GET (K)ONNECTED
PARTICIPANT EDUCATION

ARE ROTH CONTRIBUTIONS RIGHT FOR YOU?

Historically, participants have accumulated savings by making PRE-TAX DEDUCTIONS from their paychecks and depositing those pre-tax dollars into their 401(k) plan. In fact, one of the key reasons to contribute to your employer's retirement savings plan, rather than a regular brokerage account, is your ability to contribute with pre-tax dollars. By contributing on a pre-tax basis, you are not only saving for retirement, but you are also reducing your taxable income so that you pay less to Uncle Sam with each paycheck. Even better, your pre-tax contributions grow on a tax-deferred basis so that you can defer paying any taxes until you withdraw your funds -- presumably at retirement.

YOU CAN NOW MAKE ROTH CONTRIBUTIONS TO YOUR 401(K) PLAN. FIND OUT IF ROTH MAKES SENSE FOR YOU!

In contrast to these Traditional pre-tax contributions, "Roth" contributions to a 401(k) or 403(b) plan, like contributions to a Roth IRA, are made with AFTER-TAX DOLLARS, so the tax is paid up front. Sound crazy? Who would want to pay taxes now if they can delay paying the taxes until later? Believe it or not, for some people this makes good sense. While you must pay your taxes up-front, Roth contributions PLUS ANY EARNINGS on these contributions can be withdrawn tax-free.* The ability to avoid taxes on your earnings is the reason that making contributions on an after-tax basis to your 401(k) can make good financial sense. As you'll see from the example on the back, mathematically whether Roth contributions make sense for you or not comes down to whether or not you expect to be at a higher or lower tax bracket at retirement than you are now.

Imagine that you have $5,000 you want to contribute to your 401(k) plan and that you expect that you will be in a 25% tax bracket during your retirement years.

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*Earnings can be withdrawn tax-free only if the withdrawal is "qualified". For a withdrawal to be qualified, your withdrawal must be due to your death, disability, or attainment of age 59½. Distributions that occur as a result of your termination from employment prior to age 59 1/2 are not "qualified". In addition, the distribution must occur after the fifth year of your initial Roth contribution.

Should you contribute your $5,000 on a pre-tax (Traditional contributions) or an after-tax (Roth contributions) basis? The answer depends on whether your current tax bracket is more or less than your expected retirement tax bracket of 25%. Most participants expect that their current tax bracket is **higher** than their tax bracket at retirement will be. After all, during your working years, you are earning income while during your retirement years you are typically not earning a regular salary. This situation is depicted in column D where the current tax bracket of 35% is higher than the expected retirement tax bracket of 25%. By comparing the net distribution amount in Column A where contributions are made on a pre-tax basis with the net distribution amount in Column D, you can see that if your tax bracket is higher now than it is during your retirement years, you are better off making contributions on a pre-tax basis. However, some participants anticipate that their retirement tax bracket will be more than their current tax bracket, perhaps because they have other sources of income or anticipate the tax laws changing. This situation is depicted in Column B, where the current tax bracket of 15% is lower than the expected retirement tax bracket of 25%. By comparing the net distribution amount in Column A with the net distribution amount is Column B, you can see that Roth contributions make sense if you anticipate that your tax bracket is going to go up. For some participants that intend to bequeath their retirement account to a beneficiary, Roth contributions may also make sense since your beneficiaries would not owe taxes upon inheritance. Please be sure to consult your financial advisor for personal financial advice.

	Traditional Contributions (Pre-Tax)	Roth Contributions (After-Tax)		
	A	B	C	D
Current Tax Bracket	N/A	15%	25%	35%
Contribution Amount	$5,000	$5,000	$5,000	$5,000
Federal Taxes Paid at Time of Contribution[1]	$0	($750)	($1,250)	($1,750)
Net Contribution	$5,000	$4,250	$3,750	$3,250
Value in 20 Years[2]	$23,305	$19,809	$17,478	$15,148
Federal Taxes Paid at Retirement (25% tax bracket)[1]	($5,826)	$0	$0	$0
Net Distribution	$17,479	$19,809	$17,478	$15,148

1. State income taxes may also apply.
2. Assumes annual rate of return of 8%.