

The Roth 401(k): Does it Make Sense for Your Company?

The IRS has issued regulations that allow a 401(k) or 403(b) plan to offer Roth “after-tax” contributions by participants, beginning in 2006. The earnings on these Roth contributions will grow tax-free, and by adding this feature you will give participants the opportunity to diversify their tax risk by choosing from pre-tax, Roth after-tax, or blended contributions in the same plan.

KEY FEATURES OF A ROTH 401(K):

- Available to employees at any income level
- Aggregated and subject to one combined deferral limit (\$16,500 in 2010 or \$22,000 for employees age 50 or older)
- Tax-free distribution of earnings
- Contributions may be available for loans
- Contributions may be matched on a pre-tax basis
- Employee “Roth” contributions are 100% vested immediately
- All or a portion of the 50+ catch-up contribution can be designated as a “Roth” contribution
- Terminated employees have the option of rolling over their Roth 401(k) account to a Roth IRA or another plan with a Roth 401(k) or Roth 403(b) feature.

IS THE ROTH 401(K) FEATURE RIGHT FOR YOU AND YOUR EMPLOYEES?

As a plan sponsor, you will need to decide if this feature makes sense for your company. This will depend on your company’s specific needs, goals and demographics.

If you answer “yes” to any of the following questions, then a Roth 401(k) may be right for your retirement program.

- Do you or your employees believe personal income tax rates will rise in the future?
- Is your employee base predominantly younger in age and lower paid?
- Do you have employees looking to pay their tax liability during their working years?
- Would your employees benefit from the choice of investing on both a pre-tax and/or after-tax basis?
- Do you have higher income employees who are unable to contribute to a Roth IRA due to income limitations*, and looking for the ability for tax-free earnings?

As your RBC Wealth Management® Financial Consultant, we would be happy to provide you with more information on this new feature to see if it makes sense for your retirement plan.

**Generally, income limitations for Roth IRAs are modified adjusted gross income of \$120,000 for single individuals and \$177,000 for married couples filing jointly in 2009.*

Additional regulatory guidance about designated Roth contributions is expected from the IRS. We recommend that you consult your legal counsel when considering changes to your plan.

RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs.

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20154 (01/10)