Announcing the Roth 401(k) Option

New Tax-saving Opportunity for Your 401(k) Retirement Plan

Your company retirement plan has an exciting new feature that may better help you plan for retirement. The feature is called a “Roth 401(k)” and it may result in additional tax savings for certain plan participants.

Understanding the New Tax Option

Important information about the Roth 401(k) Option

Contributions to your retirement plan have always been tax favored. That’s probably one of the reasons you participate in the plan. Because your contributions are made “pretax,” you’re not immediately taxed on them. That means, if you’re in a 25% tax bracket and you contribute $100 to the plan, the immediate cost of your contribution is only $75. Why? Because you would otherwise have paid $25 in taxes on that $100.

The new Roth 401(k) provides an alternative tax benefit to this “traditional” model. With Roth, you secure the tax benefit when you take money out of the plan. Right now, when you reach retirement and start withdrawing money from the plan, your pretax contributions and any earnings will be taxed as ordinary income. With the Roth option, you’ll be able to withdraw money tax free. If the $100 you put in the plan in the above example has grown to $125, you can take the entire amount out tax free. But there’s a trade-off. Contributions to a Roth 401(k) are “after tax” — you don’t get the tax benefit when you make your contributions.

So, you have a choice. Traditional or Roth? The purpose of this letter is to provide you with more information about this planning option so that you can make the best decision.

New Choice, More Flexibility

With the new Roth 401(k) option, your plan now offers you more flexibility when saving for retirement. In general, a Roth 401(k) is similar to the popular Roth IRA — with most of the same benefits Roth IRAs provide.

With a Roth 401(k), you make **after-tax** contributions to your 401(k) plan. In other words, your Roth 401(k) contributions are taxed in the year you contribute them to the plan. However, when you retire, you receive your contributions *plus any plan earnings* on your money **tax free**.

With traditional 401(k) deferrals, you don't pay any taxes on your contributions up front, but you pay taxes on *both* contributions *and* any earnings when you take the money out of the plan.

So, you have a choice of paying taxes on your retirement money now or paying them later.

Traditional 401(k) and Roth 401(k) - A Comparison

Benefit	Traditional 401(k)	Roth 401(k)
Tax-deferred Contributions?	Yes	No
Tax-free Distributions?	No	Yes*
Maximum Total Annual Contribution to Plan?**	$15,500 (in 2007)	$15,500 (in 2007)
Catch-up Contributions?***	Yes; $5,000 (in 2007)	Yes; $5,000 (in 2007)
Income Limits for High Earners?****	No	No

* Tax law requirementsmust be met. To qualify, withdrawals must be taken more than five years after the first Roth contribution is made and after age 591/2 or upon death or disability.

** Traditional and Roth 401(k) contributions are combined in applying maximum plan contribution.

*** Traditional and Roth 401(k) catch-up contributions are combined in applying maximum plan catch-up limit.

**** Unlike with Roth IRAs, there is no income limit on who can contribute to a Roth 401(k). However, both traditional and Roth 401(k) contributions may be limited by a plan's nondiscrimination rules.

The Big Question:

Why would anyone choose to pay taxes now rather than later?

The answer for some people:

To have more after-tax income when they retire. Depending on your situation, making after-tax Roth 401(k) contributions now can mean more money in your pocket during retirement.