

TPS



BROKER SERVICE ALERT

Roth 401(k) Plans

Effective January 1, 2006, your clients will have the opportunity to allow for after-tax contributions by amending their plans to include the Roth 401(k) option.

What is Roth 401(k)?

A Roth 401(k) is an option added to a 401(k) plan allowing for after-tax contributions. The current pre-tax contribution provisions will not change. Unlike regular 401(k) contributions which are excluded from the employee's taxable income, any amount designated as a Roth contribution would be included in taxable income to the employee.

What is the advantage to a Roth 401(k)?

Unlike the pre-tax 401(k) deferrals, any qualified distribution from a designated Roth contribution and the related earnings are completely free from federal tax. Also, unlike regular contributions, Roth 401(k) contributions are allowable regardless of income level.

How much can an employee contribute to the Roth?

An individual can make contributions up to the annual 401(k) dollar amount—for 2006 that amount is \$15,000 (a significant increase over the current Roth IRA limit of \$4,000).

Who should consider a Roth 401(k)?

- Higher compensated employees or business owners.
- Participants who believe their tax rate will be higher at retirement.
- Participants who like the concept of a Roth IRA, but whose tax bracket is too high to take advantage of it.
- Participants who want the flexibility of tax control – they have the ability to decide when they want to pay taxes.
- Participants who need to focus on estate planning – there is no “required minimum distribution” at age 70 ½ in Roth IRA. A participant can take a Roth 401(k) and roll it into Roth IRA to avoid these distributions.
- Younger, lower paid participants who have a longer retirement horizon.

How can TPS help?

We would be happy to assist by discussing with you how a Roth 401(k) plan can help.

Call our office at: 815.394.5500 to schedule a client meeting and review their plan at no cost.

The Pension Specialists, Ltd.

3923 East State Street

Rockford, Illinois 61108

Phone: 815.394.5500 Fax: 815.399.9324 Toll Free: 800.963.5501 www.pensioninsider.com

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