Roth 401(k) –

An additional contribution option. Three steps to see if it's right for you.

Traditional 401(k)
- Pre-tax contributions
- Tax-deferred growth
- Taxable distributions

Roth 401(k)
- After-tax contributions
- Tax-free growth*
- Tax-free distributions*

* Qualifying conditions apply.

Your 401(k) offers an additional contribution option called the Roth 401(k). It offers you the opportunity to take tax-free distributions when you retire (as long as you meet certain qualifications) – in exchange for paying taxes on your contributions upfront. Read on to see if this option is right for you.

STEP 1: Learn how this option differs from – and is similar to – a Traditional 401(k)

Unlike your Traditional 401(k) option, the Roth 401(k) offers you the potential for tax-free retirement income later – by investing on an after-tax basis now. With a Roth 401(k), you pay your taxes upfront – at your current tax rate – rather than later at whatever your tax rate would be when you retire.

In many ways, the Roth 401(k) is just like your Traditional 401(k). It still allows you to:
- contribute to the same investment options;
- qualify for any company match if your plan permits (note: all matching contributions will be held in a pre-tax account that is taxable as withdrawn);
- take distributions at age 59½ or if you become disabled or die;
- roll over assets if you leave your company (must be to another Roth account).

STEP 2: Evaluate if you could benefit from this option

Whether this option is right for you depends on a variety of factors. You may want to consider this option if you can answer yes to many of the following questions.
- Are you looking for tax-free growth and tax-free retirement income?
- Are you interested in minimizing taxes on your Social Security benefits in retirement?
- Are you just beginning your career, anticipate pay raises in the future, and want to pay taxes now rather than at retirement when your income and tax rate could be higher?
- Are you simply unsure what tax rates will be in the future and concerned Congress may increase them by the time you retire? (Note: by paying taxes upfront, in essence the Roth 401(k) lets you "lock in" today's tax rates.)
- Do you want to diversify your tax strategy, just like you're diversifying your investment strategy? (Note: you can divide your contributions between a Traditional 401(k) and a Roth 401(k) which would provide two different tax treatments on your retirement savings.)

STEP 3: Decide what works best for you

By adding this Roth 401(k) option, your employer has given you more control over when your contributions are taxed. You can choose to: 1) make your contributions on an after-tax basis to the Roth 401(k); 2) make your contributions on a pre-tax basis to the Traditional 401(k); or 3) contribute to a combination of both. It all depends on what option makes sense for your personal financial situation.

If you do make after-tax contributions to a Roth 401(k), you'll just want to keep in mind that:

- Your total contributions to either the Traditional or Roth 401(k) – or any combination of the two – is $16,500 in 2010 ($22,000 if you are age 50 or over)
- Your contributions would be made after income taxes are deducted
- Your contributions do not reduce your current tax liability, but instead provide potentially tax-free income at retirement
- You must hold your Roth 401(k) account for at least five years and reach age 59½, become disabled or die, before you can take tax-free withdrawals

How should Stan save for retirement?

Stan makes $40,000 a year and wants to save six percent of his biweekly salary for the future.

	If he contributes to the Traditional 401(k) plan:	If he contributes to the Roth 401(k) plan:	If he contributes to both:
Gross biweekly pay	**$1,538**	**$1,538**	**$1,538**
Contribution percentage	**6%**	**6%**	**3% pre-tax; 3% after-tax**
Contribution amount	**$92**	**$92**	**$92**
Tax on contributions	**$0**	**$14**	**$7**
Total taken from pay	**$92**	**$106**	**$99**

For Stan, receiving potentially tax-free retirement income means a difference of as little as $14 in his biweekly pay.

Note: This hypothetical illustration assumes a biweekly savings of $92 – or six percent of pay – and a federal tax rate of 15 percent and is for demonstration purposes only. It is not intended to (1) serve as financial advice or as a primary basis for your investment decisions and (2) imply the performance of any specific security. The introduction of the Roth 401(k) does not increase your total contribution limit to the plan. Your contributions, whether Roth after-tax or Traditional pre-tax, or a combination of both in total, are subject to the Internal Revenue Code contribution limits. Taxes are generally due upon withdrawals of the tax-deferred assets and early withdrawal penalties may apply to withdrawals taken before age 59½. You should consult with an advisor when you consider your options or make tax-related decisions. Legal and tax advice are not offered by ING and its representatives.

Want to calculate how a Roth 401(k) could affect your retirement savings strategy? Check out ING's interactive Online Calculator at www.ingretirementplans.com

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