Roth 403b (or Roth 401k) Deductions – How to Implement

These instructions describe the steps required to implement a Roth 403b (or Roth 401k) deduction in a district's payroll system.

The deduction as implemented below will be subject to income tax withholding and social security and Medicare taxes and will be reported in boxes 1,3 and 5 of the employee's W-2 form, as described in the Internal Revenue Service publication *2006 Instructions for Forms W-2 and W-3*.

In the *Payroll Module Administration* module, on the *Payroll Deduction Definition Screen*, you must add a new deduction definition record.

1. First review the *Deduction Priority* for currently defined deductions. The *Reports > Deduction Definitions Report* may be printed to make this step easier. The payroll system deducts money from employee's gross pay in order of the *Deduction Priority* defined for the deduction code. The lowest number deduction is taken first, then the next lowest number until the highest number deduction is taken.

    Depending on when your payroll system was installed, some of the deduction codes listed below may appear as "*System Defined*" and some may not. Some priority codes may match those show below and some may be different.

    Deduction priorities in the 100-range are reserved for deductions that are taken before Medicare and Social Security withholding taxes – such as Flexible Spending Account deductions. The system defines the following codes:

101 -	PSFSA	Premium Sharing Flexible Spending Account
102 -	DCFSA	Dependent Care Flexible Spending Account
103 -	MCFSA	Medical Care Flexible Spending Account

    Deduction priorities in the 200-range are reserved for deductions such as Medicare and Social Security withholding taxes – that are taken before other "pre-tax" deductions and before income tax withholding deductions. The system defines the following codes:

200 -	SST	Social Security withholding tax
201 -	MCT	Medicare withholding tax

    Deduction priorities in the 300-range are reserved for deductions such as MIP, TDP, etc. – that are mandated by MPSERS (or other third-parties) and are taken before other "pre-tax" deductions. The system defines the following codes:

301 -	MIP	MPSERS Member Investment Plan
320 -	TDP	MPSERS Tax-Deferred Purchase agreement

    Deduction priorities in the 400-range are reserved for deductions such as 403b, etc. – that are elected by the employee and are taken "pre-tax" before income tax withholding deductions. The system defines the following codes:

402 -	403B	403b tax deferred annuity

Deduction priorities in the 500-range are reserved for deductions such as FIT, MIT, etc. – that are income tax withholding deductions. The system defines the following codes:

    501 - FIT   Federal Income Tax withholding
    502 - MIT   Michigan Income Tax withholding
    503 - IIT   Indiana Income Tax withholding
    505 - EIC   Advanced Earned Income Credit

Deduction priorities in the 600-and-above range are reserved for deductions that are taken "after-tax" and are typically elected by the employee to be withheld from their pay. Depending on when your payroll system was installed, some of the deduction codes may appear as "system-defined" and some may not. The general idea is that the district, according to their needs, may define the deduction priorities.

It is suggested that deduction priorities in the 600-range are used for relatively "high" priority deductions such as garnishments (which should be the highest priority deduction above the 500-range), dues, insurance, etc. that are paid to third parties without having been really "elected" by the employee.

Deduction priorities in the 700-range may be used for "medium" priority deductions such as donations to charities, fundraising accounts, etc.

Deduction priorities in the 800-range could be used for relatively "low" priority deductions such as deposits to savings accounts, etc.

Though the priority of Roth 403b and Roth 401k deductions is up to the district, the priority must be at least 600 and should probably be a lower priority (higher number in the 600 range) than garnishments, insurance premiums, union dues and other mandated third party payments. However, it should probably be a higher priority (lower number in the over-600 range) than other employee elected deductions such as charitable donations, savings and checking deposits, etc. Note: make sure the *Deduction Priority* you choose is not being used by another deduction code. Also, always try to maintain a "gap" (e.g. 610, 620, etc.) between deduction priorities so that, if necessary, new deductions may be added in the priority order desired.

2. Click **New** or press the F9 key. The system will automatically assign a sequence number.

3. In the *Code* field enter one of the following codes. For Roth 403b deductions, use the deduction code "RTH3B"; for Roth 401k deductions, use the deduction code "RTH1K". The deduction codes must be entered exactly as specified here.

4. For *Description*, enter "Roth 403b Deduction" (or, "Roth 401k Deduction", if appropriate).

5. For *Abbreviation*, enter "Roth 403b" (or, "Roth 401k", if appropriate).

6. The *Deduction Priority* should be in the low 600-range.

7. Click to put a check mark in the *Balance Report* field, if it is not already checked.

8. The *Default Frequency, Default Organization, Default ASN, A/P Batches?* and *Sign* fields may be entered as desired.

9. There should be no records added to either the *Earning Codes Excluded from Wage Base* or *Deduction Codes Excluded from Wage Base* areas of the deduction definition record.

10. Click **Save** or press the F4 key to save the new deduction definition.

Your screen should look similar to the screen shown in Figure 1.

Figure 1 – Payroll Deduction Definition Screen

After the above record(s) have been added, review the *Payroll Financial Organizations Screen* for the appropriate vendor. If there isn't a vendor already set up, do so at this time. The vendor should be designated or titled as Roth, for example, Valic Annuity – Roth. The deduction records may be added to individual *Employee Elective Deduction Screens* as needed, using the normal procedures for that screen.