

Your Imprint Here

Announcing the Roth 401(k) Option

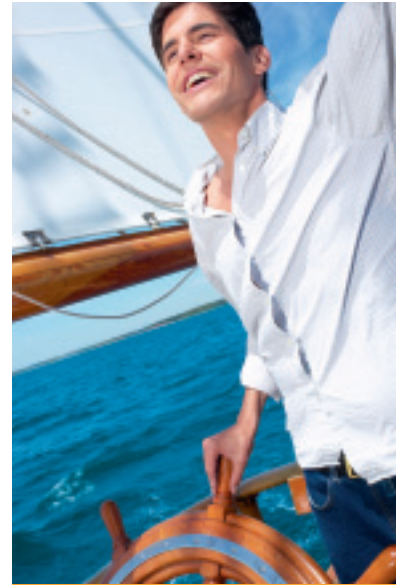
New Tax-saving Opportunity for Your 401(k) Retirement Plan

Your company retirement plan has an exciting new feature that may better help you plan for retirement. The feature is called a "Roth 401(k)" and it may result in additional tax savings for certain plan participants.

Contributions to your retirement plan have always been tax favored. That's probably one of the reasons you participate in the plan. Because your contributions are made "pretax," you're not immediately taxed on them. That means, if you're in a 25% tax bracket and you contribute \$100 to the plan, the immediate cost of your contribution is only \$75. Why? Because you would otherwise have paid \$25 in taxes on that \$100.

The new Roth 401(k) provides an alternative tax benefit to this "traditional" model. With Roth, you secure the tax benefit when you take money out of the plan. Right now, when you reach retirement and start withdrawing money from the plan, your pretax contributions and any earnings will be taxed as ordinary income. With the Roth option, you'll be able to withdraw money tax free. If the \$100 you put in the plan in the above example has grown to \$125, you can take the entire amount out tax free. But there's a trade-off. Contributions to a Roth 401(k) are "after tax" — you don't get the tax benefit when you make your contributions.

So, you have a choice. Traditional or Roth? The purpose of this letter is to provide you with more information about this planning option so that you can make the best decision. And, if you're really concerned about a comfortable retirement, see the back page for an even better idea on how to get there.



*Important
information
about the
Roth 401(k)
option.*



New Choice, More Flexibility

With the new Roth 401(k) option, your plan now offers you more flexibility when saving for retirement. In general, a Roth 401(k) is similar to the popular Roth IRA — with most of the same benefits Roth IRAs provide.

With a Roth 401(k), you make **after-tax** contributions to your 401(k) plan. In other words, your Roth 401(k) contributions are taxed in the year you contribute them to the plan. However, when you retire, you receive your contributions *plus any plan earnings* on your money **tax free**.

With traditional 401(k) deferrals, you don't pay any taxes on your contributions up front, but you pay taxes on *both* contributions *and* any earnings when you take the money out of the plan.

So, you have a choice of paying taxes on your retirement money now or paying them later.

Traditional 401(k) and Roth 401(k) – A Comparison

Benefit	Traditional 401(k)	Roth 401(k)
Tax-deferred Contributions?	Yes	No
Tax-free Distributions?	No	Yes*
Maximum Total Annual Contribution to Plan? **	\$15,000 (in 2006)	\$15,000 (in 2006)
Catch-up Contributions? ***	Yes; \$5,000 a year maximum (in 2006)	Yes; \$5,000 a year maximum (in 2006)
Income Limits for High Earners? ****	No	No

* Tax law requirements must be met.

** Traditional and Roth 401(k) contributions are combined in applying maximum plan contribution.

*** Traditional and Roth 401(k) catch-up contributions are combined in applying maximum plan catch-up limit.

**** Unlike with Roth IRAs, there is no income limit on who can contribute to a Roth 401(k). However, both traditional and Roth 401(k) contributions may be limited by a plan's nondiscrimination rules.

The Big Question

Why would anyone choose to pay taxes now rather than later?

The answer for some people: to have more after-tax income when they retire. Depending on your situation, making after-tax Roth 401(k) contributions now can mean more money in your pocket during retirement.



Making Your Decision

When considering whether traditional 401(k) deferrals or Roth 401(k) contributions are right for you, you need to weigh several factors. Among them:

- Your current age
- Your expected retirement age
- Your current annual 401(k) contribution
- Your current tax bracket
- Your expected tax bracket in retirement

Some of these factors require some educated guesswork on your part. The more years you are from retirement, the more you will need to speculate on what the future will hold.

While everyone's circumstances are different, here are some factors you might want to consider in your decision making:

- If you expect to be in a lower income-tax bracket at retirement than you are in now, contributing to a traditional 401(k) may result in a larger after-tax accumulation when you retire (with all other factors, such as investment returns, being equal).
- If your retirement tax bracket will be higher than it is now, Roth 401(k) contributions may result in a higher after-tax accumulation.
- Even if you are not able to contribute to a Roth IRA now due to the tax law's income limits, you can make Roth 401(k) contributions, if doing so is otherwise favorable to you.
- If you currently make after-tax contributions to your plan, making Roth 401(k) contributions instead may benefit you more.
- If you maintain your contribution percentage and elect Roth contributions, your paycheck will be lower due to the tax withheld on those contributions.

Before making any decision, though, you should consult with a tax advisor who can help you look at your specific situation and determine which route — traditional deferrals or Roth contributions — is best for you.



My new Roth option
has inspired me to
reconsider my path
to retirement.



Growing Your Nest Egg

Tax savings are great. There's not one of us who doesn't want them. But tax savings alone aren't likely to provide you with a comfortable retirement. Your contribution level is the key. Even small increases in your deferral rate can be meaningful over time.

You might feel it is hard to find a little more to save. One approach is to give your plan a raise every time you get a raise. You can also look for ways to budget for small savings. Here are some ideas where you can find a few more dollars to fund your future.

Small Sacrifices

	Unit price	Per week	Per year	If invested in plan for 40 years
1 specialty coffee	\$2.50	\$17.50	\$912.50	\$400,026
1 movie per week	\$8.50	\$8.50	\$442.00	\$193,766
1 candy bar per day	\$0.55	\$3.85	\$200.75	\$80,006

Assumes 4% annual price inflation, deposits to plan at the end of each month, and 8% average annual returns, net of fees, no taxes apply. There are 52.143 weeks in a 365-day year. Newkirk Products, Inc. Research, 2003.



Additional Imprint

