

**North Tooele Fire District  
Retirement Savings Plan Education Guide  
Roth 401(k), Roth 457(b), and Employer Matching**

**1. Why URS Is Now Offering Roth Options**

Utah Retirement Systems (URS) has expanded its deferred compensation offerings to include:

- Roth 401(k)
- Roth 457(b)

This change is occurring as part of:

- Federal retirement law updates under the SECURE 2.0 Act (2022)
- Modernization of the URS recordkeeping platform (AUREUS system)
- Alignment with retirement offerings now standard in both public and private sectors

This change does not impact the District's pension system (Tier 1 or Tier 2). It affects only voluntary deferred compensation savings plans.

Participation in these Roth plans requires employer adoption.

**2. What Is the Difference Between Traditional and Roth?**

The key difference is when taxes are paid.

Traditional 401(k) / 457(b):

- Contributions are pre-tax.
- Taxable income is reduced today.
- Investments grow tax-deferred.
- Withdrawals in retirement are taxed as income.

Roth 401(k) / Roth 457(b):

- Contributions are after-tax.
- No tax deduction today.
- Investments grow tax-free.
- Qualified withdrawals in retirement are tax-free.

Both plan types have the same IRS contribution limits.

Roth 401(k) and Roth 457(b) do not have income eligibility limits like Roth IRAs do.

**3. Why Employees Might Choose Roth**

Offering Roth options provides:

- Tax diversification in retirement
- Protection against potential future tax increases
- Greater flexibility when managing taxable income in retirement
- A savings option often preferred by younger employees

**Offering Roth participation does not increase cost to the District unless the employer match structure is changed.**

## 4. Understanding Employer Matching

### A. Current Traditional Employer Match

Under the current structure:

- The District contributes up to 2% (per Board-approved formula).
- Employer match is pre-tax.
- Employees do not pay tax on the match now.
- Taxes are paid when money is withdrawn in retirement.
- The match is not included in Box 1 taxable wages on the W-2 in the year contributed.
- The match is not subject to FICA when contributed.

This structure is simple for payroll and does not affect take-home pay.

### B. What Changed Under Federal Law (SECURE 2.0)

Prior to 2022:

Employer matches could not be designated as Roth.

**Under SECURE 2.0:**

**Employers may allow employer matching contributions to be treated as Roth (after-tax).**

This is optional and requires Board authorization.

## 5. How Roth Employer Matching Works

If Roth employer match is adopted:

- The District still contributes the full match amount (e.g., 2%).
- The full match is deposited into the Roth account.
- The match is treated as taxable income to the employee in the year contributed.
- Payroll withholds taxes during the pay period.
- The contribution is never taxed again in retirement.

Example:

Salary per pay period: \$4,000

Employer match: 2% = \$80

If traditional:

- \$80 deposited
- No tax impact now
- Taxed later at retirement

If Roth:

- \$80 deposited
- \$80 added to taxable wages that pay period
- Additional withholding applies
- No tax at retirement

The employee pays tax now instead of later.

## **6. Important Payroll Difference**

If Roth employer match is adopted:

- The match amount is added to taxable wages each pay period.
- Federal income tax applies.
- Social Security and Medicare (FICA) apply.
- Employer also pays employer-side FICA.
- The employee's net pay is slightly reduced.

If Roth employer match is not adopted:

- Employer match remains pre-tax.
- No change to paycheck withholding.
- No additional employer FICA.

## **7. Can Employer Matching Apply to All Plans?**

Eligible for employer match (if authorized by Board):

- 401(k)
- Roth 401(k)
- 457(b)
- Roth 457(b)

Not eligible for employer match:

- Traditional IRA
- Roth IRA

IRAs are individually owned accounts and are not employer-sponsored matching plans unless structured as SEP or SIMPLE IRAs.

## **8. Clarifying Common Misunderstandings**

Misunderstanding: Employer match cannot go to a Roth.

Correction: It can, under SECURE 2.0, if authorized.

Misunderstanding: The employer pays more tax if match is Roth.

Correction: The District does not pay income tax, but employer FICA applies if match is Roth.

Misunderstanding: Employees get less match if taxes apply.

Correction: The full match amount is deposited. Taxes are withheld separately.

Misunderstanding: IRAs can receive employer match.

Correction: They cannot under this structure.

## **9. Financial Impact to the District**

Roth participation alone:

- No change in employer cost.

Roth employer match:

- No increase in match percentage (if cap unchanged).
- Slight increase in employer FICA cost.
- Increased payroll administration complexity.

Match structure (combined cap vs per-plan cap) determines total financial exposure.

## **10. Governance Considerations**

Participation in Roth plans and employer matching structure are separate decisions.

The Board may choose to:

- Approve Roth participation only.
- Approve Roth participation and retain traditional employer match.
- Approve Roth participation and extend Roth employer match.
- Modify match formula (combined cap vs per-plan).

Each decision has cost and administrative implications.

## **11. Summary**

URS is offering Roth 401(k) and Roth 457(b) in response to federal law modernization and industry standards.

Offering Roth participation:

- Improves employee retirement flexibility.
- Aligns with modern public-sector retirement practices.
- Does not increase District cost by itself.

Employer Roth matching:

- Is legally permitted.
- Is optional.
- Causes the match to be taxed now instead of later.
- Increases payroll complexity.
- Does not change the match percentage unless the Board alters the formula.

This document is provided to ensure complete transparency and full understanding prior to any formal Board action.

## **12. Frequently Asked Questions (FAQ)**

Q1: Is the District changing our pension (Tier 1 or Tier 2)?

No. This only affects voluntary deferred compensation plans.

Q2: Does approving Roth participation cost the District more money?

No. Not unless match structure changes.

Q3: Will my paycheck change if Roth plans are approved?

Only if you choose Roth or if Roth employer match is adopted.

Q4: Why would anyone choose Roth if they have to pay taxes now?

For tax diversification and tax-free retirement income.

Q5: Is Roth employer match mandatory if Roth plans are approved?  
No.

Q6: If Roth employer match is allowed, does the employee receive less money?  
No. The full match amount is deposited.

Q7: Why does Roth employer match increase payroll complexity?  
Because it requires taxable wage adjustments and withholding calculations.

Q8: Does Roth employer match increase District liability?  
Slight employer FICA increase.

Q9: Can I get my match if I contribute only to the IRA?  
No.

Q10: If I contribute to both 401(k) and 457(b), do I get double match?  
Only if policy allows per-plan matching. Otherwise capped.

Q11: Is there any risk to employees?  
No change to pension. Roth simply changes tax timing.

Q12: Why is the District considering this?  
To modernize retirement options and remain competitive.

Q13: What happens if we do nothing?  
No Roth participation option available.

Q14: Can the Board reverse the decision later?  
Yes, via future resolution.

Q15: Is this required by law?  
No.

Q16: Is Roth better than Traditional?  
Depends on individual tax planning.

Q17: If employer Roth match is adopted, will it cause a large tax burden?  
Generally small impact per paycheck.

Q18: Does this impact Social Security calculations?  
Roth match increases taxable wages for FICA.

Q19: Will payroll be able to handle this?  
Yes, with proper setup and testing.

Q20: Is this common among fire departments?  
Yes, many now offer Roth participation.