

ROTH 401(k) FEATURES

The Roth 401(k) will give employees the option of setting aside money from their paychecks that has already been taxed and saving it in a retirement account where it can grow tax-free forever. If you have a traditional 401(k) or a regular Roth IRA, you will still be able to contribute to both of those accounts; the Roth 401(k) is simply another option.

The Roth 401(k) is similar to the Roth IRA in that after-tax money is being saved and grows tax-free; however, as its name implies, the new account will fall under 401(k) rules.

- ✓ Employees will be able to contribute after-tax dollars to the Roth 401(k). The money will be held as a separate contribution source to a traditional 401(k). Employees decide what percentage of their retirement plan contributions go to either account.
- ✓ Payroll systems must be adapted to handle both the pre-tax traditional 401(k) and after-tax Roth 401(k) deferral.
- ✓ Employees will be able to make the maximum contribution allowable under 401(k) rules. The 2006 401(k) contribution limits allow employees less than age 50 to put away up to \$15,000 or \$20,000 for employees age 50 or older.
- ✓ Roth 401(k) contributions are subject to the 401(k) ADP (Actual Deferral Percentage) Test and included with the traditional 401(k) contributions.
- ✓ For employers providing matching contributions, the match formula applies to Roth 401(k) contributions just as it does for traditional 401(k) contributions.
- ✓ Contributions are irrevocable. Once the money goes into the account, it falls under all of the IRS rules and penalties for Roth 401(k) accounts.
- ✓ Earnings can be withdrawn tax and penalty-free, as long as the employee is at least age 59½ and the account has been held for at least five years.
- ✓ The Roth 401(k) has the same distribution requirements as the 401(k) including minimum distribution requirements age 70½.
- ✓ Roth 401(k) contributions can be rolled to a Roth IRA upon retirement or termination of employment.
- ✓ Roth 401(k) is a plan option, not a mandatory amendment. Plans must be amended by the last day of the plan year in which the plan accepts Roth 401(k) contributions.