

What employees could the Roth 401(k) option help most and how?

- Any employee who expects to be in the same or higher tax bracket at the time they retire would pay less in taxes now than when they withdraw their money
- Young employees could benefit from a lower tax bracket (see above) and have years for their contributions to generate tax free earnings – unlike the traditional 401(k) these earnings could potentially be withdrawn tax free
- Many Highly Compensated Employees who are not permitted to contribute to a Roth IRA because their compensation is too high may instead use the Roth 401(k)
- Any employees who prefer to pay taxes now and will meet the tax law requirements that will allow them to withdraw their contribution earnings tax free
- Those employees looking for greater flexibility with respect to estate and retirement planning. If the Roth Contributions are rolled over into a Roth IRA, the regular minimum distribution rules wouldn't apply and the employee wouldn't need to start taking distributions at age 70½



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The Roth 401(k) Option



What is the Roth 401(k) option?

The Roth 401(k) option provides your employees with an alternative method of saving for retirement. Traditionally employee contributions to a 401(k) plan are made on a pre-tax basis – employees aren't immediately taxed on them. The earnings on those contributions are not taxed while in the plan. This provides employees with the benefit of deferring the taxation of their contribution amount, and any earnings on their contribution, until such time that they withdraw their money.

With the Roth 401(k) option employee contributions (Roth Contributions) are made on an after-tax basis – employees pay taxes on them immediately. Like the traditional 401(k), earnings on those contributions are not taxed while in the plan. However, unlike the traditional 401(k), with the Roth 401(k), employees withdraw their money tax free – income on contributions can be withdrawn tax free as long as the withdrawal occurs more than five years after the first Roth Contribution and after age 59½ or upon death or disability.



Why would an employer offer the Roth 401(k) option?

The Roth 401(k) option is just that – an option. It's a way to provide all of your employees with more flexibility when saving for their retirement. Employees can still make traditional pre-tax 401(k) Contributions, but by offering the Roth 401(k) option you may be able to increase employee participation.

What's the difference between After-Tax Voluntary and Roth Contributions?

While both After-Tax Voluntary Contributions and Roth Contributions are withheld on an after-tax basis, there are major differences between the two. The chart below compares After-Tax Voluntary Contributions and Roth Contributions:

	After-Tax Voluntary Contributions	Roth Contributions
When available for withdraw?	At any time	Only when a "qualifying event occurs"*
Contributions taxed at withdraw?	No	No
Earnings taxed at withdraw?	Yes	No**
Allowed in all plans?	No***	No***

**A qualifying event occurs when you (1) reach the plan's normal retirement age, (2) leave employment under the plan's early retirement provision, (3) terminate employment prior to early retirement, (4) attain age 59½, (5) become disabled, or (6) die.*

***Earnings on Roth Contributions are not taxed when withdrawn if the withdrawal occurs more than five years after the first Roth Contribution is made and after age 59½ or upon death or disability.*

****Roth Contributions and After-Tax Voluntary Contributions are options and are not available under all plans.*

What's the administrative impact if we choose to offer the Roth 401(k) option?

First, if you currently have a NADART plan and you decide to offer the Roth 401(k) option, you must amend your plan to allow employees to make Roth Contributions.

In addition, Roth Contributions must be kept separately from the other assets in your plan. This means more detailed record keeping and possible communication issues with your employees. If you currently have a NADART plan, you will receive a new

payfile template for reporting wages and contributions. This new template will have a separate column for Roth Contributions. In order for employees to begin making Roth Contributions they must complete a special Roth Payroll Deduction Authorization (PDA) Form – the IC-RothPDA. This PDA Form allows employees to separate Roth Contributions. If you currently have a NADART plan, it is important that you communicate to your employees that they must use this new Roth PDA in place of the old one that does not permit Roth Contributions. Once this is done you must account for – and report to NADART – any traditional 401(k) Contributions, Roth Contributions and Voluntary After-Tax Contributions (if allowed) separately.



Lastly, it will be important to remember that while Roth Contributions are accounted for separately and withheld on an after-tax basis, they are lumped with traditional pre-tax 401(k) Contributions with respect to the annual deferral limit (402g limit) - \$15,500 for 2007. You must make sure that an employee's combined traditional 401(k) Contributions and Roth Contributions do not exceed this limit. If the combined contributions exceed this limit NADART will have to refund the excess deferral to the participant.

The adoption of the Roth 401(k) option can be very beneficial to your company, but please be aware that it will come with greater administrative complexity.