The Roth Option: Is It Right for You?

Your 401(k) Plan accepts Roth 401(k) contributions, giving you the flexibility to designate all or a portion of your 401(k) elective deferrals as Roth contributions.

Roth 401(k) after-tax contributions and traditional before-tax 401(k) deferrals each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution percentages.

How are Roth contributions different from traditional 401(k) contributions?

Roth contributions are made with after-tax dollars. Traditional 401(k) contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

Do I pay taxes when I take a distribution from my Roth 401(k) account?

If you withdraw your Roth contributions and earnings after you've reached age 59½ or severed employment due to disability or death (upon which your beneficiaries will take a withdrawal) and have held the account for at least five years, the distribution is income-tax and penalty-free.

If a distribution is made from your Roth 401(k) account before you reach age 59½ and it is not due to death or disability, or reaching the five-year period beginning with your first Roth contribution, you will pay income taxes plus a 10% penalty tax on any earnings that are distributed. Otherwise, there is no income or penalty tax due on the Roth contributions distributed from the Plan since they are made with after-tax dollars.

Do I pay taxes when I take a distribution from my traditional 401(k) account?

Withdrawals of contributions and earnings from your traditional 401(k) are subject to income taxes. If the withdrawal is made prior to age 59½, a penalty tax may be due on the amount of the withdrawal, in addition to ordinary income tax.

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How do Roth 401(k) after-tax contributions affect my take-home pay?

Roth 401(k) contributions reduce your take-home pay because you pay taxes on your Roth 401(k) contribution up front, rather than deferring those taxes until you take a distribution.

For example, let's assume you earn $40,000 annually and pay income tax at the assessment rate of 25%. If you contribute $5,000 before tax to a traditional 401(k) plan, you don't pay income tax on the $5,000 contribution. Your take-home pay is $26,250, which is greater than it would be if you had made an after-tax contribution. If you make a $5,000 Roth 401(k) contribution, you pay income taxes on that $5,000 immediately. Assuming a 25% tax rate, your take-home pay is only $25,000. That amounts to $1,250 less in take-home pay when you contribute to the Roth 401(k) account.

	Before-Tax 401(k)	Roth After-Tax 401(k)
Annual Salary	$40,000	$40,000
Minus Before-Tax Contributions	$5,000	$0
Taxable Pay	$35,000	$40,000
Minus Estimated Income Tax	$8,750	$10,000
Minus After-Tax Contributions	$0	$5,000
TAKE-HOME PAY	$26,250	$25,000

How much can I contribute?

The maximum combined contribution limit in 2009 is $16,500. If you are age 50 or older, you can make additional "catch-up" contributions of $5,500.

How does the Roth 401(k) differ from a Roth IRA?

Contribution Limits

Roth IRA contributions are limited to $5,000 in 2009 (or $6,000 if you are age 50 or older) versus $16,500 for the Roth 401(k) (or $22,000 if you are age 50 or older). So, you can contribute more on an after-tax basis to your Roth 401(k) than to a Roth IRA.

Eligibility

If you're single and earn more than $120,000 a year or are married with a joint income of more than $176,000 in 2009, you aren't eligible to contribute to a Roth IRA in 2009. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 401(k) Plan regardless of your income.

Can my employer make matching contributions?

Yes. Your employer can make matching contributions to your Roth 401(k) account. However, any employer-matching contributions to your Roth 401(k) are before-tax contributions and are treated the same as traditional 401(k) matching contributions, which are subject to taxes when you take a distribution.

Can I roll over my account if I change employers?

Should you leave your current employer, you still have the option of rolling over your Roth 401(k) account to a Roth IRA or to a 401(k) or 403(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional 401(k) account to any eligible traditional IRA, qualified 401(k) plan, 403(b) plan or governmental 457(b) plan that accepts rollovers.

Can I leave my money in my Roth 401(k) indefinitely?

Once you reach age 70½, the government requires that you begin taking minimum distributions.

AT-A-GLANCE COMPARISON

	Before-Tax 401(k)	Roth After-Tax 401(k)
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are the earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after age 59½, death or disability and no earlier than five years after your first Roth 401(k) contribution
If I change jobs can I roll over my account?	Yes, to a qualified 401(k) plan, traditional IRA, 403(b) plan or governmental 457(b) plan if the plan allows it	Yes, to a Roth IRA, 401(k) plan or 403(b) plan if the plan has a designated Roth account and accepts rollovers
What is the maximum amount I can contribute?	Combined limit for contributions in 2009: $16,500 or $22,000 including the additional $5,500 Age 50+ Catch-Up contribution	
If I experience a hardship, can I make a withdrawal?	Yes, if your Plan allows hardship withdrawals	Yes, if your Plan allows hardship withdrawals
Do I have to take a minimum distribution at age 70½?	Yes	Yes

Making the Best Choice for You

You will have to determine whether contributing to your Plan on an after-tax Roth basis or a traditional before-tax basis makes more sense for your situation. The Roth 401(k) option essentially "locks in" today's tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire—the Roth 401(k) option may make the most sense. If you're one of those people, the Roth option allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay at retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to your 401(k) on a before-tax basis. You won't pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually at retirement (when many people expect their retirement earning power and tax burden to be lower than it is today).

Roth 401(k) vs. Traditional 401(k): Illustrating the Difference

ASSUMPTIONS:

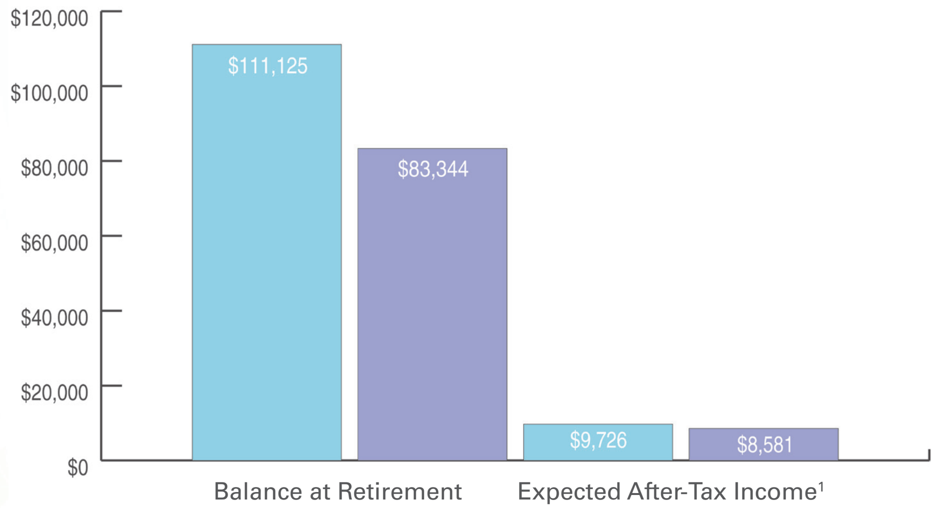
Current Age	45
Annual Salary	$35,000
Contribution (traditional before tax)	6%
Contribution (Roth post-tax)	4.5%
Salary Growth Rate	2% annually
Pre-Retirement Rate of Return	8%
Retirement Age	65
Years in Retirement	15
Post-Retirement Rate of Return	6%

In order to keep your take-home pay the same, your Roth contribution will be less than a traditional before-tax contribution because Roth contributions are made on an after-tax basis.

These assumptions support the charts on the following pages ...

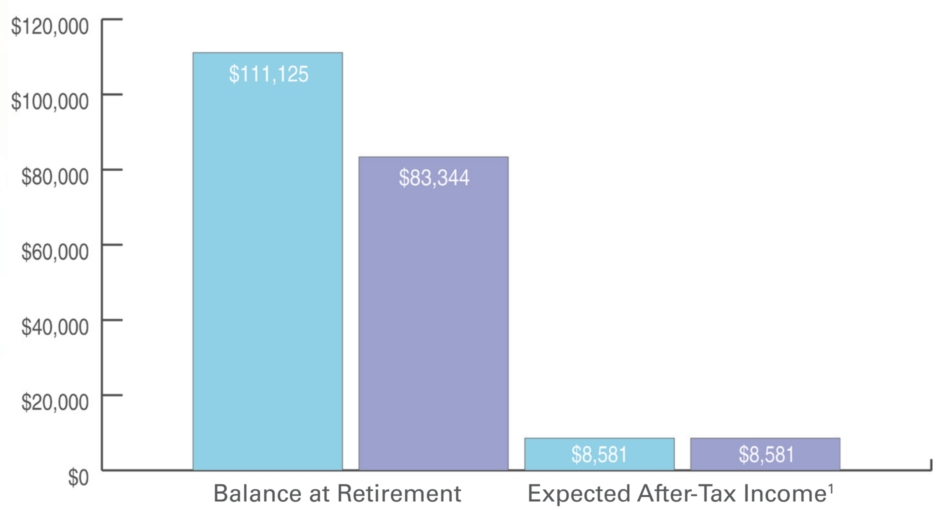
EXAMPLE 1

For an investor at age 45 with a 25% tax rate who plans to retire at age 65 with a 15% tax rate, the traditional 401(k) provides a higher expected income.



EXAMPLE 2

For an investor at age 45 with a 25% tax rate who plans to retire at age 65 with the same 25% tax rate, the traditional 401(k) and Roth 401(k) provide the same expected income.



These are hypothetical examples and are not intended to represent past or future performance of a specific investment, which cannot be predicted or guaranteed, or to provide specific advice to any individual. Rates of return will vary over time. Those investments offering a higher rate of return also involve a higher degree of risk.

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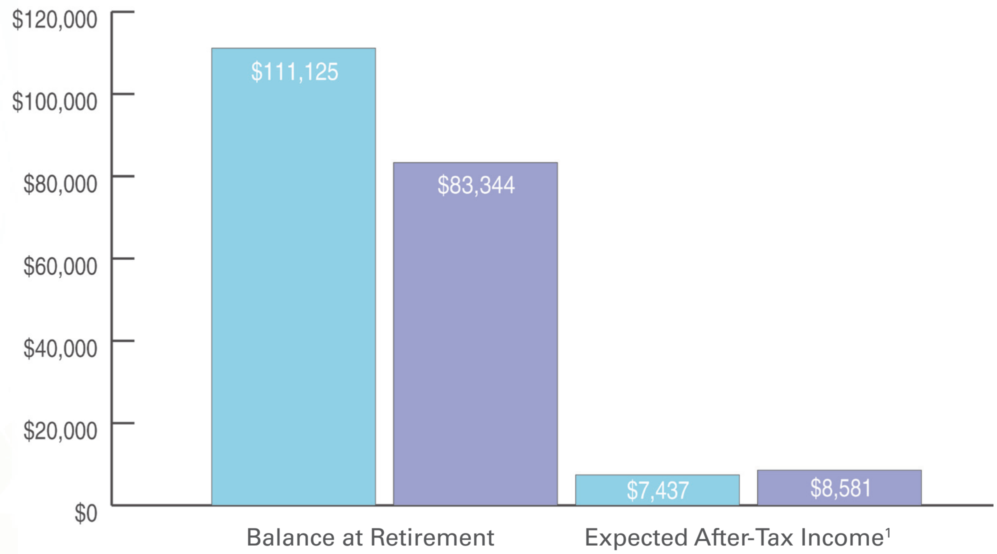
Key

= Traditional 401(k)

= Roth 401(k)

EXAMPLE 3

For an investor at age 45 with a 25% tax rate who plans to retire at age 65 with a 35% tax rate, the Roth 401(k) provides a higher expected income.



The Bottom Line: Participate!

Regardless of which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If after you've done your research and consulted the experts you decide that Roth 401(k) contributions are right for you, can make the appropriate changes to your account by completing a Salary Deferral Agreement form available from your company's human resources department, or by visiting your Plan's Web site or calling KeyTalk®.[2] If you are not currently enrolled in your Plan, you can elect to make Roth 401(k) contributions by completing your Plan's enrollment form.

For more information about the Roth 401(k), please contact your Plan representative.

1 The expected retirement income for the traditional 401(k) account is determined by converting the retirement balance into an annuity at the post-retirement return rate for 15 years. The annuity is reduced by the tax rate in retirement. The expected retirement income for the Roth 401(k) account is determined by converting the retirement balance into an annuity at the post-retirement return rate for 15 years. The annuity is decreased by the value of the annuitized before-tax premium amount.

2 Access to KeyTalk and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

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