The Roth 401(k) contribution option

Offered by employers through their 401(k) plan, Roth 401(k) contributions are funded with after-tax dollars. If certain requirements are met, any associated earnings can generally be withdrawn tax-free. By offering both pre-tax and Roth 401(k) contributions, your employer's plan can give you added power to decide when your contributions and retirement income are taxed.

This option can also offer potential advantages to those who are unable to contribute to a Roth IRA because of the modified adjusted gross income (MAGI) restrictions. There are no MAGI restrictions for making Roth 401(k) contributions.

Traditional vs. Roth: Which do I choose?

An important factor to consider when comparing traditional pre-tax 401(k) and Roth 401(k) contributions is whether you think your tax rate will be lower in retirement than it is today. Unlike pre-tax contributions, Roth 401(k) contributions are made with after-tax dollars. This means that in retirement, as long as you meet the requirements for a qualified distribution (see page 3), you can take it federal-tax-free. The greater the increase or decrease in future tax rates, the more impact your choice may have on your account value in retirement.

Considering future tax rates

Trying to predict what your tax rate may be like in the future isn't easy. If you already have substantial tax-deferred savings, you may want to hedge your bets on what the government may do in the future and consider making Roth 401(k) contributions. This way, you could have both taxable and tax-free assets available for distribution. And although the law states tax brackets as percentages of income, your actual taxes depend on your individual situation, including number of dependents, any tax deductions you may have, and any tax credits you may be eligible to receive.

You should consult your legal and/or tax advisor before making any financial decisions.

Will my taxes be lower or higher in retirement?

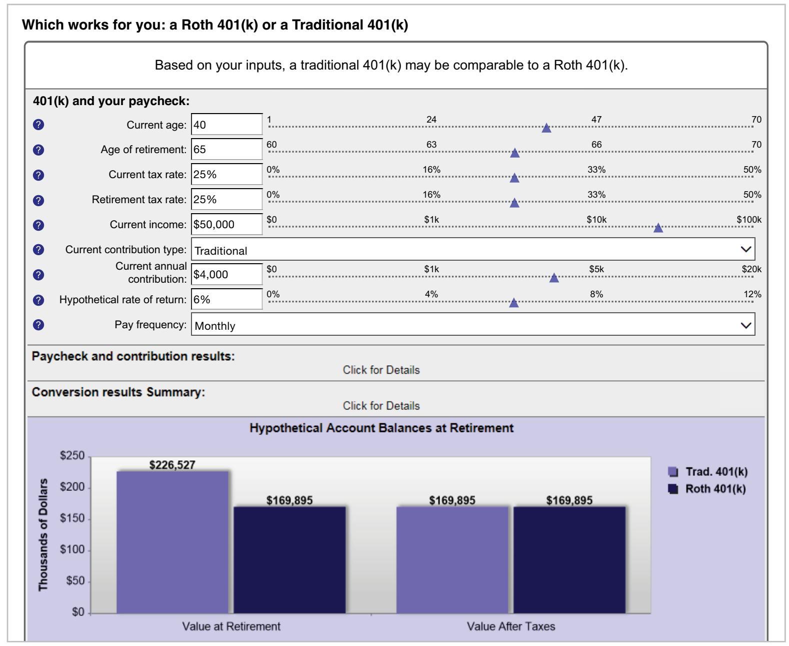
Assuming all other factors would be the same, if your tax rate is *lower* when you begin taking distributions, pre-tax contributions may yield higher account values (once taxes are factored in). But if you expect that your taxes will be *higher* by the time you begin taking distributions, Roth 401(k) contributions may prove to be a better choice.

You can model various hypothetical scenarios with the **Roth 401(k) Comparison Calculator** on Benefits OnLine® by changing your retirement age, contribution amount and possible tax rates.

To make Roth 401(k) contributions:

Benefits OnLine®
benefits.ml.com

Questions? Call the Retirement & Benefits Contact Center, 800 228 4015, during normal business hours for your employer's plan. The Interactive Voice Response (IVR) system is also available virtually 24/7.



The screen shot is intended only to illustrate the functionality of the Roth 401(k) Comparison Calculator. Information and interactive calculators are made available to you as self-help tools for your independent use and are not intended to provide investment advice. We cannot and do not guarantee their applicability or accuracy in regards to your individual circumstances. All examples are hypothetical and are for illustrative purposes. We encourage you to seek personalized guidance from qualified professionals regarding all personal finance issues.

The hypothetical illustration assumes the variables listed above, with the assumed annual effective rate of return as shown above. Changes in tax rates may impact the comparative results. Please consider your investment horizon and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison.

Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate and when redeemed the investments may be worth more or less than their original cost. If you make pre-tax [traditional 401(k)] contributions, taxes are due upon withdrawal. If you make Roth 401(k) contributions, taxes are deducted before contributions are made, and taxes will not be due on your contributions and any earnings upon a qualified distribution. In either case, you may be subject to a 10% additional federal tax if you take a withdrawal from the Plan prior to reaching age 59½, unless an exception applies.

Merrill, its affiliates and financial advisors do not provide legal, tax, or accounting advice. You should consult your own legal and/or tax advisors before making any financial decisions.

Frequently asked questions about Roth 401(k)

Am I eligible to make Roth 401(k) contributions, and if so, how much can I contribute?

Yes, any eligible participant can make Roth 401(k) contributions. You may be thinking of Roth IRAs, which are designed for investing outside of an employer-sponsored retirement plan. Roth IRAs do have eligibility restrictions based on MAGI while there is no MAGI limit for Roth 401(k) contributions.

Tax law and plan contribution limits apply to the combined total contributions to 401(k) plans, whether they're Roth or pre-tax. If you are age 50 or older within the calendar year and contribute the lesser of the tax law or plan limit, you may be eligible for a "catch-up contribution," up to the current tax law catch-up limit. Current tax law limits are always available on Benefits OnLine. Plan contribution limits will vary.

If my employer offers a matching contribution, are my Roth 401(k) contributions eligible? If so, is the match percentage affected?

If your employer's plan permits an employer match, then pre-tax and Roth 401(k) contributions are both eligible at the same rate.

Keep in mind, however, that Roth 401(k) contributions reduce your take-home pay more than the equal amount of pre-tax contributions. If you switch from pre-tax to Roth 401(k) contributions, and reduce your contribution rate to keep your take-home pay at the same level, you could lose a portion of your match. Carefully consider what percentage of pay you must contribute to receive your maximum employer match. Otherwise, you're leaving money on the table.

Remember that employer contributions are made on a pre-tax basis and are subject to taxation at withdrawal, including a possible 10% additional federal tax if withdrawn before age 59½, unless an exception applies.

Can I transfer part of my existing pre-tax 401(k) account to a Roth 401(k) account?

Generally, you cannot transfer any amount between a pre-tax 401(k) account and a Roth 401(k) account due to the taxation differences. However, some plans do offer the option of converting assets in a pre-tax 401(k) account to a Roth 401(k) account. In this case, you would pay the federal (and possibly state) income tax that you previously deferred upon conversion. But any earnings after the conversion are tax-free, provided you take a qualified distribution. Please speak to your plan administrator to see if this option is available in your employer's plan.

It is important to note that amounts converted in an in-plan Roth conversion may be subject to an additional 10% federal tax under the "special recapture rule."[1]

Can I stop making Roth 401(k) contributions and go back to pre-tax 401(k) contributions?

Yes. However, the assets in your Roth 401(k) account can't be transferred to a pre-tax 401(k) account. Once you have begun making contributions, you will need to leave the money in the Roth 401(k) account unless you qualify for a hardship withdrawal, a qualified distribution or a distribution at termination of employment (additional taxes may apply). You may also be able to roll over your balance to a Roth IRA or other employer sponsored retirement plan that accepts Roth contributions.

Can I take a loan or hardship withdrawal from a Roth 401(k) account?

Yes, if the plan permits. If you are not eligible for a qualified distribution and take a hardship withdrawal, any earnings may be taxable and are generally subject to the 10% additional federal tax if you take it before age 59½, unless an exception applies. You may wish to consult a tax advisor for help.

Qualified vs. nonqualified distributions

Qualified distributions from a Roth 401(k) account require that at least five years have elapsed since the first day of the year of the initial Roth 401(k) contribution (or your first in-plan Roth conversion, if earlier), and you must be at least age 59½ or disabled or deceased.

Investment earnings on Roth 401(k) contributions taken in a nonqualified distribution are subject to regular income taxes and if your distribution is taken before you reach age 59½, an additional 10% federal tax may apply (unless an exception applies; consult your tax advisor). State income tax laws vary; consult a tax professional to determine how your state treats Roth 401(k) distributions.

Your options at a glance[2]

	Traditional pre-tax 401(k) contributions	Roth 401(k) contributions
When you will pay taxes on your contributions	You pay the tax upon withdrawal. Contributions are tax-deferred, so current taxable income is reduced.	You pay regular income tax on your contributions before the money goes into your account. Current taxable income is not reduced.
When you will pay taxes on any investment earnings	You pay taxes on the full amount of any distribution, including earnings, at ordinary income tax rates in effect upon withdrawal.	You do not pay taxes on any earnings if you take a qualified distribution.
Taxability of distributions	Pre-tax contributions and any earnings are subject to current ordinary income tax at distribution (a 10% additional federal tax may also apply before age 59½, unless an exception applies).	Tax-free qualified distributions are available if: 1) at least five years have elapsed since the first day of the year of the initial Roth 401(k) contribution (or your first in-plan Roth conversion, if earlier), and 2) you are at least 59½ years old,1 or have become disabled or deceased. 3 In nonqualified distributions, you pay current ordinary income tax on earnings only (and a 10% additional federal tax may apply before age 59½, unless an exception applies).
Required minimum distributions (RMD)	At age 72, you generally must begin taking withdrawals from your 401(k) account. If you work past age 72 and do not own more than 5% of the company, distributions may be deferred until April 1 of the calendar year after the year in which you retire.	Same. However, Roth 401(k) balances may be rolled over to a Roth IRA, which is not subject to the RMD rules at any age prior to the original account holder's death.
Impact of contributions on take-home pay	Since contributions are pre-tax, your current taxable income is reduced and each dollar contributed reduces your take-home pay by less than a dollar.	Because you pay current taxes on your Roth 401(k) contributions, take-home pay is reduced dollar for dollar by your contributions.
Rollovers from your account	You may roll over your account balance upon termination to a traditional or Roth IRA,[4] a 401(k) plan or another qualified employer-sponsored retirement plan.	You may roll over your account balance upon termination to a Roth IRA or another Roth 401(k) or Roth 403(b) account in a qualified employer-sponsored retirement plan. **Note:** For purposes of the 5-year rule for qualified distributions from your Roth IRA, the date of the initial contribution to the Roth IRA governs.
Taxes on employer contributions, if applicable	Employer contributions are made on a pre-tax basis; contributions and any earnings are taxable upon withdrawal.	Same. Employer contributions are not treated as Roth contributions.
Loan and hardship	401(k) balances are available for 401(k) loans and hardship withdrawals if the plan allows.[5]	Same.

You have choices for what to do with your 401(k) or other type of employer-sponsored retirement plan accounts. Depending on your financial circumstances, needs and goals, you may choose to roll over to an IRA or convert to a Roth IRA, roll over a 401(k) from a prior employer to a 401(k) at your new employer, take a distribution, or leave the account where it is. Each choice may offer different investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and provide different protection from creditors and legal judgments. These are complex choices and should be considered with care.

[1] A "special recapture rule" applies to amounts converted in an in-plan Roth conversion. If you complete an in-plan Roth conversion before reaching age 59½ and you take a distribution of the converted assets within 5 years of the first day of the year in which the conversion occurred, an additional 10% federal tax may apply. If you complete multiple in-plan Roth conversions before reaching age 59½, each conversion will be subject to its own 5-year holding period for purposes of the special recapture rule.

[2] Federal tax rules are complex and subject to change. You should consult a tax advisor for more specific, individualized information.

[3] For purposes of qualified distributions, disability must meet the definition stated in Internal Revenue Code Section 72(m)(7).

[4] Traditional 401(k) assets converted to a Roth IRA are generally taxable in the year of conversion. You should consult a tax advisor for more information before initiating a conversion to a Roth IRA.

[5] Please remember to consider the advantages and disadvantages of any loan before taking one.