

Your Solo 401(k) Made better.

Introducing an opportunity for
tax-free retirement income.



Introducing your Roth 401(k) contribution option.

“I’m ready
for Roth.”

“I’m more of a
traditional type.”



Is it right for you?

Your employer has just enhanced your 401(k) plan to give you even more flexibility! Your plan now includes the new Roth 401(k) feature. This option doesn't change how much you can contribute. Nor does it change where you can invest. What it really does is give you more control over when your contributions – and retirement income – will be taxed.

If you choose to contribute to the Roth option, those contributions will be subject to income taxes before they're invested in your 401(k) account.

In exchange, though, you may be able to withdraw your contributions and any earnings tax-free when you retire... which could mean more in your retirement paychecks.

In short, you'd be trading a current tax benefit for a future tax benefit. So does this trade-off make sense for you? It primarily depends on whether you think your tax rate will be higher at retirement, or vice versa. Let's take a closer look.



“I’ll take both.”

Would you rather pay taxes later?

Compare the Traditional 401(k)...

Now:

Pay no income taxes on contributions during your

Later:

Pay taxes when you withdraw during retirement.

Money going in:
(contributions)

Pre-tax contributions are deducted from your salary before taxes are taken. That can reduce your taxable income and leave you more in your take-home pay.

Earnings:

Grow **tax-deferred** until withdrawn.

Money coming out:
(distributions)

Distributions are **taxable** as withdrawn.

Money moving on:
(rollovers)

Rollovers allowed to another **Traditional** 401(k), 403(b), governmental 457(b), or Traditional IRA.

Required minimum distributions:

Minimum distributions **required** beginning at age 70^{1/2}.

Or get them out of the way now?

with the Roth 401(k).

Now:

Pay income taxes
on contributions as you
make them.

Later:

Withdraw savings
tax-free
during retirement.

Money going in:
(contributions)

After-tax contributions are subject to federal (and where applicable, state, and local) income tax withholding.

Earnings:

Grow **tax-free** as long as certain qualifying conditions are met (see below).

Money coming out:
(distributions)

Tax-free distributions, as long as you've satisfied the five-year holding period and are age 59½ or older, disabled or deceased.

Money moving on:
(rollovers)

Rollovers allowed to another **Roth** account in a 401(k) or Roth IRA.

Required minimum distributions:

Minimum distributions required beginning at age 70½. However, you can roll over your Roth 401(k) to a Roth IRA, where minimum distributions are **not required**.

This material is not intended to be used to avoid tax penalties, and was prepared to support the promotion or marketing of the matter addressed in this document. The taxpayer should seek advice from an independent tax advisor.

So, which option is right for you?



Jeff: Wants current tax break

Jeff considers himself in his “peak” earning years. He knows he won’t be making this money forever, but wants to enjoy it while he can.

- Doesn’t think he can afford to lose another tax deduction at this point
- Doesn’t really like change anyway
- Expects to be in a lower tax bracket



Linda: Wants long-term tax-free growth

Linda just got out of grad school and is embarking on her new career. She feels good about the fact she’s already starting to build up her savings.

- Isn’t worried about the tax deduction now
- Confident her salary will increase over the years to come
- Expects to be in a higher tax bracket when she retires

COMPARING	JEFF’S	
	Traditional Pre-tax 401(k)	Roth After-tax 401(k)
Gross income:	\$75,000	\$75,000
Annual salary available to save:	\$10,000	\$10,000
Less taxes at 25%:	-\$0	-\$2,500
Net yearly contribution:	\$10,000	\$7,500
Value at retirement (assumes 20 years of contributions at 8%)	\$475,900	\$356,900
Less taxes at 15%:	-\$71,400	-\$0
After-tax value:	\$404,500	\$356,900

**CONSIDERING:
Traditional 401(k)**

COMPARING	LINDA’S	
	Traditional Pre-tax 401(k)	Roth After-tax 401(k)
Gross income:	\$40,000	\$40,000
Annual salary available to save:	\$5,000	\$5,000
Less taxes at 25%:	-\$0	-\$1,250
Net yearly contribution:	\$5,000	\$3,750
Value at retirement (assumes 40 years of contributions at 8%)	\$1,347,100	\$1,010,300
Less taxes at 33%:	-\$449,000	-\$0
After-tax value:	\$898,100	\$1,010,300

**CONSIDERING:
Roth 401(k)**

Note: These are hypothetical illustrations for demonstration purposes only. They are not intended to (1) serve as financial advice or as a primary basis for investment decisions and (2) imply the performance of any specific security. Contributions are subject to Internal Revenue Code limits. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their ability to invest consistently in up as well as down markets.

There are many reasons why a Roth 401(k), a Traditional 401(k) or a combination of both may be right for you. A lot depends on when you expect to be in a higher tax bracket – now or when you retire. You’ll also need to factor in your current financial situation, future goals and personal attitudes as well – as these scenarios illustrate.



Brian:
Wants to maximize contributions and tax-free income

Brian is established in his career and makes a great salary. He thinks he’ll be able to live on less when he retires, yet is eager to maximize his retirement income.

- Unable to contribute to a Roth IRA (his income exceeds the Roth IRA limits)
- Likes the idea of tax-free retirement income, previously unavailable for the highly compensated
- Already contributes the max to his 401(k) plan (\$15,500 for 2008)

COMPARING	BRIAN’S	
	Traditional Pre-tax 401(k)	Roth After-tax 401(k)
Gross income:	\$200,000	\$200,000
Annual salary available to save:	\$15,000	\$22,500
Less taxes at 33%:	-\$0	-\$7,500
Net yearly contribution: (2008 maximum=\$15.5K)	\$15,500	\$15,500
Value at retirement (assumes 15 years of contributions at 8%)	\$423,600	\$423,600
Less taxes at 33%:	-\$141,200	-\$0
After-tax value:	\$282,400	\$423,600

CONSIDERING:
Roth 401(k)



Wanda:
Wants tax flexibility now and in retirement

Wanda likes the idea of tax-free retirement income, but also likes her current tax deduction. And she doesn’t have a clue where taxes are headed in the future!

- Is getting close to retiring, but not that close
- Wants the flexibility to optimize her tax strategy year-to-year as she withdraws retirement income
- Likes “hedging” her bets

COMPARING	WANDA’S	
	Traditional Pre-tax 401(k)	Roth After-tax 401(k)
Gross income:	\$60,000	\$60,000
Annual salary available to save:	\$6,000	\$6,000
Less taxes at 25%:	-\$0	-\$1,500
Net yearly contribution:	\$6,000	\$4,500
Value at retirement (assumes 10 years of contributions at 8%)	\$90,400	\$67,800
Less taxes at 25%:	-\$22,600	-
\$0	\$67,800	\$67,800

CONSIDERING:
Combination of Traditional 401(k) and Roth 401(k)

Have more questions?

What is the “five-year rule”?

It determines when you can take tax-free income. You can withdraw money from your Roth 401(k) tax-free – as long as you satisfy this five-year rule. Your assets must have been held within your Roth 401(k) for at least five years and you must be at least age 59½, become disabled, or die.

I’m young and currently in a low tax bracket, but I expect my earnings to grow. Is the Roth 401(k) right for me?

It could be. The longer you can leave your money in your Roth 401(k) and the higher you expect your taxes to be in the future, the more you may be able to benefit from the tax-free income a Roth 401(k) can provide in the future.

I may retire in a few years. Is the Roth 401(k) right for me?

That depends on when you plan to start tapping into your 401(k) savings. To qualify for tax-free income from a Roth 401(k), remember you have to satisfy the “five-year rule” explained above. So you have to be at least age 59½, become disabled or die and have held assets in your Roth 401(k)

I understand the tax differences between the Traditional and Roth 401(k) contribution options. How will taxes affect my employer's match (if my plan provides)?

Both Traditional and Roth 401(k) contributions are eligible for an employer match if your plan provides. The match will be held in a separate pre-tax account and treated as a pre-tax contribution and the earnings will grow tax deferred. You will pay taxes on your employer match as well as the earnings on that match when you withdraw during retirement.

Why should I consider the Roth 401(k) instead of a Roth IRA?

Three key reasons.

1. Not everyone can qualify for a Roth IRA. You can't contribute if your adjusted gross income exceeds a certain amount (\$169,000 if you file a joint tax return with your spouse; \$116,000 if you file a single tax return).
2. You can contribute significantly more to a Roth 401(k) than you could to a Roth IRA (if eligible). For 2008, participants can contribute up to \$15,500 to a Roth 401(k) (\$20,500 if age 50 or older). But they can only contribute \$5,000 to an individual Roth IRA (\$6,000 if over age 50).
3. If your employer matches your 401(k) contributions, you should contribute to a Roth 401(k) to capitalize on these matches.

How are my Social Security benefits affected in retirement?

Keep in mind that your Social Security benefits are taxed if you exceed certain income limits.

Distributions from a Traditional 401(k) count as taxable income for Social Security purposes. Distributions from a Roth 401(k) do not. So contributing to a Roth 401(k) may actually help reduce your taxable income later... and thus minimize your Social Security taxes.

How will contributing to a Roth 401(k) affect my take-home pay?

It could reduce it. Unlike a Traditional 401(k), contributions to a Roth 401(k) won't reduce your taxable income. So you'll actually be paying taxes on a higher amount, which could reduce your take-home pay. (See the example below.)

	Traditional 401(k)	Roth 401(k)
Gross income	\$50,000	\$50,000
Traditional 401(k) contribution	PRE-TAX - \$5,000	N/A
Taxable Income	\$45,000	\$50,000
25% income taxes	- \$11,250	- \$12,500
After-tax income	\$33,750	\$37,500
Roth 401(k) contribution	N/A	AFTER-TAX - \$5,000
Take-home pay	\$33,750	\$32,500

Contributing to a Roth 401(k) may also affect your ability to take other tax credits and deductions (for example, student loan deductions, medical expense deductions and child care tax credits). Whether or not you qualify for these tax credits and deductions depends on your income level. Since Roth 401(k) contributions won't reduce your adjusted taxable income, that could affect your eligibility for these tax reductions.

We have more answers
Call 866-915-4015
<http://www.solo-k.com>

Which One Will You Choose?



This white paper was put together to help explain the new Roth Solo 401k. Please use this information to help you decide whether the Roth Solo 401k is right for you.

The Solo-k Retirement Group and Street Smart Benefits' Strategies

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