A new way to invest for Retirement.

By now, you may have heard of the Roth IRA. You may even have one set up. Well, you also have the opportunity to contribute all or part of your salary deferrals to a Roth 401(k) account within your company's retirement plan.

With a traditional 401(k), the contributions you make are with pre-tax dollars. Any money that the account gains is tax deferred. You'll pay taxes when you take a distribution. In addition, you'll need to start taking required minimum distributions at age 70½.

With a Roth 401(k) account, you make after-tax contributions. But, any potential earnings on your contributions grow tax free, and qualified distributions are also tax free. Plus, if you roll your Roth 401(k) account balance to a Roth IRA, you may be relieved from taking a minimum distribution.

If you wish, you'll be able to divvy up your contributions between your traditional, pre-tax 401(k) account and a Roth 401(k) account.

The benefit of a Roth 401(k) account is it gives you the option to pay taxes on your contribution now and avoid taxes later.

Let's compare

	Traditional (pre-tax) 401(k) Account	Roth 401(k) Account (Current Tax Bracket: 15%)	Roth 401(k) Account (Current Tax Bracket: 25%)	Roth 401(k) Account (Current Tax Bracket: 35%)
Single contribution	$10,000	$10,000	$10,000	$10,000
Less federal taxes paid on contribution	$0	$1,500	$2,500	$3,500
Net total contribution	$10,000	$8,500	$7,500	$6,500
Value in 20 years	$46,610	$39,618	$34,957	$30,296
Less federal taxes at distribution (25% tax bracket)	$11,652	$0	$0	$0
Net distribution	$34,957	$39,618	$34,957	$30,296

These examples are hypothetical in nature and assumes a 25% tax bracket at distribution. It also assumes that the retirement plan's value earns an average annual total return of 8%. Investment return is not guaranteed and will vary depending upon the investments and market experience.

A single contribution of $10,000 will be worth the same amount in 20 years if the tax bracket remains the same.

However, if the future tax rate is greater, the amount distributed from the Roth account will be greater than the post-tax amount distributed from the traditional 401(k) account.

What's the difference?

	Traditional (pre-tax) 401(k) Contribution	Roth 401(k) Contribution	Roth IRA
2007 contribution limit	Combined $15,500		$4,000
2007 catch-up contribution limit — for those age 50 and older	Combined $5,000		$1,000
Contribution taxable in year contributed	No	Yes	Yes
Contribution taxable in year distributed	Yes	No, if applicable, company matching contributions and any earnings are taxable.	No
Contribution earnings taxable in year distributed	Yes	No, if distribution is made after age 59½, for death or disability and, for Roth IRA, first-time home purchase; all must be at least five (5) years after the first Roth contribution	
Household income determines your ability to make contributions	No	No	Yes
Eligible for rollover to qualified plan, traditional IRA, 403(b) or governmental 457(b)	Yes	No	No
Eligible for rollover to Roth IRA, Roth 401(k) or Roth 403(b)	No	Yes	No

Is a Roth 401(k) contribution right for you?

You might want to consider making Roth contributions if you:

- Believe that taxes will be raised before you retire
- Expect to be in a higher tax bracket upon retirement
- Are unable to contribute to a Roth IRA because of your income
- Are younger, with many working years ahead of you
- Are looking for an estate-planning tool — you're able to roll your Roth contributions to a Roth IRA and you may be relieved from taking a minimum distribution

A finer point: Federal income tax laws are complex and subject to change. This information is based on current interpretations of the law and is not guaranteed. You should consult your attorney or tax advisor for answers to your specific tax questions.

Ready to learn more?

If you decide contributing to a Roth 401(k) account makes sense for you, contact your retirement program representative today.