What is Roth 401(k)
And is it Right For Me?

Roth 401(k) Basics

Elective deferral contributions to a traditional retirement plan are contributed on a pre-tax basis and help lower your current taxable income. Roth elective deferral contributions, however, are much like a Roth IRA in that contributions are made on an after-tax basis. Money in the Roth account and earnings will be distributed tax free if withdrawn after age 59½, death, disability, AND at the end of the 5-year taxable period during which the participant's deferral is first deposited to the Roth 401(k) account (a.k.a. the Five Year Rule). A Roth 401(k) account can be rolled over to another plan that permits Roth 401(k) contributions or to a Roth IRA. If rolled into a Roth IRA, the tax-free nature remains and the money is not subject to the minimum distribution requirement at age 70½ as in the Roth 401(k).

Who Would Likely Benefit?

- People who believe taxes will be greater in the future
- Young investors who believe they will be in a higher tax bracket in the future
- Investors who do not qualify for the Roth IRA due to income limit
- Low income investors who are tax-exempt
- Investors who use Roth 401(k) as a planning tool in conjunction with traditional 401(k) plans
- Allows participants to "hedge" against risk of higher future tax rates

Who Would Likely Not Benefit?

- People certain that future tax rates will decrease
- People expecting to experience significant drop in income upon retirement
- People with high temporary income
- People needing access to their funds within the first 5 years of deferrals

	Traditional 401(k)	Roth 401(k)
Tax treatment of deferrals	Before tax	After-tax
Tax treatment of earnings	Tax-deferred	Tax-free
Tax treatment of final distributions	Taxable at ordinary income tax rates	Tax-free
2012 402(g) Salary Deferral Limits	*$17,000 (Traditional + Roth)	*$17,000 (Traditional + Roth)
2012 Catch-up Limit	*$5,500 (Traditional + Roth)	*$5,500 (Traditional + Roth)
Distribution Restrictions	Subject to 401(k) Rules, "qualified distribution"	Subject to 401(k) Rules, "qualified distribution" AND Roth 401(k) account must be open for 5 tax years

In summary, Roth 401(k) contributions have potential to allow individuals more flexibility in saving for retirement, whereby giving investors more control over the taxable alternatives. [INSERT FIRM NAME] recommends a cautious approach when weighing the pros and cons.

Contact Darren Limesand Financial at 701.523.7000 for more information on Roth 401(k) and to better determine an appropriate course of action.