



Kentucky Deferred Compensation Roth 401(k)

Another retirement savings strategy for you to consider

Roth 401(k) at a glance

The new designated Roth 401(k) contribution provision allows you to have the same 2006 annual contribution limit as the 401(k)—\$15,000 per year in total—regardless of your current income. The key difference to consider between the Traditional and Roth 401(k) is whether you want your contributions to be pre-tax or after-tax. Another difference is how any earnings are taxed (taxed versus potentially tax-free) when you receive a payout distribution.

*Qualified Distributions

Generally, a Roth 401(k) account distribution is a qualified distribution if: 1) the Roth 401(k) account has been in existence for a five-year period (five-year period begins Jan. 1 of the year participant first makes a Roth contribution into the plan), and 2) a participant is age 59½, or has died or become disabled under IRC Section 72(m)(7) (distributions made prior to these requirements being met are non-qualified distributions, and earnings could be taxable).

Should you elect to establish a designated Roth 401(k) account, you will not owe federal or possibly state taxes on a qualified distribution.

Investing involves market risk, including possible loss of principal.

Comparing the Authority's 457(b), Traditional 401(k) and the Roth 401(k)

	457(b) <i>Pre-tax contributions</i>	Traditional 401(k) <i>Pre-tax contributions</i>	Roth 401(k) <i>After-tax contributions</i>
Maximum deferral contribution limit	\$15,000 in 2006	\$15,000 in 2006 <i>The total combined amount of traditional 401(k) and Roth 401(k) contributions that may be contributed to the Plan in 2006 is \$15,000, plus Age 50 catch-up, if eligible.</i>	\$15,000 in 2006 <i>The total combined amount of traditional 401(k) and Roth 401(k) contributions that may be contributed to the Plan in 2006 is \$15,000, plus Age 50 catch-up, if eligible.</i>
Age 50 Catch-up contribution limit	\$5,000 in 2006	\$5,000 in 2006 <i>Catch-up contributions are limited to a combined total of \$5,000 for 2006, excluding the 457 Plan Age 50 catch-up.</i>	\$5,000 in 2006 <i>Catch-up contributions are limited to a combined total of \$5,000 for 2006, excluding the 457 Plan Age 50 catch-up.</i>
Investment earnings	Grow tax-deferred while in account	Grow tax-deferred while in account	Grow tax-deferred while in account*
Kentucky employer match (if applicable)	N/A	Both contributions and any earnings are taxable at time of distribution.	Both contributions and any earnings are taxable at time of distribution.
Distributions	Withdrawals are taxed as ordinary income. Not subject to 10% early withdrawal penalty.	Withdrawals are taxed as ordinary income. If withdrawn before age 59½, distribution is subject to ordinary income tax and a 10% early withdrawal penalty may apply.	Qualified distributions are not subject to federal income tax. If not a qualified distribution, investment earnings are subject to ordinary income tax and possibly a 10% early withdrawal penalty.
Loans	Allowed	Allowed	Not allowed
Hardship withdrawals	Allowed	Allowed	Not allowed
Income limit	\$44,000 as indexed	\$44,000 as indexed	\$44,000 as indexed
Required minimum distribution	Required at age 70½	Required at age 70½	Required at age 70½; but a Roth 401(k) account may currently be rolled into a Roth IRA, which has no required minimum distribution
Investment options	Consistent with all of the Authority's plans	Consistent with all of the Authority's plans	Consistent with all of the Authority's plans

Is a Roth 401(k) right for you?

There are more benefits and limitations to consider before you decide whether the Roth 401(k) is right for you. First, please take a moment to answer these eight questions to the best of your knowledge.

Yes ☐ No ☐

- ☐ ☐ Do you have ten years or more until your retirement?
- ☐ ☐ Are you less than 65 years of age?
- ☐ ☐ Will you receive Social Security benefits during your retirement?
- ☐ ☐ Can you invest at least \$5,000 per year in your retirement accounts?
- ☐ ☐ Is this the only qualified (401a, 401k, 403b) plan in which you participate?
- ☐ ☐ Do you anticipate being in a higher tax bracket once you retire?
- ☐ ☐ Do you anticipate additional significant income sources in retirement (e.g., real estate, other investments, retirement benefits)?
- ☐ ☐ Are you eligible for the Earned Income Credit?

Contact us today!

If you answered yes to at least four of the above questions, you may benefit from the Roth 401(k). We encourage you to contact an Authority Plan Service Representative to see if establishing a Roth 401(k) account is a strategy you should consider.

Call us at **1.800.542.2667** or visit **kentuckydcp.com**.

Information provided by retirement specialists is for educational purposes only and is not intended as investment advice. Neither the Kentucky Public Employees' Deferred Compensation Authority nor any of its representatives give legal or tax advice; please contact your legal or tax advisor for such advice.

You should consult with your personal tax advisor before electing to make Roth 401(k) contributions.

Kentucky Public Employees' Deferred Compensation Authority

105 Sea Hero Road, Suite 1
Frankfort, Kentucky 40601-5404

Phone: **1.800.542.2667** or
502.573.7925

Web: **kentuckydcp.com**

Kentucky Public Employees' Deferred Compensation Authority 457 and 401(k) plans are sponsored by the Commonwealth of Kentucky.