

# 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 2011 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 Advisor, 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 \$122,000 for single individuals and \$179,000 for married couples filing jointly in 2011.*

*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.*

© 2011 RBC Capital Markets, LLC. All rights reserved.



RBC Wealth Management®