



Is the Roth 401(k) right for you?

A decision guide for plan participants



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The Roth 401(k)

Should I or shouldn't I? We probably ask ourselves some variation of that question every day. It's a relevant question when the answer and resulting action can impact your financial future.

You should pose this question before choosing to defer part of your after-tax dollars to the new Roth 401(k). Before answering, however, you might want to evaluate your current tax situation and your expected tax situation in retirement, and weigh the value of tax-free distributions in the future over the value of reducing tax liability now. Although this brochure focuses on the Roth 401(k), the information presented here also applies to Roth 403(b) plans.

Basics of the Roth 401(k)

Here's the Roth 401(k) in a nutshell:

- Employers may offer this optional retirement plan feature to employees starting Jan. 1, 2006.
- Any employee eligible for an employer's traditional 401(k) plan may participate in the Roth 401(k).
- Contributions are made on an after-tax basis.
- Earnings grow tax-free.
- Qualified distributions are not subject to federal income tax. A distribution is qualified if the account is at least five years old, and the participant is at least 59½ or disabled or has died.
- Roth 401(k) account balances can't be rolled over to a traditional 401(k) account.
- If your plan allows employer matching contributions, they have to be made on a pre-tax basis; taxes must be paid upon distribution.
- A total of \$15,000 (\$20,000 for participants age 50 and over) in 2006 may be deferred to a traditional and Roth 401(k) (combined limit).
- Income restrictions do not apply to the Roth 401(k) as they do to the Roth IRA. Contributions to Roth

IRAs cannot be made by single taxpayers with incomes of \$110,000 or more and couples filing jointly with incomes of \$160,000 or more. These income limits are phased in.

- Roth 401(k) account balances can be rolled over into another Roth 401(k) account or to a Roth IRA.
- A Roth IRA or regular IRA can't be rolled over into a Roth 401(k) account.

Possibility of limited life span

Unless Congress intervenes with an extension, the provision that resulted in the Roth 401(k) will expire in December 2010. If the Roth provisions expire, investors may — depending on what Congress decides — be able to roll accounts into a Roth IRA, but new contributions won't be accepted.

Participants should also be aware of the following issues:

- a future Congress may decide to enact taxes on Roth distributions in the same manner that they did with Social Security benefits in 1983
- annual plan tests may restrict highly compensated employees in how much they can contribute to the Roth 401(k). If too much is contributed, excess contributions will be returned.

Who should consider a Roth 401(k)?

Industry veterans say that highly paid workers that will be in a high tax bracket during retirement may benefit most from a Roth 401(k). Employees who are currently unable to make contributions to Roth IRAs because their income is too high may be interested in a Roth 401(k) (see sidebar: Roth 401(k) versus Roth IRA).

Participants will need to carefully evaluate their individual tax situations, which may require the assistance of a qualified tax or financial advisor.

Assumption	Strategy	Best option
Tax rate will be lower in retirement	Pay taxes later	Traditional 401(k)
Tax rate will be higher in retirement	Pay taxes now	Roth 401(k)
Tax rate will be the same	Pay taxes now or later	Both options produce same benefit



Who benefits the most?

The Roth 401(k) is not a good fit for everyone. The following types of people may benefit the most from electing to defer contributions to the Roth 401(k).

- **Highly compensated employees** will appreciate the lack of income limits for the Roth 401(k) that apply to the Roth IRA. (*See sidebar*)
- **Young employees** who are starting to climb the career ladder may find the idea of paying taxes on contributions now at a potentially lower tax rate to be more enticing than either:
 - making pre-tax contributions to a traditional 401(k), or
 - paying taxes later in their careers when they're likely to be making more and in a higher tax bracket.
- **Individuals who foresee higher tax rates in the future** may choose to pay taxes today as a hedge against higher taxes tomorrow.
- **Participants wanting control and flexibility in tax planning** for retirement will appreciate the ability to split contributions between both types of 401(k) deferrals and choose to receive Roth distributions during times of higher taxation. IRS guidance regarding partial withdrawals from specific money sources is expected.

Other key considerations

Before making the decision to defer to a Roth 401(k), be aware of the following issues:

- Because of taxes, net pay will be lower when making a Roth 401(k) contribution than when making a traditional 401(k) contribution of the same net amount.
- Individuals who will be in a lower tax bracket at retirement than at present may find the traditional 401(k) to be a better choice.
- Individuals who will be in a higher tax bracket at retirement than at present may find the Roth 401(k) to be a better choice.
- Required minimum distribution rules dictate that withdrawals must be made from the Roth 401(k) at age 70½. If you want to preserve your estate assets, you can roll over Roth 401(k) assets upon retirement into a Roth IRA, which is not subject to required minimum distribution rules.
- Qualified withdrawals from a Roth 401(k) account are not taxable income, a benefit for individuals seeking to lower taxes on Social Security benefits in retirement.
- Roth 401(k) balances are included in calculating maximum loan amounts. The Standard will not administer loans of Roth 401(k) assets.

Roth 401(k) versus Roth IRA

The Roth 401(k) is seen as an advantage for high-income individuals who haven't been able to contribute to a Roth IRA because of the income restrictions. With a Roth IRA, eligibility phases out between \$95,000 and \$110,000 for single filers and \$150,000 to \$160,000 for those who are married and file jointly. With the Roth 401(k) there are no income restrictions.

In addition, Roth 401(k) accounts will be subject to the contribution limits of regular 401(k)s — \$15,000 for 2006, or \$20,000 for those 50 or older by the end of the year — allowing individuals to put away thousands of dollars more in tax-free retirement income than they would through a Roth IRA. (In 2006, Roth IRA contributions are limited to \$4,000 a year, or \$5,000 for those 50 or older.)

Sample Decision Scenarios

To help you with your retirement planning decision, we've included some hypothetical examples to illustrate who may or may not be good candidates for contributing to a Roth 401(k) account. Participants will need to carefully evaluate their individual tax situations, which may require the assistance of a qualified tax or financial advisor.

Greg Boland

Age: 42

Occupation: Graphic Artist

Taxable income: \$49,000

Tax bracket: 25 percent

Filing status: single



Situation: Flexibility is at the top of Greg's life priorities. When he retires, he wants the flexibility of choosing distributions from pre-tax or after-tax accounts depending on his financial needs and tax status.

Does the Roth 401(k) offer advantages for Greg? Yes, Greg can divide his annual \$15,000 contribution between traditional and Roth 401(k) accounts and can use his Roth 401(k) account as a hedge against higher taxes in the future. When he retires, Greg can withdraw from his Roth 401(k) if the income tax rate is high; if the tax rate decreases or if he is subject to a lower tax bracket, Greg can withdraw from his traditional 401(k) account.

Allison Sakata

Age: 45

Occupation: Physical Therapist

Taxable income: \$85,000

Tax bracket: 28 percent

Filing status: Single



Situation: Allison currently lives well below her means. Besides maximizing her traditional 401(k) contributions, she has accumulated a significant amount in non-qualified retirement savings. Being single and not owning a home, Allison desires any tax deduction she can get. When she retires at age 62, she anticipates being in a lower tax bracket than she is now.

Does the Roth 401(k) offer advantages for Allison? No; if Allison expects to be in a lower tax bracket in retirement, there is no advantage for her to make Roth 401(k) contributions. If Allison seeks to lower taxes on her Social Security benefits, however, she might consider that Roth 401(k) withdrawals would be excluded as taxable income.

Jasonn Wright

Age: 25

Occupation: Account Executive

Taxable income: \$28,000

Tax bracket: 15 percent

Filing status: single



Situation: Jasonn has recently finished graduate school and is confident that his salary will rapidly increase. When he retires, he expects to be in a much higher tax bracket.

Does the Roth 401(k) offer advantages for Jasonn? Yes, because Jasonn expects his income to rise significantly in the future. A Roth 401(k) allows him to pay taxes now and avoid taxes on his distributions later. His long time horizon until retirement allows his earnings to accumulate and be distributed tax-free.

Mary Loseff

Age: 55

Occupation: Accountant

Taxable income: \$60,000

Tax bracket: 25 percent

Filing status: married filing jointly

Situation: When Mary retires at age 60, she expects to be in a lower tax bracket than at her current age. She isn't worried that the tax rate will rise significantly.



Does the Roth 401(k) offer advantages for Mary? It's unlikely. If Mary expects to be in a lower tax bracket due to lower retirement savings income, there is no advantage for her to make Roth 401(k) contributions. However, if Mary seeks to lower taxes on her Social Security benefits, Roth 401(k) withdrawals would be excluded as taxable income.

Daniel Fonts

Age: 51

Occupation: Mechanical Engineer

Taxable income: \$115,000

Tax bracket: 28 percent

Filing status: married filing jointly

Situation: Daniel plans on working many more years and is concerned that his future tax liabilities, coupled with rising taxes, will erode the value of the assets that he and his wife will pass on to their children.

Does the Roth 401(k) offer advantages for Daniel? Yes, Daniel

can pay taxes now when he contributes to the Roth 401(k) and not be taxed later. When Daniel is retired, his estate planning strategy may



be to avoid the Roth 401(k) minimum required distribution rule at age 70½ by rolling the account balance into a Roth IRA.

Rob Dugan

Age: 40

Occupation: Department Store Manager

Taxable income: \$55,000

Tax bracket: 25 percent

Filing status: Married

Situation: Rob believes he will be in the same job until retirement and also believes he will be in the same tax bracket in retirement as now.



Does the Roth 401(k) offer advantages for Rob? No; since Rob expects to be in the same tax bracket in retirement, there is no advantage or disadvantage for him to make Roth 401(k) contributions. The net amount in retirement will be the same to him assuming Rob's current savings into a Roth will be reduced by taxes now and the future amount in the traditional 401(k) will be reduced by taxes upon withdrawal. Saving in both Roth and traditional 401(k)s may be appropriate for Rob allowing him to adjust his withdrawals based on his specific tax scenario in retirement.

For additional information, contact your plan administrator.

Comparing the options

Contribution Type	Traditional 401(k) (Pre-Tax)	Roth 401(k) (After-Tax)
2006 Contribution limits	\$15,000 (combined with Roth 401(k) contribution)	\$15,000 (combined with pre-tax 401(k) contribution)
2006 catch-up limit	\$5,000 (combined with Roth 401(k) contribution)	\$5,000 (combined with pre-tax 401(k) contribution)
Income limits	None	None
Employer match	Eligible	Eligible
Taxation at distribution	Taxed on contributions and earnings	None for a qualified distribution*
Required distributions	Later of age 70½ or retirement	Later of age 70½ or retirement

* A distribution is qualified if the account is at least five years old, and the participant is at least age 59½ or disabled or the distribution is on account of the participant's death.

Plan sponsors and participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for The Standard AdvisorSM Group Variable Annuity Contract and each underlying investment option in both the group variable annuity and group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risks and fluctuate in value.



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