples on page 4 show how tax rates can affect your annual retirement income under a traditional pre-tax and Roth post-tax contribution strategy.

Other Factors to Keep in Mind

In addition to the questions to the left, consider the following:

- Other sources of retirement income
- Diversifying your savings
- How much total income you receive in retirement and its impact on the taxation of some portion of your Social Security benefit

Taxes on Your Retirement Income

Your income during retirement could come from a variety of sources: the pension benefits you receive from MIT, your savings in the 401(k) Plan, payments from other employers' retirement plans, your personal savings and Social Security.

Most of this income will be subject to taxes, but Roth post-tax contributions to the 401(k) Plan and any investment earnings on those contributions will not.

Look ahead at your potential tax situation in retirement and speak with your financial/tax advisor or MIT's dedicated Fidelity onsite representative to help you decide how best to save today.

How to Elect Roth Post-Tax Contributions

If you would like to make Roth post-tax contributions to the 401(k) Plan, you must make an active election. You will not be enrolled automatically. You can elect to make Roth post-tax contributions beginning at any time on or after January 1, 2017 by following these steps:

1. Log into your Fidelity NetBenefits account on **http://netbenefits.fidelity.com**.
2. On the home page, click on the **Quick Links** drop down box on the right side of the red title bar showing your account balance.
3. Click on **Contribution Amount** from the drop down selections. The Contributions home page will appear.
4. Click on **Contribution Amount** under Manage your Contribution Amount. The Contribution Amount page will appear.
5. Update your contribution amounts in the Pre-Tax Deferral and/or Roth Basic **Desired Election** boxes. You can change your current Pre-Tax Deferral Contribution percentage, split your contribution between Pre-Tax Deferrals and Roth contributions or designate all your contributions as Roth contributions. There is also a Roth Calculator in the **Tools & Calculators** box on the right side of the page.

Your Roth post-tax contributions will begin as soon as administratively possible. To make Roth post-tax contributions, you choose a percentage of pay to contribute, just like you do for pre-tax contributions. Since your Roth post-tax contributions are post-tax; however, they will not reduce your current taxable income. This means your Roth post-tax contributions will be included in your taxable pay on your W-2 form. (Pre-tax contributions will reduce your taxable income and will not be included in your taxable pay on your W-2 form.)

Don't Leave Money on the Table!

MIT will match both pre-tax and Roth contributions to the 401(k) Plan, up to a combined maximum of 5% of eligible pay (up to IRS limits). Make sure you are saving at least 5% of pay to maximize the match!

For More Information

Here are a few ways you can learn more about the Roth option:

- Visit the 401(k) Plan page of the MIT Benefits website at **http://hrweb.mit.edu/benefits/401k** for:
  - A video on what to consider when thinking about pre-tax versus Roth post-tax contributions.
  - A link to the Fidelity calculator to model the effect on take-home pay now and annual income in retirement.
- Meet with an onsite Fidelity representative. To sign up, go to **http://getguidance.fidelity.com** or call **800-642-7131**.

More Detail: Conversions and Rollovers

Converting Existing Pre-Tax Contributions

Under current tax law, you can convert existing pre-tax contributions in the 401(k) Plan to Roth post-tax contributions. Contributions available for conversion include your own pre-tax contributions, the MIT match, and rollover contributions. You can convert some or all of these contributions.

If you convert pre-tax contributions into Roth post-tax contributions, you must pay taxes on the converted amount at the time of this conversion. This is because Roth distributions and accumulated investment earnings are tax-free when you later receive money from the plan. You will receive an IRS Form 1099R after the end of the year to report the taxable amount of the Roth conversion. You cannot make a withdrawal from the plan to help you pay for any income taxes you owe, so make sure you have adequate cash on hand to pay the required taxes.

Note that if you make this conversion, it is irreversible under IRS rules. You cannot re-convert Roth back to pre-tax contributions or reclaim taxes you paid when you made the conversion.

Rollovers from a Prior Employer's Retirement Plan

If you made Roth post-tax contributions to a 403(b) or 401(k) plan at a previous employer, you can roll over those savings to the MIT 401(k) Plan. Appropriate information from your prior plan must be received to accomplish this. This will normally be coordinated between the administrators of the plans.

The five-year requirement to receive tax-free Roth retirement income begins as of the first day of the calendar year you first made Roth post-tax contributions to your previous employer's plan, and applies to any future Roth post-tax contributions you make to MIT's 401(k) Plan.

For example, if you started making Roth post-tax contributions to a previous employer's plan on September 1, 2014, your five-year period would begin as of January 1, 2014 and be met as of December 31, 2018. You would be able to receive a tax-free payout (what you rolled over *plus* your Roth post-tax contributions to MIT's 401(k) Plan *plus* investment earnings on all your Roth money) any time after December 31, 2018, as long as you are at least age 59½.

Pre-tax savings in a previous employer's plan can also be rolled over to the 401(k) Plan.

Questions

Please contact a Fidelity representative at **877-MIT-SAVE (648-7283)**. Fidelity representatives are available on weekdays from 8:00 a.m. until midnight, ET.

When considering your options, MIT recommends that you consult with a financial/tax advisor or MIT's dedicated Fidelity onsite representative to help you think through your decision.