

What is Roth 401(k)?

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 Money in the Roth account and any earnings will be distributed tax free if withdrawn after age 59½, death, disability, AND at the end of the 5-year taxable period during which the participant’s deferral is first deposited into the Roth 401(k)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 a significant drop in income upon retirement
- ◆ People with high temporary income
- ◆ People needing access to their funds within the first five 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
2016 Salary Deferral Limits	*\$18,000 (*Traditional + Roth)	*\$18,000 (*Traditional + Roth)
2016 Catch-up Limit	*\$6,000 (*Traditional + Roth)	*\$6,000 (*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 five 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. LBG Advisors, LLC recommends a cautious approach when weighing the pros and cons. Contact your plan consultant LBG Advisors via email at ron@lbgadvisors.com or call 877-485-2120 x.309 for more information on the Roth 401(k) and to better determine an appropriate course of action.

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