

The Roth 401(k) contribution option



Consider Roth 401(k)

Could Roth 401(k) be right for you? Roth 401(k) combines features of a traditional pre-tax 401(k) with those of a Roth IRA.

Offered by employers through their 401(k) plan, Roth 401(k) contributions are funded with after-tax dollars. If certain requirements are met, any associated earnings can be withdrawn tax-free. By offering both pre-tax and Roth 401(k) contributions, your plan can give you added power to decide when your contributions and retirement income are taxed.

This option can also offer advantages to those who are unable to contribute to a Roth IRA because of the income restrictions. There are no income restrictions for making Roth 401(k) contributions.

Traditional vs. Roth: Which do I choose?

An important factor to consider when evaluating traditional pre-tax 401(k) and Roth 401(k) contributions is whether you feel your tax rate will be lower in retirement than it is today. Unlike a traditional 401(k), Roth 401(k) contributions are made with after-tax dollars. This means that in retirement, as long as you meet the requirements for a qualified distribution (see page 3), you can take it tax-free. The greater the increase or decrease in future tax rates may be, the more impact your choice may have on your account value in retirement.



Considering future tax rates

Trying to predict what your tax rate may be like in the future isn't easy. If you already have substantial tax-deferred savings, you may want to hedge your bets on what the government may do in the future and consider Roth 401(k). This way, for the future, you may have a balance of taxable vs. non-taxable distributions. And although the law states tax brackets as percentages of income, your actual taxes depend on your individual situation, including number of dependents, any tax deductions you may have, and any tax credits you may be eligible to receive.

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Will my taxes be lower or higher in retirement?

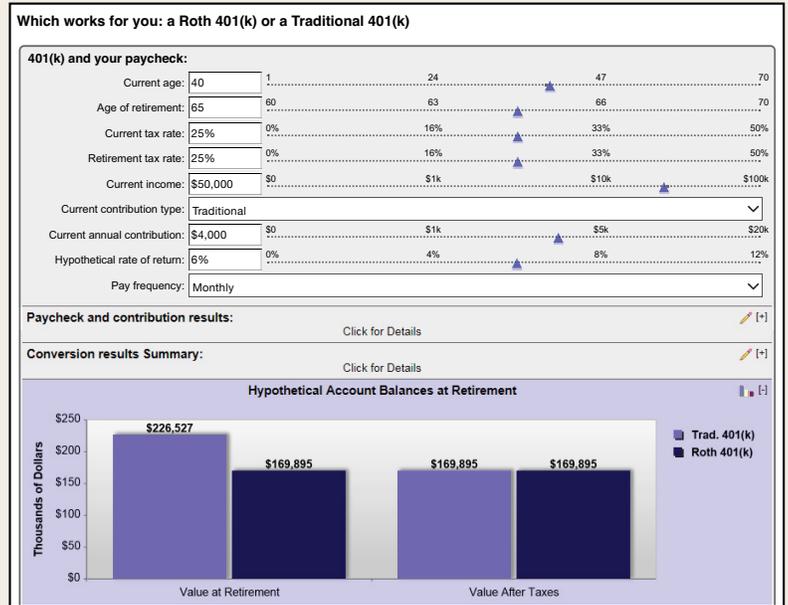
Assuming all other factors would be the same, if your tax rate is *lower* when you begin taking distributions, pre-tax contributions may yield higher account values (once taxes are factored in). But if you expect that your taxes will be *higher* by the time you begin taking distributions, Roth 401(k) contributions may prove to be a better choice.

You can model various hypothetical scenarios with the **Roth 401(k) Comparison Calculator** on Benefits OnLine® by changing the retirement age, contribution amount and possible tax rates. Keep in mind that you may not wish to reduce your contribution percentage if it would mean a loss of any employer matching contributions (see page 3).

Try the Roth 401(k) Comparison Calculator:

www.benefits.ml.com > **Advice & Planning > Tools > Roth 401(k) Comparison Calculator**

This screen shot is intended only to illustrate the functionality of the Roth 401(k) Comparison Calculator. It is not meant as an exact representation of any hypothetical scenario you might model. When using the calculator, you should review the disclosures that accompany the hypothetical scenarios.



If you have questions or want to make Roth 401(k) contributions



Retirement & Benefits Contact Center
1.800.228.4015

Participant service representatives are available to answer your questions during the normal business hours for your plan.

You may also use the Interactive Voice Response (IVR) system at 1.800.228.4015 virtually 24 hours a day, 7 days a week.



Benefits OnLine®
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To make Roth 401(k) contributions, simply visit www.benefits.ml.com > **401(k) > Current Elections > Contribution Rates** and enter your election.

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Frequently asked questions about Roth 401(k)

Am I eligible to make Roth 401(k) contributions, and if so, how much can I contribute?

Yes, any eligible participant can make Roth 401(k) contributions. You may be thinking of Roth IRAs, which are designed for saving outside of an employer-sponsored plan. Roth IRAs do have eligibility restrictions based on income while Roth 401(k) does not. IRS and plan contribution limits apply to the combined total contributions to 401(k) plans, whether they're Roth or pre-tax. If you are age 50 or older within the calendar year and contribute the lesser of the IRS or plan limit, you may be eligible for a "catch-up contribution," up to the current IRS catch-up limit. Current IRS limits are always available on Benefits OnLine. Plan contribution limits will vary.

If my employer offers a matching contribution, are my Roth 401(k) contributions eligible? If so, is the match percentage affected?

If your plan permits an employer match, pre-tax and Roth 401(k) contributions are both eligible, and the match percentage is the same.

Keep in mind, however, that Roth contributions reduce your take-home pay more than the equal percentage of pre-tax contributions. If you switch from pre-tax to Roth 401(k), and reduce your contribution rate to keep your take-home pay at the same level, you could lose a portion of your match. Carefully consider what percentage of pay you must contribute to receive your maximum employer match. Otherwise, you're leaving money on the table.

Remember that employer contributions are made on a pre-tax basis and are subject to taxation at withdrawal, including a possible 10% additional federal tax if withdrawn before age 59½.

Can I transfer part of my existing 401(k) balance to a Roth 401(k)?

Generally, you cannot transfer any amount between a traditional and a Roth 401(k) due to the taxation differences. However, some plans do offer the option of converting assets in a traditional 401(k) account to a Roth 401(k) account. In this case, you would pay the federal income tax that you previously deferred upon conversion. But any earnings after the conversion are tax-free, provided you take a qualified withdrawal. Please speak to your plan administrator to see if this option is available in your plan.

Can I stop making Roth 401(k) contributions and go back to a traditional 401(k)?

Yes. However, the assets in your Roth 401(k) account can't be transferred to a traditional 401(k) account. Once you have begun making contributions, you will need to leave the money in the Roth 401(k) account unless you qualify for a hardship withdrawal, a qualified distribution or a distribution at termination of employment (additional taxes may apply). You may also be able to roll over your balance to a Roth IRA or other qualified retirement plan that accepts Roth contributions.

Can I take a loan or hardship withdrawal from a Roth 401(k)?

Yes, if the plan permits. If you are not eligible for a qualified distribution and take a hardship withdrawal, any earnings may be taxable and are generally subject to the 10% additional federal tax if you take it before age 59½. You may wish to consult a tax advisor for help.

Qualified vs. nonqualified distributions

- Qualified distributions from a Roth 401(k) require that at least five years have elapsed since the first day of the year of the initial Roth 401(k) contribution, and you must be at least age 59½ or disabled or deceased.
- A nonqualified distribution is subject to regular income taxes plus the 10% additional federal tax (certain exemptions may exist; consult your tax advisor).

Your options at a glance¹

	Traditional pre-tax 401(k) contributions	Roth 401(k) contributions
When you will pay taxes on your contributions	You pay the tax upon withdrawal. Contributions are tax-deferred, so current taxable income is reduced.	You pay regular income tax on your contributions before the money goes into your account. Current taxable income is not reduced.
When you will pay taxes on any investment earnings	You pay taxes on the full amount of any distribution, including earnings, at ordinary income tax rates in effect upon withdrawal.	You do not pay taxes on any earnings if you take a qualified distribution.
Taxability of distributions	Pre-tax contributions and any earnings are subject to current ordinary income tax at distribution (a 10% additional federal tax may also apply before age 59½).	Tax-free qualified distributions are available if: 1) at least five years have elapsed since the first day of the year of the initial Roth 401(k) contribution, and 2) you are at least age 59½, or have become disabled or deceased. ² In nonqualified distributions, you pay current ordinary income tax on earnings only (and a 10% additional federal tax may apply before age 59½).
Required minimum distributions (RMD)	At age 70½, you generally must begin taking withdrawals from your 401(k) plan. If you work past age 70½ and do not own more than 5% of the company, distributions may be deferred until April 1 of the calendar year after the year in which you retire.	Same. However, Roth 401(k) balances may be rolled over to a Roth IRA, which is not subject to the RMD rules at any age prior to the account holder's death.
Impact of contributions on take-home pay	Since contributions are pre-tax, your current taxable income is reduced and each dollar contributed reduces your take-home pay by less than a dollar.	Because you pay current taxes on your Roth 401(k) contributions, take-home pay is reduced dollar for dollar by your contributions.
Rollovers from your account	You may roll over your account balance upon termination to a traditional or Roth IRA, ³ a 401(k) plan or another qualified employer-sponsored plan.	You may roll over your account balance upon termination to a Roth IRA or another Roth 401(k) or Roth 403(b) account in a qualified employer plan. Note: For purposes of the 5-year rule for qualified distributions from your Roth IRA, the date of the initial contribution to the Roth IRA governs.
Taxes on employer contributions, if applicable	Employer contributions are made on a pre-tax basis; contributions and any earnings are taxable upon withdrawal.	Same. Employer contributions are not treated as Roth contributions.
Loan and hardship	401(k) balances are available for 401(k) loans and hardship withdrawals if the plan allows. ⁴	Same.

You have choices for what to do with your 401(k) or other type of plan-sponsored accounts. Depending on your financial circumstances, needs and goals, you may choose to roll over to an IRA or convert to a Roth IRA, roll over a 401(k) from a prior employer to a 401(k) at your new employer, take a distribution, or leave the account where it is. Each choice may offer different investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and provide different protection from creditors and legal judgments. These are complex choices and should be considered with care.

¹ Federal tax rules are complex and subject to change. You should consult a tax advisor for more specific individualized information.

² For purposes of qualified distributions, disability must meet the definition stated in Internal Revenue Code Section 72(m)(7).

³ Traditional 401(k) assets converted to a Roth IRA are generally taxable in the year of conversion. You should consult a tax advisor for more information before initiating a conversion to a Roth IRA.

⁴ Please remember to consider the advantages and disadvantages of any loan before taking one.