



PARTICIPANT ALERT

ARE ROTH CONTRIBUTIONS RIGHT FOR YOU?

DID YOU KNOW THAT YOUR RETIREMENT SAVINGS PLAN ALLOWS YOU TO MAKE ROTH AFTER-TAX CONTRIBUTIONS IN ADDITION TO TRADITIONAL PRE-TAX CONTRIBUTIONS? WHILE CHOICE IS GREAT, CHOICE CAN ALSO BE CONFUSING. READ ON TO LEARN IF ROTH IS RIGHT FOR YOU.

To Roth or Not to Roth

Historically, participants have accumulated savings by making pre-tax deductions from their paychecks and depositing those pre-tax dollars into their 401(k) or 403(b) plan. In fact, one of the key reasons to contribute to an 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.

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 While you must pay your taxes up-front, Roth contributions PLUS ANY EARNINGS on these contributions can be withdrawn tax-free.* For those people that expect to be at a higher tax bracket at retirement than they are now, Roth contributions can make a lot of sense.

*Earnings can be withdrawn tax-free only if your withdrawal is "qualified". For a withdrawal to be qualified, your withdrawal must be for reasons of your death, disability, or attainment of age 59½ and must occur after the fifth year of your initial Roth contribution.

Tax Brackets and Roth Contributions

Let's look at an example. Table 1 compares how a participant's expected distribution at retirement varies depending on her current tax bracket and whether she made Traditional or Roth contributions. In this example, the participant contributes \$5,000 and expects to be in the 25% tax bracket at retirement. Should she contribute that \$5,000 on a pre-tax basis or an after-tax basis? The answer depends on whether her current tax bracket is more or less than her expected retirement tax bracket of 25%. Most participants expect their current tax bracket will be **higher** than their tax bracket at retirement. After all, during your working years, you are earning income while during your retirement years you are typically not earning a regular salary. For these participants, Traditional contributions typically make more sense than Roth Contributions (compare Column A to Column D). Since her current tax bracket of 35% is greater than her expected retirement tax bracket of 25%, she ends up with a greater distribution at retirement if she makes Traditional rather than Roth contributions.

However, some participants anticipate that their current tax bracket will be less than their expected retirement tax bracket, perhaps because they have other sources of income or anticipate working during their retirement years. For these participants, they are better off making Roth rather than Traditional deferrals (compare Column A to Column B). Since her current tax bracket of 15% is less than her expected retirement tax bracket of 25%, she is better off if she makes Roth rather than Traditional contributions. For some participants that intend to bequeath their retirement account to a beneficiary, Roth contributions may also make sense since the beneficiaries would not owe taxes upon inheritance. Please be sure to consult your financial advisor for personal financial advice.

Table 1: Do Roth Contributions Make Sense For You?

	TRADITIONAL (PRE-TAX) CONTRIBUTIONS	ROTH (AFTER-TAX) CONTRIBUTIONS		
	A	B	C	D
Current Tax Bracket		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%.

LOGIN TO YOUR ACCOUNT AT WWW.MYPLANCONNECTION.COM TO CHANGE YOUR CONTRIBUTION PERCENTAGE OR ADD ROTH CONTRIBUTIONS. QUESTIONS? CALL 800-878-5220.

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