Introducing

Roth After-tax Contributions

Northwestern | HUMAN RESOURCES

Effective September 1, 2022, a new option – Roth after-tax contributions – will be offered through the Northwestern University Retirement and Voluntary Savings Plans. Roth after-tax contributions offer an additional way for eligible plan participants to build financial resources for retirement.

This brochure highlights key features of Roth after-tax contributions and includes links to additional resources if you'd like to learn more.

No action is required. Continue reading to learn more about the Roth option. If you're interested in making Roth contributions beginning September 1, you can adjust your contribution elections via NetBenefits (see Next Steps).

it's all about YourBenefits

Two Ways to Contribute

With the introduction of a Roth after-tax contributions option – effective September 1, 2022 – eligible participants will have two ways to contribute to the Northwestern University Retirement and Voluntary Savings Plans, as described below:

Feature	Pre-tax Contributions (Current)	Roth After-tax Contributions (New)
Tax Implication	Tax-free now, taxed later	Taxed now, tax-free later
Your Contributions	Deducted from pay pre-tax – not included in current taxable income	Deducted from pay after-tax – included in current taxable income
Northwestern Matching Contributions	Northwestern continues to match $1 for every $1 you contribute to the Retirement Plan up to the first 5% of eligible earnings, whether you choose pre-tax contributions, Roth after-tax contributions or a combination of both	
IRS Contribution Limits	Up to a maximum of $20,500 in 2022 (or up to a maximum of $27,000 if age 50 or older in 2022); limits apply to pre-tax and Roth after-tax contributions combined	
Investment Earnings	Tax-deferred – you pay no taxes on investment earnings while these earnings remain in your account; you will pay taxes on investment earnings upon distribution	Tax-free – you pay no taxes on investment earnings while these earnings remain in your account or upon distribution
Availability of Loans	Yes	Yes
Minimum Required Distributions	Yes – starting April 1 following the year in which you turn age 72	

• *Pre-tax contributions are included in current income for purposes of Social Security and Medicare tax withholding.*

• *You may convert part or all your existing pre-tax contributions balance to Roth after-tax contributions – see* *Roth In-Plan Conversion: Something to Think About*.

With the introduction of the Roth after-tax contributions option, any pre-tax contributions you're currently making to the Retirement and/or Voluntary Savings Plans will not change. However, if you choose to start making Roth after-tax contributions, you must go to myHR to adjust your current contribution elections (see Next Steps).

Unlike a Roth Individual Retirement Account (Roth IRA) – which is available outside of the workplace – Roth after-tax contributions to qualified retirement plans such as the Retirement and Voluntary Savings Plans do not have income restrictions and are available to everyone who is eligible to contribute. (For information about the Roth IRA limits, visit the IRS website: irs.gov.)

How Roth After-tax Contributions Work

Unlike pre-tax contributions, Roth after-tax contributions do not reduce your current taxable income; you pay income taxes at the time you make contributions to the Retirement Plan, the Voluntary Savings Plan or a combination of both. While paying taxes today on Roth contributions will reduce your take-home pay, when you retire you will pay no taxes on the Roth distributions you receive, including any investment gains your Roth contributions may have earned over the years. (See *Tax-free Distributions: The Roth After-tax Advantage* below.)

You will continue to elect how much to contribute to each Plan:

» Up to 5% of eligible earnings to the Retirement Plan – once eligible to participate in this Plan, and

» Up to 75% of eligible earnings to the Voluntary Savings Plan.

You can elect any available combination of pre-tax and Roth after-tax contributions and make changes to your election at any time. Your pre-tax and Roth after-tax contributions combined cannot exceed the IRS annual limit – $20,500 in 2022 (though if you are at least age 50 before the end of the calendar year, you can make an additional "catch-up" contribution of $6,500, for a total of $27,000).

The introduction of Roth after-tax contributions will not change Northwestern's automatic or matching contributions to your Retirement Plan account.

The investment companies – Fidelity and TIAA – and investment options offered through the Retirement and Voluntary Savings Plans remain the same.

Paying taxes on your Roth contributions means less spendable income today but could result in more spendable income in retirement. That's because the distributions you receive in retirement based on these contributions will be tax-free. For additional insight into whether Roth after-tax contributions are a sound choice for you, consult with a professional tax advisor.

The Impact of Roth After-tax Contributions on Take-home Pay: An Example

Let's assume you are currently contributing a total of $5,000 to the Retirement and Voluntary Savings Plans each year using pre-tax contributions and are in the 15% tax bracket. If you elect instead to make $5,000 in Roth after-tax contributions:

» You will pay $750 more in income taxes for the year ($5,000 x .15 = $750), and

» You will receive $750 less in take-home pay for the year (or $62.50 less a month: $750 ÷ 12 = $62.50)

Tax-free Distributions: The Roth After-tax Advantage

Making Roth after-tax contributions to the Retirement and Voluntary Savings Plans can provide you with a source of retirement income that's entirely tax free.

There are two requirements that must be met for a distribution of your Roth after-tax contributions to be tax free in retirement. On the date you receive the Roth distribution:

1. At least five years must have passed from the beginning of the year in which you began making Roth after-tax contributions to the Plan, and
2. You must be at least age 59-1/2.

Are Roth After-tax Contributions Right for You?

It depends on your personal circumstances.

You might benefit by saving with Roth after-tax dollars if...

You are early in your career, so your current income tax is low. Your career is just getting started and you expect your income (and tax rate) to rise in the years to come, including in retirement. If you make Roth after-tax contributions today you could pay less in taxes on these contributions than you would when they are paid out to you as a distribution in retirement.

You are financially well-prepared for retirement. You may find yourself in the same or higher tax bracket in retirement, but your Roth after-tax contributions – and any investment gains on these savings – will not be subject to income taxes at that time.

You have a number of years before you retire to accumulate tax-free earnings.

You are not eligible to participate in a Roth IRA. Your modified adjusted gross income makes you ineligible to contribute to a Roth IRA, but you want to build a tax-free account to draw from in retirement. (For information about the Roth IRA limits, visit the IRS website: irs.gov.)

You might not benefit by saving with Roth after-tax dollars if...

You expect your current (or a lower) income tax rate will apply to you in retirement. In this case, you may be better off deferring payment of taxes on your Retirement and Voluntary Savings Plan benefits until after you retire.

Your current budget cannot accommodate the extra taxes due on Roth contributions today. Roth contributions will lower your take-home pay. If you are relying on the tax break from lower taxable earnings to maximize your pre-tax contribution amounts, you may be better off contributing a higher amount of pre-tax dollars today.

You are nearing retirement age and have a relatively short time left to accumulate tax-free earnings.

You haven't consistently saved for the future and expect Social Security to be the mainstay of your retirement. Chances are your income will fall in retirement and you may be in a lower tax bracket.

Pre-tax, Roth After-tax or Both: How Do You Choose?

With the introduction of Roth after-tax contributions, you can save using:

» Pre-tax contributions only OR

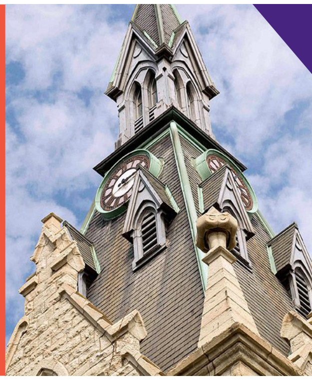
» Roth after-tax contributions only OR

» A combination of both.

The choice is yours and depends on your circumstances, including future outcomes that are difficult to predict such as your income, family status, and government tax policy.

Given this uncertainty, saving with both pre-tax and Roth after-tax dollars will diversify the tax treatments that will apply to you when you retire...and that may be a sound choice for many retirement savers.

Northwestern University cannot advise on whether making Roth after-tax contributions and/or making a Roth in-Plan conversion is a good tax strategy for you. You should direct all questions about how this new option may affect your personal tax situation to your tax or financial advisor.



Roth In-Plan Conversion: Something to Think About

With the introduction of Roth after-tax contributions, you may convert pre-tax account balances in the Retirement and Voluntary Savings Plans to a Roth after-tax account. This is known as a Roth in-Plan conversion.

Balances eligible for a Roth in-Plan conversion include amounts you contributed, the University's contributions and your rollover contributions (from a prior employer's plan or traditional IRA).

With a Roth in-Plan conversion, you pay taxes today on the pre-tax balance you choose to convert – both the original contribution amount and all investment earnings – so the taxes due upon making the conversion may be substantial and must be paid outside of the Plans for the tax year in which you make the conversion. With that in mind, the decision to make a Roth in-Plan conversion should be carefully considered and planned.

Q&A

Can I save using both pre-tax and Roth after-tax contributions? Yes. In 2022, you can save up to $20,500 a year using Roth after-tax contributions, pre-tax contributions or a combination of both. Plus – if you are age 50 or older – you can save up to an additional $6,500 a year, for a total of up to $27,000 in contributions a year.

Will Northwestern match my Roth after-tax contributions? Yes. If you're eligible to contribute to the Northwestern University Retirement Plan, any contributions you make to the Retirement Plan using Roth after-tax contributions, pre-tax contributions or a combination of both – up to the first 5% of eligible earnings you save through the Plan – qualify for Northwestern's matching contributions.

If I make Roth after-tax contributions to the Retirement Plan, are there any tax implications for the University matching contributions I receive? Northwestern University matching contributions are pre-tax contributions whether they apply to your pre-tax or Roth after-tax matching contributions. You will owe income taxes on any NU contributions (adjusted for investment earnings) at the time they are paid out to you as a distribution from the Retirement Plan.

If I make Roth after-tax contributions to the Retirement Plan and/ or Voluntary Savings Plan, can I still contribute to a Roth Individual Retirement Account (Roth IRA)? Yes, you can. However, you are eligible to make contributions to a Roth IRA only if your annual adjusted gross income is less than the specified limits. (For information about the Roth IRA limits, visit the IRS website: irs.gov.)

Will Roth account distributions from the Retirement Plan and/or Voluntary Savings Plan in the future be tax free? Yes, if at least five years have passed since the beginning of the year in which you made your first Roth after-tax contributions to the Plan(s), and you are at least age 59-1/2 at the time you receive the distribution. You may take distributions from the Plans at any time when your employment with the University ends. Distributions before age 59½ that are not rolled over into an IRA or other eligible retirement plan are generally subject to an additional tax equal to 10%. The tax implications of distributions from retirement plans are complex and subject to change. Consult your tax or financial advisor regarding the impact of any distributions you are considering from the Plans.

Next Steps

No action is required unless you choose to contribute using the new Roth option.

Update Your Contribution Amounts

Beginning September 1, 2022, you will be allowed to make an election to the Roth after-tax contribution option via NetBenefits, either directly on the website or over the phone.

Updates to your contribution amounts made by mid-month are generally reflected in your next paycheck.

» **Online via MyHR** – Click the *Benefits* tile and then *My Savings Plan Elections* on the left; this takes you to the NetBenefits website. Your contribution options will include pre-tax and Roth after-tax elections. For help navigating the website, follow the steps in this user guide or call NetBenefits at **800-343-0860**.

» **By phone** – You can call a NetBenefits representative at **800-343-0860** with any questions or to change your contribution elections.

Inquire About or Request a Roth In-Plan Conversion

Roth in-Plan conversions are handled directly by the Plans' investment providers, Fidelity and TIAA. If you have a question or are thinking of making a Roth in-Plan conversion, please contact a representative at:

» **Fidelity** – by phone at **800-343-0860**

» **TIAA** – by phone at **800-842-2252**

All contribution changes are administered using NetBenefits, whether your investments are held at Fidelity or TIAA.

Northwestern University cannot advise on whether making Roth after-tax contributions and/or making a Roth in-Plan conversion is a good tax strategy for you. You should direct all questions about this new option to your tax advisor or investment company (Fidelity/TIAA).

To Learn More

For additional information and answers to your questions about the Roth after-tax contribution option and/or Roth in-Plan conversions, please contact a representative at:

Fidelity:

» Online

» By phone at **800-343-0860**

TIAA:

» Online

» By phone at **800-842-2252**

For information on the University's Retirement and Voluntary Savings Plans (including the new Roth after-tax contributions option) – visit Retirement Plans.

Attend a Fidelity or TIAA live webinar, and watch for additional communications directly from your investment provider.

Register here **for Fidelity live webinars being offered multiple days/times.**

Register here **for a TIAA live webinar on September 20 from 12-1 p.m. CT. The event will be live on that day and then available on-demand for 90 days.**

Access education and resource materials regarding the Roth after-tax contributions option – from a brief video to a modeling tool – through Fidelity NetBenefits

This document is not intended as a substitute for the legal Plan documents or to provide legal, financial, or tax advice. If there are differences between the information presented in this brochure and the Plan document or current tax law, the terms of the latter will govern. Consult your tax or financial advisor regarding applicable Federal, state and local tax laws.