

Roth 401(k) Analysis Report

“Pay Uncle Sam Now or Pay Him Later?”

Prepared for

Mr. Owner HCE

Roth 401(k) Marginal Tax Rate (MTR) Analysis Report

Participant Information Data Input

Name:	Mr. Owner HCE
Date of Birth:	6/27/1955
Gender:	Male
Compensation	\$220,000
First Contribution Start Date:	January 1, 2006
Annual Pre-tax 401(k) Deferral:	\$20,000
Annual Pre-tax Deferral Percent	9.09%
Annual After-tax Roth 401(k) Deferral:	\$13,000
Increased After-tax Roth 401(k) Deferral:	\$30,769
Annual Increased Roth Deferral Percent:	13.99%
Current Marginal Tax Rate (MTR):	35.00%
MTR Decreases By:	7.00%
MTR Increases By:	7.00%
Rate of Return on 401(k):	7.00%
Rate of Return on Roth 401(k):	7.00%
Rate of Return on Side Fund:	5.68%
Retirement Age <small>(Soc. Sec. Retirement Age or 5 years):</small>	66
Life Expectancy <small>(Soc. Sec. Mortality or Specified Age):</small>	85
Age at Start of Distributions:	71
Number of Payment Years:	15
Distribution Method:	<i>Annuity</i> (equal annual payments over joint life expectancy; or, selected number of years if specified but not less than the required minimum distribution for pre-tax account)

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This document intends to provide general information only. See your official Summary Plan Description (SPD) for specific details on your plan's benefits and features. In the event of a conflict between the information provided in this communication and the SPD, the SPD prevails.

Pre-tax or Roth 401(k)?

Starting January 1, 2006, your plan has a new feature called a "Roth 401(k)." The new feature permits you to contribute all or part of your contribution on an after-tax basis to a Roth 401(k) account. This feature is available to all eligible plan participants because, unlike the Roth IRA, no one is prohibited from participating based on their adjusted gross income.

The Roth 401(k) feature is different from a traditional pre-tax 401(k). Contributions to your pre-tax 401(k) account are tax-free, interest accumulates tax-free, and you pay tax on distributions during retirement. Contributions to the Roth 401(k) account are after-tax, interest accumulates tax-free, and qualified distributions during retirement are **100% income tax free**. So choosing between the pre-tax and Roth 401(k) option comes down to one simple question:

Pay Uncle Sam Now or Pay Him Later?

For most people, the most important factor in answering this simple question is your tax rate when you contribute versus your tax rate when you receive distributions. By tax rate, we mean your marginal tax rate (MTR), or the tax rate you pay on the last dollars you earn in a particular tax year (i.e., the tax rate that applies to your highest level of taxable income for the year). Your current MTR determines the tax you save now on pre-tax contributions and the tax you pay now on after-tax Roth contributions. Your *future MTR* determines the tax you pay later on distributions from the pre-tax account during retirement, and the tax you save when you take Roth distributions tax-free.

Marginal Tax Rate Analysis

The Roth option is financially beneficial to participants whose MTR is lower when contributing versus their MTR when receiving distributions in retirement, since taxes on contributions were paid at a lower rate. Conversely, the pre-tax option is more beneficial to participants whose MTR is higher when contributing versus when receiving distributions in retirement, since taxes on distributions are paid at a lower rate.

If you choose the Roth option, and you want the same net take home pay as if you chose the pre-tax option, the Roth contribution is lower because you pay tax on your salary reduction before it is deposited to your account.

Example: If you contribute \$250 per week to the pre-tax option, your paycheck is reduced by \$250 and the \$250 is deposited to the plan. If your MTR is 28%, you save \$70 now, but pay tax based on your future MTR later. If you choose the Roth option and want the same \$250 reduction in your paycheck, only \$180 is deposited to the plan, since you pay the \$70 tax now, but no tax later. In other words...

Same Net Pay means Lower Roth Contribution

If you wish to have the same dollar amount deposited to the plan as if you chose the pre-tax option, then your salary reduction is higher and net pay is lower.

Example: If you wish to have \$250 per week deposited to your Roth account, and your MTR is 28%, you must reduce your paycheck by \$347. You pay the \$97 tax now, but no tax later. In other words...

Same Roth Contribution means Higher Salary Reduction

Maximize Your Contribution. If you have the desire and ability to contribute the highest permissible contribution to a qualified retirement plan, a maximum after-tax Roth 401(k) contribution effectively raises the maximum individual contribution limit.

Example: Same Net Pay means Lower Roth Contribution Suppose you are age 51 and earn \$350,000 annually. For retirement plan purposes, your compensation is capped at \$220,000 (the 2006 compensation limit). You pay taxes on the last dollars earned at the federal rate of 35% and you defer 9.1% of your compensation, or \$20,000, into the pre-tax 401(k) account. *If you choose the Roth instead of the pre-tax option, what is your after-tax contribution?*

Formula: Roth After-tax Contribution = \$20,000 (1 - 35%)

Result: Roth After-tax Contribution = \$13,000

Who Should Consider the Roth 401(k) Option?

Individuals who believe their tax rate will be higher when taking distributions during retirement than it is when making contributions.

For many, it makes sense to think that you will be in a lower bracket during retirement, since you may no longer have deductions for mortgage interest, etc. *Does it also make sense to think that the government will increase tax rates in the future? Suppose you are in the same or lower tax bracket in the future; does this mean that your tax rate will be lower?*

Example: Lower Future Bracket May Not Mean Lower Rate You are married and earn \$150,000 annually. In 2006, you are in the 28% tax bracket and pay tax at a rate of 28%. *If you believe that you will be in a lower tax bracket following retirement, does that also mean you will pay taxes at a lower rate?*

Perhaps not. The table below indicates the tax rates for 2006 and each row of the table represents a "Tax Bracket." Your current tax bracket is indicated in blue.

Tax Rates for 2006

Tax Rate	Married Filing Joint and Surviving Spouses	Unmarried Individuals	Heads of Households	Married Filing Separate
10%	\$0 - 15,100	\$0 - 7,550	\$0 - \$10,750	\$0 - 7,550
15%	\$15,101 - 61,300	\$7,551 - 30,650	\$10,751 - 41,500	\$7,551 - 30,650
25%	\$61,301 - 123,700	\$30,651 - 74,200	\$41,501 - 106,000	\$30,651 - 61,850
28%	\$123,701 - 188,450	\$74,201 - 154,800	\$106,001 - 171,650	\$61,851 - 94,225
33%	\$188,451 - 336,550	\$154,801 - 336,550	\$171,651 - 336,550	\$94,226 - 168,275
35%	over \$336,550	over \$336,550	over \$336,550	over \$168,275

You retire in 2020 and receive \$100,000 per year in taxable income following retirement. Based on hypothetical tax rates for 2020, it turns out that you are correct; *you are in a lower tax bracket. However, even though you are in a lower tax bracket, you pay federal income tax at a higher rate during retirement than you did back in 2006.*

Hypothetical Tax Rates for 2020

Tax Rate	Married Filing Joint and Surviving Spouses	Unmarried Individuals	Heads of Households	Married Filing Separate
15%	\$0 - 15,100	\$0 - 7,550	\$0 - \$10,750	\$0 - 7,550
25%	\$15,101 - 61,300	\$7,551 - 30,650	\$10,751 - 41,500	\$7,551 - 30,650
33%	\$61,301 - 123,700	\$30,651 - 74,200	\$41,501 - 106,000	\$30,651 - 61,850
38%	\$123,701 - 188,450	\$74,201 - 154,800	\$106,001 - 171,650	\$61,851 - 94,225
42%	\$188,451 - 336,550	\$154,801 - 336,550	\$171,651 - 336,550	\$94,226 - 168,275
45%	over \$336,550	over \$336,550	over \$336,550	over \$168,275

Lastly, dependent on the level of your taxable income during retirement, tax-free distributions from a Roth account may decrease the possibility of taxation of your Social Security benefits.

Who Should Consider the Roth (Continued)

Individuals who want to take advantage of an opportunity to diversify future tax risk. Prudent investing dictates diversification in accounts or investment vehicles taxed differently (i.e., taxable, tax-deferred, tax-free). *The Roth 401(k) provides an opportunity to earn higher interest rates without higher risk by, for example, investing in a taxable bond within the tax-free Roth environment compared to investing after-tax dollars in a tax-free bond.*

Individuals who want to take advantage of a limited time offer. The Roth 401(k) is the *first and only* qualified retirement plan feature that permits tax-free accumulation of after-tax contributions by *participants of any income level*, and allows *tax-free distributions of both the principal contributions and interest*. Current law dictates that it will not be available after the year 2010.

Individuals who have little or no need for income from these contributions during retirement. For tax deferred pre-tax 401(k) accounts, distributions are typically deferred until the required beginning date for minimum distributions. The impact of taxation on the distributions is lessened by designating younger spousal or nonspousal beneficiaries to then “stretch” the tax-deferred payments over a longer period. For Roth 401(k) accounts, participants can roll over these assets to a Roth IRA, which does not require minimum distributions. This provides an opportunity to “super stretch” payments to heirs, since no minimum distributions are required from Roth IRAs until after death. These techniques will have the greatest appeal to individuals with substantial savings who plan to leave these retirement plan assets to heirs.

Individuals who wish to maximize retirement benefits. If you are interested in maximizing retirement benefits, or you are an HCE whose contributions are limited due to the 401(k) nondiscrimination test, the Roth 401(k) may allow you to save more for retirement. See graph #2 in your personalized analysis to see if this is pertinent to your situation.

Example: You are an HCE age 51 and pay tax at the rate of 28%. You work for a company that limits HCE 401(k) contributions to \$5,000 to avoid failure of the 401(k) test (HCEs age 50 or older are permitted to contribute the \$5,000 catch-up contribution since it is not considered for testing). If you want to contribute the maximum \$10,000 contribution to the Roth account, you must reduce your net pay by a higher amount, or \$13,888, on which you pay \$3,888 in tax (28% tax rate) so you can contribute \$10,000 after-tax to the Roth account. The \$10,000 after-tax contribution effectively equates to a \$13,888 contribution to a pre-tax account for comparative purposes. See graph #2 in your personalized analysis to see how this works for you.

Other Information to Consider

Comparison of Account Types	Pre-tax 401(k)	Roth 401(k)	Roth IRA
Are contributions taxable?	No	Yes	Yes
Are distributions taxable?	Yes	No ¹	No ¹
Contribution limits for 2006?	\$15,000 plus \$5,000 if age 50 or older	\$15,000 plus \$5,000 if age 50 or older	\$4,000 plus \$1,000 if age 50 or older
Participation dependent on income?	No	No	Yes ²
Rollover to another plan or IRA?	Yes ³	Yes ³	Yes ³
Are minimum distributions required?	Yes	Yes	No

¹ Distributions are qualified and tax-free if they occur after age 59½, disability or death, and at least 5 years after your 1st Roth contribution.

² Roth IRA eligibility is restricted if the individual's adjusted gross income limit (AGI) exceeds \$110,000 as a single filer, or \$160,000 filing joint.

³ To and from like plans; Roth 401(k) to another Roth 401(k) or Roth IRA, Pre-tax 401(k) to another Pre-tax 401(k) or Pre-tax IRA; assumes recipient employer plan accepts Pre-tax and/or Roth 401(k) rollovers.

Frequently Asked Questions (FAQs)

FAQ 1: *Can I contribute \$15,000 (plus \$5,000 if I am age 50 or older) to the pre-tax option and the same amount to the Roth?* No. The \$15,000/\$5,000 limits apply to the total of your contributions to all 401(k) contributions in the aggregate.

FAQ 2: *Can I contribute to both accounts within these limits?* Yes, assuming your plan permits contributions to both.

FAQ 3: *If I contribute to the Roth account in my employer's 401(k) plan, can I still contribute to a Roth IRA?* Yes, if your income level does not prohibit you from contributing to the IRA.

FAQ 4: *My employer matches my pre-tax contributions; will I receive a match on Roth contributions?* Most likely yes. Most employers will match both Roth and pre-tax contributions.

FAQ 5: *Will I receive the same employer match on Roth contributions as I do on pre-tax contributions?* Maybe. If you reduce your pay by the same dollar amount as for the pre-tax contribution, the Roth contribution is lower since you pay tax now, so it is possible that the lower Roth may not qualify for the same match.

FAQ 6: *If my employer matches my Roth contribution, is the match contributed to the Roth account and is it distributed tax-free?* No. All matching contributions are contributed to the same tax deferred employer match account.

FAQ 7: *Can I roll over my Roth IRA into my Roth 401(k)?* No. The law prohibits rollovers of Roth IRAs into Roth 401(k) accounts.

FAQs (Continued)

FAQ 8: *Are minimum distributions required from a Roth 401(k) account?* Yes. However, when you become entitled to a distribution, you can roll over your Roth 401(k) into a Roth IRA which does not require minimum distributions.

FAQ 9: *What is a qualified distribution in the context of a Roth 401(k) account?* A distribution is qualified and therefore tax-free if it occurs after the 5-year-taxable period during which your contribution is first deposited to the Roth 401(k) account, and the distribution is attributable to your: 1) attainment of age 59½, 2) disability, or 3) death.

FAQ 10: *If I roll over my Roth 401(k) account into a Roth IRA, do I need to wait another 5 years before I can take tax-free distributions?* Yes. The 5-year period applies separately to Roth 401(k)s and Roth IRAs. A new 5-year clock begins when the Roth 401(k) rollover is deposited to the Roth IRA account. However, if you have a Roth IRA account that satisfies the 5-year requirement, then distributions from the rollover Roth IRA are immediately available on a tax-free basis assuming you are age 59½, disabled, or deceased.

FAQ 11: *What if I receive a distribution from my Roth 401(k) account that is not qualified?* You receive a proportionate amount of both your principal contribution and any earnings. The portion of the distribution that represents the Roth contribution is tax-free, and any earnings are taxable (and are subject to the 10% additional tax if you are not age 59½).

FAQ 12: *Are the plan's investment options different for the Roth 401(k) account?* Most likely not. This is permitted but will not be typical for most plans.

FAQ 13: *What will happen to my Roth 401(k) account if the law permitting Roth 401(k)s is not extended beyond the year 2010?* The law may change but, for now, the Roth 401(k) is only available for the next 5 years. If it does not change, you will not be permitted to contribute new money to the account. Your account remains in the plan until such time that you are entitled to a distribution.

FAQ 14: *Are contributions to the Roth account considered for 401(k) testing?* Yes. The same testing rules apply to both pre-tax and Roth contributions.

FAQ 15: *Does the Roth 401(k) option offer any advantage to HCEs relative to 401(k) testing?* Yes. Because the contribution to the Roth option equates to a higher pre-tax contribution, the Roth is the preferred choice for most HCEs.

FAQ 16: *If I receive a refund from a Roth 401(k) account as a result of a 401(k) test failure, is the distribution taxable?* The portion of the distribution that represents a proportional amount of earnings on the distribution amount is taxable; the principal amount of the contribution is not.

FAQ 17: *If my employer's plan elects "Safe Harbor" status, can I contribute the maximum allowable contribution to the Roth 401(k) account?* Yes. The Safe Harbor eliminates 401(k) testing.

Personalized Analysis Results

Your personalized analysis on the following pages provides the following comparisons:

Graph #1 - Same Net Pay Means Lower Roth Contribution: Your indicated pre-tax contribution amount is compared to a Roth contribution that is based on the same salary reduction yielding the same net pay; therefore, your after-tax Roth contribution is lower.

Graph #2 - Same Roth Contribution Means Higher Salary Reduction: Your indicated pre-tax contribution amount is compared to the same dollar amount contributed to the Roth on an after-tax basis; therefore, your salary reduction is higher. This graph also illustrates the outcome of investing in an after-tax savings account (a "side fund"). The side fund represents the *after-tax* savings dollars available for personal investment if you contributed to the pre-tax option instead of the Roth option.

For example, if you contribute \$1,000 to the after-tax Roth account and your MTR is 25%, you must reduce your pay by \$1,333. You pay \$333 in tax to contribute \$1,000 to the plan.

Since it only cost \$1,000 to contribute the same amount to the pre-tax option, your net pay before taxes is \$333 higher. You pay \$83 in tax and receive \$250 more in your net paycheck.

"Side Fund" The Side fund is the *after-tax* difference between the higher \$1,333 salary reduction required for the Roth and \$1,000 salary reduction required for the pre-tax.

Formula: Side Fund = $(\$1,333 - \$1,000) (1-25\%)$

Result: Side Fund = \$250

What you should expect to see from the results:

Graph #1 illustrates the distribution outcome of the lower Roth contribution if you want the same net paycheck. The results indicate that if your MTR does not change between now and your retirement, your total after-tax distributions following retirement are the same under both the Roth and pre-tax options. If your MTR decreases, the pre-tax option is preferable; if your MTR increases, the Roth option is preferable.

Graph #2 illustrates the distribution outcome of the higher salary reduction if you contribute the same dollar amount to the Roth as you would have to the pre-tax option. This analysis considers the outcome of the Roth contributions compared to the outcome for both the pre-tax contributions and the side fund combined. In most instances, the results indicate that even if your tax rate decreases during retirement, the Roth option provides a higher total after-tax accumulation. This outcome is unexpected since, typically, if your tax rate decreases following retirement, the pre-tax option yields the higher total after-tax accumulation. If your MTR stays the same or increases, the Roth provides significantly higher benefits following retirement.

Keep in mind, graph #2 does not consider contributing a higher amount to the pre-tax option. Therefore, unless you are contributing the maximum allowable contribution to the pre-tax account (\$15,000 plus \$5,000 if age 50 or older), or your contribution is limited by your income or the 401(k) nondiscrimination test, the results shown in graph #2 may not be pertinent to your situation.

Roth 401(k) MTR Analysis Report

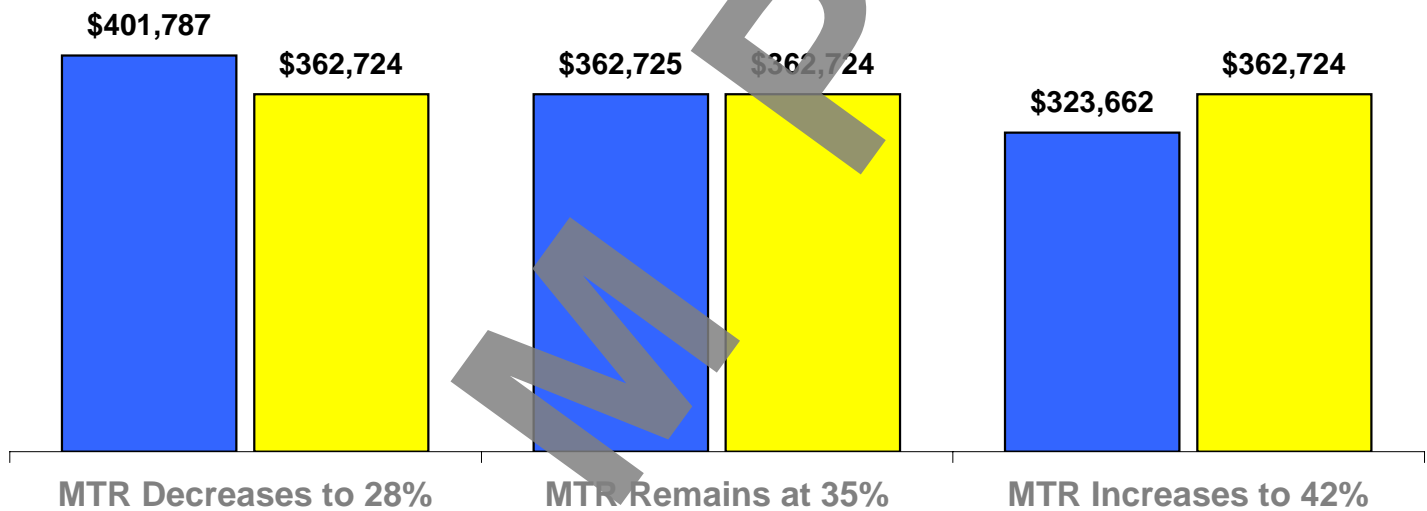
Prepared for

Mr. Owner HCE

The graph shows how your MTR impacts 5 years of contributions starting on January 1, 2006 to a pre-tax or an after-tax Roth account based on reducing your paycheck by the same amount to give you the same net take home pay. The Roth contribution is lower since it is net of the the tax which you pay now, not later. A 3% annual cost-of-living increase applies in years 2-5 for maximum contributions.

■ Pre-tax 401(k) Contribution: \$20,000 ■ Roth 401(k) Contribution: \$13,000

Roth Contribution is Lower than Pre-tax Contribution
Assets rolled over to IRA/Roth IRA at Retirement; Pre-tax IRA distributions taxed at MTR indicated; Roth IRA distributions are tax-free



Rate of Return on Investments: 7.00%

Retirement Age: 66

Life Expectancy: 85

Annual Gross Paycheck Reduction: Pre-tax 401(k): \$20,000 9.1% Roth 401(k): \$20,000 9.1%

Assumes Roth IRA distributions are qualified tax-free.

No one can predict the future with certainty, but we know it is prudent to diversify your investments amongst accounts that are taxable, tax-deferred and tax-free. We also know that before the Roth 401(k), no plan option ever allowed participants to receive distributions of contributions and interest **100% income tax-free**. And this **once in a lifetime opportunity** starting on January 1, 2006, is a **limited time offer** since it expires from the law after the year 2010.

Roth 401(k) MTR Analysis Report

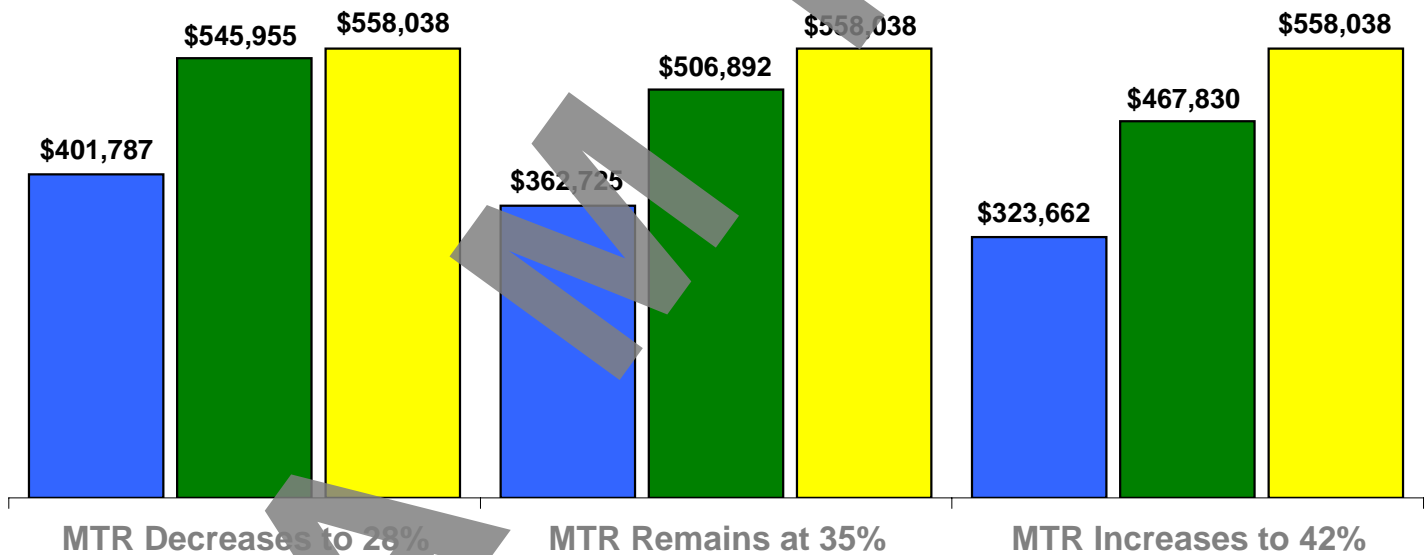
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Consider Increasing Your Contribution...

If you believe the Roth option is right for you, consider contributing the same amount you would to the pre-tax option. This increases your gross paycheck reduction since the Roth is taxed now, not later. The after-tax difference between the annual gross paycheck reductions shown below is invested in a taxable side fund. A 3% annual cost-of-living increase applies in years 2-5 for maximum contributions.

■ Pre-tax 401(k) Total ■ Pre-tax and Side Fund Total ■ Roth 401(k) Total

Roth Contribution is the Same as Pre-tax Contribution Shown Below
Assets rolled over to IRA/Roth IRA at Retirement; Pre-tax IRA distributions taxed at MTR indicated, Roth IRA distributions are tax-free



Rate of Return on Investments: 7.00% Retirement Age: 66 Life Expectancy: 85

Annual Gross Paycheck Reduction: Pre-tax 401(k): \$20,000 9.09% Roth 401(k): \$30,769 13.99%

Rate of Return on Side Fund: 5.68% Side Fund Contribution: \$7,000 Side Fund Total: \$144,168

Keep in mind, this graph does not consider contributing a higher amount to the pre-tax option. Therefore, unless you are contributing the maximum allowable contribution to the pre-tax account (\$15,000 plus \$5,000 if age 50 or older), or your contribution is limited by your income or the 401(k) nondiscrimination test, the results shown in this graph may not be pertinent to your situation.

