

# TPS



# PLANS SPONSOR ALERT

November 2005

## Roth 401(k) Plans

Effective January 1, 2006, your plan 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 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.

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