

ROTH 401(k) PRESENTATION

for

CONTINUING EDUCATION SEMINAR
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by

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This presentation is being provided for general information only. Plan sponsors should consult with their tax advisors for the application of the Roth 401(k) to their specific circumstances.

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History of Roth

- First formally proposed in House Republican's Contract with America in 1995
- Roth IRA became law in 1997 as part of Taxpayer Relief Act of 1997



How Was Roth IRA Justified?

- Encourage us to save: low national savings rate
- Benefit budget in short-term: immediate tax revenue



What's Wrong With The Roth IRA?

- Contribution amount limited by IRA rules
- Income limits on participation
- Income brackets unchanged since Roth enacted 8 years ago



Roth 401(k) Enacted with Other Favorable Tax Changes

- Added as part of Economic Growth and Tax Relief and Reconciliation Act (EGTRRA) in 2001
- Delayed effective date until January 1, 2006
- Subject to a "sunset provision" in 2010 unless congressional extension
- Treasury Department and IRS have issued Regulations

Roth 401(k): Supercharging The Roth IRA

	Roth 401(k)	Roth IRA
Contribution Limit in 2006	\$15,000 plus \$5,000 catch-up	\$4,000 plus \$1,000 catch-up
Availability	All plan participants	Income limits on participation
Convenience of Contributions	Payroll deduction	Usually lump sum at end of year
"Dollar Cost Averaging"	Yes	Usually not
Free Money	Yes, may be matched by employer	No

Roth Basics

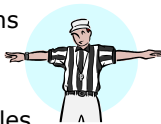
- May elect to designate some or all of elective deferrals as Roth contributions
- Included in participant's income in year of deferral
- Must be maintained in separate account
- Earnings compound on a tax-deferred basis
- Distributions after age 59 ½ taken on a tax-free basis (if conditions met)

Components of Roth 401(k)

- 401(k) participant irrevocably designates contribution at time contribution made as Roth 401(k) contributions
- Employer treats contributions as currently taxable in year made
- Plan maintains contributions in separate account

IRS Roth Regulations Issued

- Limits on Contributions
- Handling Excess Contributions
- Distribution Restrictions
- Tax Free Distributions
- Qualified Distribution Examples
- Other Roth Distribution Rules



Limits On Contributions:

- Same limits for Roth 401(k) as those for traditional 401(k)
- Total contributions to both cannot exceed \$15,000 annual limit in 2006 plus \$5,000 catch-up if age 50 or older
- Roth included in deferrals for 401(k) ADP test



Tax Free Distribution If "Qualified"

- Withdrawals must be made after age 59 1/2 or on death or disability, AND
- Contributions must have been in plan for at least 5 years
- Qualified distributions do not include return of excess contributions or excess deferrals



Other Roth Distribution Rules

- Roth contributions must be distributed in accordance with age 70 1/2 distribution rules
- A participant who receives a distribution that is not qualified but is an "eligible" distribution (not RMD, life expectancy, or hardship) may roll it over tax free to Roth IRA or employer plan with Roth option
- Not a distribution but: forfeitures may not be allocated to Roth account



Examples of Qualified Distributions

- Joe, age 45, terminates employment 6 years after making his first Roth contribution and receives an immediate distribution. Result: not qualified since he is not age 59 1/2
- Mary, age 62, has participated in Roth the same length as Joe. Result: qualified since both conditions are met

Traditional 401(k) vs. Roth 401(k)

Feature	Traditional 401(k)	Roth 401(k)
Funding	Pre-tax	After-tax
Matching contributions	Allowed	Allowed but treated as pre-tax contributions
2006 Contribution Limits	\$15,000 (\$20,000 if age 50 or older reduced by Roth 401(k) contributions)	\$15,000 (\$20,000 if age 50 or older reduced by traditional 401(k) contributions)
Investment Earnings	Tax deferred	Tax free
Taxes	Pay latter with current tax rates	Pay now with tax free withdrawals at retirement

Traditional 401(k) vs. Roth 401(k), continued

Feature	Traditional 401(k)	Roth 401(k)
Investment Earnings	Tax-Deferred	Tax-Free
Access To Account	Severance of employment, death, disability, retirement, or age 59 ½ if plan allows	Subject to same restrictions as traditional 401(k)
Availability for Plan Loans	Yes, if provided for in plan	Yes, if provided for in plan
Rollovers	Yes, to traditional IRA	Yes, to Roth IRA

Traditional 401(k) vs. Roth 401(k), continued

Feature	Traditional 401(k)	Roth 401(k)
Minimum Distribution Requirements	Age 70 ½	Can be rolled over to Roth IRA to avoid requirements
Taxation at Distribution	Taxable	Tax-Free if two conditions are met: 1. Qualified Distribution AND 2. Special 5-year rule met
Subject to Sunset Provision	No	Yes, at end of 2010 unless extended by Congress

Participants who should consider Roth 401(k)

- Not eligible for Roth IRA because income too high
- Like higher Roth 401(k) limits than for Roth IRA
- Expect to rollover Roth 401(k) distribution to Roth IRA and avoid required minimum distributions
- Expect tax rates to rise
- Expect to be in lower tax bracket at retirement
- Like ability to split contribution between pre-tax 401(k) and after-tax Roth 401(k)

Adding The Roth 401(k) Feature

- Amend the plan document to include the Roth 401(k) feature
- Update the Summary Plan Description (SPD) with information on the Roth 401(k)
- Provide educational materials for participants on the Roth 401(k)
- Confirm that the payroll system is ready
- Confirm that 401(k) recordkeeper can separately account for Roth contributions



The clock has started to tick

- Earnings in the Roth 401(k) are tax-free if contribution remains for five years after the first contribution and certain conditions are satisfied: The five year clock begins with the first year for which the first Roth 401(k) contribution is made
- Without congressional extension the Roth 401(k) provision will end December 31, 2010: Remember, participant has five years to take advantage of the Roth 401(k)!