

Your Options for Making Contributions to the Aon Pooled Employer Plan (Aon PEP)



The Aon PEP is designed to provide flexibility to you when making decisions around saving for retirement – including the types of contributions you can invest in the plan. You have the flexibility to choose between three different types of employee contributions– before-tax, Roth, and after-tax. You even have the flexibility to use a combination of these contribution types.

Each type of contribution can play a valuable role in your retirement savings and they all may offer certain tax advantages. However, there are trade-offs in when and how much you pay in income taxes. In general, the greater the tax advantage, the less flexibility you have to access your money. This chart points out some key differences between the types of contributions.

Employee Contributions – Taxation and Limits

	When Taxes Apply			2022 Contribution Limits	
	When Contributed	While Invested	When Distributed ¹	Under 50	50 or Older
Before-tax	No	No	Yes	\$20,500 (combined with Roth)	\$27,000 (combined with Roth)
Roth	Yes	No	No ²	\$20,500 (combined with before-tax)	\$27,000 (combined with Before-tax)
After-tax	Yes	No	No – Contributions Yes – Investment Earnings	\$61,000 (combined with all other contributions)	\$67,500 (combined with all other contributions)

1. An additional 10% excise tax **may** apply to taxable distributions that occur prior to age 59-1/2.

2. Investment earnings are not taxed if qualification requirements are met.

Read on for more detail about each type of contribution.

Before-tax Contributions

The Basics

Before-tax contributions come with a big tax advantage. These contributions are made with before-tax dollars; in other words, they are deducted from your paycheck before income taxes are applied. You get to defer income taxes. When you take a distribution in the future, you will be taxed on your distribution including investment earnings.

For 2022, your before-tax contributions are subject to an IRS limit of \$20,500 plus an additional \$6,500 if you were born before 1973. These limits may increase each year and apply to all your combined before-tax and Roth contributions in the Aon PEP and any other retirement savings plan.



Why Before-tax Contributions May Be Right for You:

- **Consider your tax bracket now and your tax bracket later.**

Since you do not pay taxes now but pay taxes when you take your distribution, before-tax contributions can be a good option if you expect to be in a lower income tax bracket during your retirement years. Of course, when you think about your tax bracket in retirement, remember that distributions of before-tax contributions and all employer contributions will be considered taxable income.

- **Take advantage of employer matching contributions.**

If your employer offers a matching contribution under the Aon PEP, you need to contribute either before-tax or Roth contributions to get the match. If you feel limited in how much you can contribute to the plan, remember that before-tax contributions are taken out *before* you pay income taxes so you might be able to contribute more – and get more matching contributions – with less impact on your take-home pay than Roth contributions. Of course, this only matters if you are paying income taxes on your earnings now.

Roth Contributions

The Basics

Roth contributions also offer a tax advantage, but the timing is different from before-tax contributions. Roth contributions are made with after-tax dollars; in other words, they are deducted from your paycheck after income taxes are applied. The tax advantage comes in the future, when you take a distribution. You will not be taxed on your distribution, including any investment earnings, if your distribution is “qualified”. (A qualified distribution must occur at least 5 calendar years after your first Roth contribution and you must be at least age 59-1/2.)

In 2022, your Roth contributions are subject to an IRS limit of \$20,500 plus an additional \$6,500 if you will be at least age 50 during the year. (For 2022, this means you were born before 1973.) These limits may increase each year and apply to all your combined before-tax and Roth contributions in the Aon PEP and any other retirement savings plan.

Why Roth Contributions May Be Right for You:

- **Consider your tax bracket now and your tax bracket later.**

Since Roth contributions are made with after-tax dollars, they may be a good option if you expect to be in a higher income tax bracket during your retirement years. When you take a distribution, you won't be taxed on your contributions, and, if your distribution is qualified, you also will not be taxed the investment earnings.

It's important to remember that even if you make Roth contributions, all employer contributions, plus earnings on employer contributions, will be subject to tax when you take a distribution.

- **Maximize your savings opportunity.**

If you are planning to make significant contributions to the plan (for instance, up to the IRS annual limits), Roth contributions may be an effective way to increase your savings. If you do the math, contributing to the IRS limits with Roth contributions may create greater overall tax savings than contributing to the IRS limits with before-tax dollars. If you are in this situation, we suggest you speak with your financial advisor.

After-tax Contributions

The Basics

As the name suggests, after-tax contributions are deducted from your paycheck after taxes are applied. With after-tax contributions, when you take a distribution, you will be taxed on investment earnings, but not the amounts you contributed. This is different from Roth contributions.

Because after-tax contributions do not offer the same tax advantages as before-tax or Roth contributions, they can offer more flexibility. For instance, they are not subject to the IRS annual limits (\$20,500, plus \$6,500 if you are age 50 or older in 2022). In addition, the Aon PEP allows you to take withdrawals from your after-tax accounts at any time, without needing to demonstrate a financial hardship.

However, your after-tax contributions to the Aon PEP are not eligible for employer matching contributions. You should consider making before-tax and/or Roth contributions to receive any matching contributions your employer offers before choosing to make after-tax contributions.

Note: Each year the Aon PEP must pass certain tests to show the plan does not overly favor highly compensated employees or the owners of its participating employers. After-tax contributions are tested and some or all may need to be refunded, plus earnings, if necessary to pass the test.

Why After-Tax Contributions May Be Right for You

- **Save beyond the limits on before-tax and Roth contributions.**

Before-tax and Roth contributions may offer you a greater tax advantage than after-tax contributions, but you are limited in how much you can contribute each year. If you want to save even more, you may be able to do that with after-tax contributions. For 2022, no more than \$61,000 (plus \$6,500 if you were born in 1972 or earlier) may be added to your Aon PEP account across all contribution types, including employer contributions. This may allow you to make considerable contributions into the Aon PEP to add to your retirement savings.

- **Access to your savings while you are still active.**

Under the Aon PEP you can request a withdrawal of your after-tax contributions at any time. Unlike before-tax and Roth contributions, after-tax withdrawals need **not be** limited to financial hardship before age 59-1/2. When you take an after-tax distribution, you are not taxed on the amounts you contributed, however any portion of your withdrawal attributable to earnings is subject to income tax. If you take a withdrawal before age 59-1/2, your taxable earnings may also be subject to the 10% excise tax for early distributions.

- **Increase your ability to accumulate Roth contributions.**

By making after-tax contributions, you may be able to increase your Roth contributions beyond the IRS annual contribution limits. Under current rules, your after-tax savings may be converted to Roth by either:

- Requesting an in-plan Roth conversion of your after-tax account, or
- Requesting a withdrawal from your after-tax account and directing it into a Roth IRA.

In both cases, you will be taxed on any investment earnings. Special rules apply and the action is irrevocable, so you should talk to your tax advisor to make sure this approach makes sense for you.

For More Information

If you have questions on this topic or other questions regarding the Aon PEP, log in to your account at AonPep.Voya.com, access the Voya Retire mobile app, or call the Aon PEP Retirement Service Center at 1-833-AON-9PEP (1-833-266-9737).

This article was designed to give you an overview of considerations for choosing how to contribute to the Aon PEP. Individual circumstances can vary greatly. You may want to discuss your situation with your personal adviser.

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