



**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.



State of Michigan 401(k) & 457 Plans

State of Michigan 457 Plan Roth Overview

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Introducing the State of Michigan 457 Plan Roth Option



- Planned availability in late summer 2025.
- Roth is an after-tax contribution option.
- Both pretax and after-tax Roth contributions can be made in the State of Michigan 401(k) and 457 Plans (the Plans) at the same time, up to the [annual IRS contribution limits](#).
- Roth can provide more control over when the contributions and investment earnings will be subject to federal income tax.
- Roth contributions will be matched (if applicable) by the employer. The employer match will be contributed to the pretax State of Michigan 401(k) Plan and taxed when a withdrawal is made.



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Contribution Option: Pretax



- Contributions are made on a **pretax** basis and reduce taxable income dollar-for-dollar.
- Investment earnings grow **tax-deferred**.
- **Taxes are paid** on pretax contributions and investment earnings **when money is withdrawn**.*

*Taxes as used in this presentation refer to federal income taxes. Review the State of Michigan's and local tax rules to determine when and if additional taxes apply.



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Contribution Option: After-tax



- Combines the characteristics of traditional contributions with the features of Roth Individual Retirement Accounts (IRA).
- No Adjusted Gross Income (AGI) limit.
- Roth contributions are made to the State of Michigan 457 Plan **after taxes** are deducted, so **taxes are paid now** not later.
- Both Roth contributions and any investment earnings will be **tax-free at distribution**, typically at retirement, so long as certain criteria are met.*

*Taxes as used in this presentation refer to federal income taxes. Review the State of Michigan's and local tax rules to determine when and if additional taxes apply.



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Qualified Distributions



- Any investment earnings on an employee's Roth contributions will be tax-free at distribution if:
 - It has been at least five calendar years (beginning Jan. 1 of the year of the employee's first contribution) since Roth contributions were started; **and**
 - An employee receives a distribution after attaining age 59½, becoming disabled, or dying.

Note: The five-consecutive-taxable year holding period begins the earlier of (i) January 1 of the first year the employee makes the first Roth contribution, or (ii) in the event that the employee makes a direct rollover to a Roth account from another Roth employer plan, the first year that the employee makes a Roth contribution to the prior employer's plan from which the direct rollover originated.



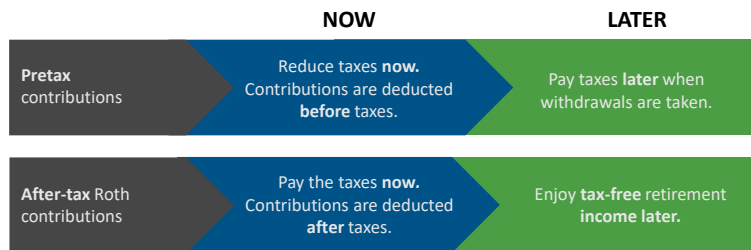
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Pay taxes now or later?



Choose from pretax, after-tax Roth contributions, or a mix of the two.



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When to consider Roth contributions?



- Currently younger or in a low tax bracket and income, marginal tax rate, or both are expected to rise substantially over time. Taxes may be lower today than in the future – including retirement years.
- High-income earners who expect to pay a high tax rate in retirement may more easily afford making the maximum annual contribution and pay taxes today, in exchange for tax-free income in retirement.
- Income is too high to qualify for Roth IRA, the Roth option in the State of Michigan 457 Plan provides the same tax-free withdrawal benefits without income restrictions.



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Roth Contribution Basics



- Any employee eligible to participate in the Plans may make Roth contributions.
- Roth contributions will be deducted from pay checks.
- Roth contributions can be changed at any time and a combination of pretax and Roth contributions can be used.
- Age 50+ catch-up contributions can be pretax, Roth, or a combination of both.
- No taxes are owed on Roth contributions or investment earnings when a qualified withdrawal is made.



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Is Roth the right option?



- Is the employee just beginning their career?
- What is the employee's current tax bracket?
- What does the employee expect their tax bracket to be in retirement?
- Does the employee want to pay taxes now or when they make a qualified withdrawal?
- Can the employee afford a reduction in their current take-home pay?
- Does the employee want to spread their tax strategy between pretax and after-tax Roth contributions?



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Meet Linda



Linda (Age 25)

- Wants long-term tax-free growth potential.
- Isn't worried about tax deductions now.
- Confident her salary will increase in the coming years.
- Expects to be in a higher tax bracket when she retires.



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Comparing Linda's Options



Linda's options	Pretax	After-tax Roth
Gross income	\$35,000	\$35,000
Pretax contribution (4% of pay)	\$1,400	N/A
Taxable income	\$33,600	\$35,000
Federal income tax (12%)	-\$4,032	-\$4,200
Roth after-tax contribution (4% of pay)	N/A	\$1,400
Net take home pay	\$29,568	\$29,400
Annual contribution	\$1,400	\$1,400
Total contribution over 40 years	\$56,000	\$56,000
Contribution value at retirement (assuming investment gains of 6% per year)	\$223,646	\$223,646
Federal income tax at retirement (12%)	-\$71,567	\$0
After-tax value at retirement	\$152,079	\$223,646

This is a hypothetical example for illustrative purposes only and does not represent current or future performance of any specific investment. No guarantees are made as to the accuracy of this illustration. This information does not serve, either directly or indirectly, as legal, financial or tax advice and employees should always consult a qualified professional legal, financial and/or tax advisor when making decisions relative to their individual tax situation.



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Meet Jeff



Jeff (Age 50)

- In his “peak” earning years
- Wants a current tax break
- Can’t afford to lose a tax deduction right now
- Expects to be in a lower tax bracket when he retires



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Comparing Jeff’s Options



Jeff's options	Pretax	After-tax Roth
Gross income	\$100,000	\$100,000
Pretax contribution (7% of pay)	\$7,000	N/A
Taxable income	\$93,000	\$100,000
Federal income tax (24%)	-\$22,320	-\$24,000
Roth after-tax contribution (7% of pay)	N/A	\$7,000
Net take home pay	\$70,680	\$69,000
Annual contribution	\$7,000	\$7,000
Total contribution over 15 years	\$105,000	\$105,000
Contribution value at retirement (assuming Investment Gains of 6% per year)	\$168,180	\$168,180
Federal income tax at retirement (12%)	-\$20,182	\$0
After-tax value at retirement	\$147,998	\$168,180

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Consider The Options Carefully



- Roth contributions can be made at any time.
- Employees do not need to take action now.
- Employees may want to consult a professional financial or tax advisor.



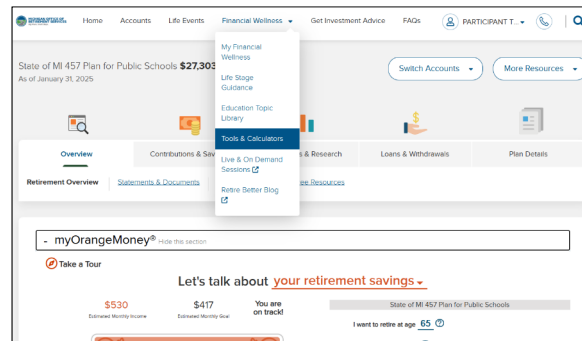
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Traditional vs. Roth 401k / 403b / 457b Calculator



- [Log in](#) to the Plans website.
- From the top navigation, select **Financial Wellness > Tools & Calculators > Retirement Tools & Calculators**.



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Traditional vs. Roth 401k / 403b / 457b Calculator



- Enter the required information.
 - Current age.
 - Age at retirement.
 - Annual contribution.
 - Invest traditional tax-savings: Check if employee will be investing their tax savings with an outside account using the traditional pretax option.
 - Maximize contributions: Check if employee wants to contribute the maximum amount allowed in future years.
 - Expected rate of return.
 - Current tax rate.
 - Retirement tax rate.

FINANCIAL WELLNESS HOME TOOLS TRADITIONAL VS ROTH 401K 403B 457B CALCULATOR

Traditional vs. Roth 401k / 403b / 457b Calculator

Compare the financial differences of a Roth vs. Traditional retirement account.

Is a Traditional (pre-tax) or a Roth (after-tax) retirement account right for you?

This tool compares the hypothetical results of investing in a Traditional (pre-tax) and a Roth (after-tax) retirement plan. Whether you participate in a 401(k), 403(b) or 457(b) program, the information in this tool includes education to assist you in determining which option may be best for you based on your personal financial situation. Keep in mind that there may be other factors—not included in this analysis—to consider.

Calculate **View Report**

Traditional vs. Roth 401k / 403b / 457b

Age and retirement plan information:

Current age: 40
Age at retirement: 67
Annual contribution: \$23,000.00
Total contributions: \$541,500

Invest traditional tax-savings: ☒ Invest annual tax savings generated by traditional account
Maximize contributions: ☒ Increase future amounts to the maximum allowed

Investment return and taxes:

Expected rate of return: 7%
Current tax rate: 22%
Retirement tax rate: 12%



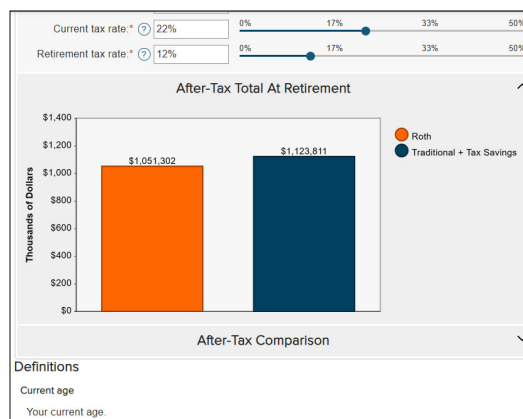
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Traditional vs. Roth 401k / 403b / 457b Calculator



- **Roth account:** total value of account.
- **Traditional account:** sum of two parts is depicted.
 1. The value of the account after income taxes on all earnings and tax-deductible contributions are paid; and
 2. What employee would have earned if they had invested (in an ordinary taxable account) any income tax savings.



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Traditional vs. Roth 401k / 403b / 457b Calculator



Once all information is entered, click **View Report** for detailed information on the results.

FINANCIAL WELLNESS HOME TOOLS TRADITIONAL VS ROTH 401K 403B 457B CALCULATOR

Traditional vs. Roth 401k / 403b / 457b Calculator

Compare the financial differences of a Roth vs. Traditional retirement account.

TOOL

Is a Traditional (pre-tax) or a Roth (after-tax) retirement account right for you?

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Calculate **View Report**

Traditional vs. Roth 401k / 403b / 457b

*Validation required

Age and retirement plan information:

Current age: 49 24 49 70

Age at retirement: 67 24 30 50 70

Annual contribution: \$25,000.00

Total contributions: \$541,500

Invest traditional tax savings: ☒ Invest annual tax-savings generated by traditional account

Maximize contributions: ☒ Increase future amounts to the maximum allowed

Investment return and taxes:

Expected rate of return: 7% 2% 4% 6% 12%

Current tax rate: 22% 2% 17% 33% 50%

Retirement tax rate: 12% 2% 17% 33% 50%

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Set Up Roth Contributions



- Roth contributions are made using automatic payroll deduction.
- **Log in** to the Plans website and select the Plan to update. Go to **Contributions & Savings > Manage Contributions > Update My Contributions.**



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Set up Roth 457 contributions



Manage My Contributions

Change Contributions
Update the amount you save from each paycheck or pay period.

10.0%
Total Contributions
Of Your Pay

15.0%
People like you who
are on track save:

0%
Total Catch-Up Contributions
Of Your Pay

[View Source Details](#)
[Update My Contributions](#)

Change My Contributions

[Additional Information](#)

Please select the amount that you would like to deposit in to your retirement account per pay period. Please note any per pay period figure displayed is only an estimate and is based on the salary stored in myOrangeMoney About Me assumptions.

Get help around which savings options make sense for you and the rules that govern availability. [Learn more.](#)

Employee Pre-Tax	<input type="range"/>	0.0%	\$0 per pay period
Employee Roth After-Tax	<input type="range"/>	5.0%	\$161 per pay period

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In-Plan Roth Conversions



- Option to convert the existing pretax State of Michigan Plan contributions to after-tax Roth contributions.
- Once converted, these amounts receive the benefits of Roth treatment (i.e., earnings grow tax-free) under Internal Revenue Code rules.
- Taxes on the converted amount must be paid in the year in which the conversion is made.
- The Roth conversion election is irrevocable under IRS rules.
- In-Plan Conversion form required.



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FAQs for Employers



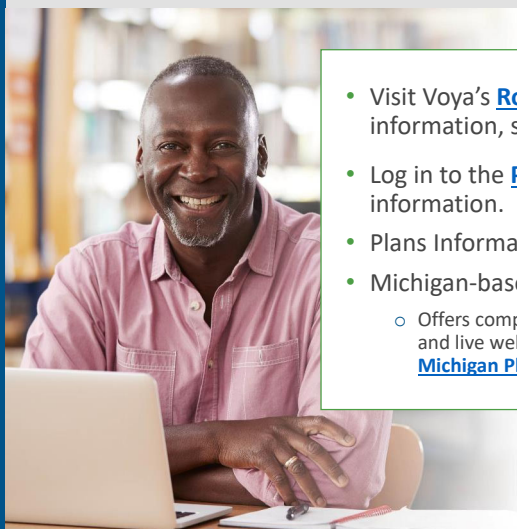
- **What is the difference between the Roth option in the Plans and a Roth IRA?**
 - The Roth option in the State of Michigan 457 Plan allows employees to save more because there is no Adjusted Gross Income (AGI) limitation and the annual contribution limit is higher. Roth IRAs are available to single individuals and married couples depending on their AGI.
- **Can employees contribute to the Roth option in the Plans and a Roth IRA?**
 - Yes, assuming they qualify for a Roth IRA.
- **Can employees take a loan from their Roth contributions?**
 - Yes, however, only one loan may be outstanding in the Plans at a time. If they default on the loan, it will become a withdrawal from the Plans. If it is not considered a qualified withdrawal, penalties and taxes will apply.



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Learn More



- Visit Voya's [Roth website](#) for detailed information, saver scenarios, and FAQs.
- Log in to the [Plans website](#) for more information.
- Plans Information Line: **800-748-6128**.
- Michigan-based education team: **517-284-4422**
 - Offers complementary one-on-one appointments and live webinars detailing the Plans. Visit the [State of Michigan Plans Education Hub](#) to register.



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