

ROTH 401(K) OPTION

Financial Position

Investing

Estate Planning

Managing Risk

Retirement Planning

Taxes

The Thrift Plan offers three ways to save: the traditional before-tax 401(k) option, the after-tax option, and the new after-tax Roth 401(k) option, which has unique tax benefits. You decide how you want to save. But remember, **it's all about saving!**

Which option is right for you?

Consider these questions:

1. Am I lowering my taxable income today by contributing to the before-tax option?
2. Can I afford to give up this tax benefit to invest in the Roth 401(k) option?
3. How will the Roth 401(k) benefit me in my retirement?

To help you answer the first two questions, begin by gathering information:

- A current pay stub
- Your current contribution percentage
- Your current contribution option (before-tax or after-tax)

Now go to Deseret Mutual's Web site.

Under the Financial Planning Tools, select the Paycheck Calculator. Now use the information you gathered to fill in the calculator.

What might you learn?

If you are now using the after-tax option, it may make sense to change to the after-tax Roth 401(k) option. Your take-home pay won't change (unless you change your contribution percentage) and your earnings may be distributed tax-free. Then if you want to contribute more than the Roth 401(k) limit allows, you may still use the after-tax option.

If you are using the before-tax 401(k) option, changing to the Roth 401(k) option will probably reduce your take-home pay. The calculator will show you by how much.

If you are using the after-tax option, use the calculator to see if you can save more by using

the before-tax 401(k) option and yet still have the same take-home pay. If you can, you should consider using the before-tax 401(k) option.

Generally, saving more is going to be better for your retirement and may also offset the benefit of any tax-free earnings in the Roth 401(k) option.



The image shows three overlapping screenshots of the Deseret Mutual website. The top screenshot shows the 'Financial Planning Tools' section with a 'Paycheck Calculator' link circled in blue. The middle screenshot shows the 'Paycheck Calculator' form with the 'Before-Tax Savings Contributions' field circled in blue. The bottom screenshot shows the 'Paycheck Calculator' form with the 'Total "Other" Deductions' field circled in blue.

IMPROVING YOUR FINANCIAL WELL-BEING THROUGH EDUCATION AND ADVICE

Now it's up to you

After you look at the affect on your take-home pay, you must answer the third question: How will the Roth 401(k) help you in your retirement? And are the benefits of the Roth 401(k) option greater for you than the benefits of the other two Thrift Plan options?

The greatest benefit of the Roth 401(k) is the tax-free income in retirement. The earlier you save, the longer your earnings accumulate and the greater your tax benefit. That is, the longer your investment horizon, the greater your possible tax-free earnings.

If you think you'll be in a higher tax bracket in retirement, then the Roth 401(k) may provide future tax advantages. However, you may be giving up a known tax break today for one that you only hope for in the future.

Remember, at the same level of contributions, you will build the same balance in your retirement

savings whether you save in the Roth 401(k) or in the before-tax 401(k). However, your Roth 401(k) balance may last longer because of the tax-free distributions.

And again, it's all about saving!

If you save, you can't make a mistake! And you won't make a mistake by choosing one Thrift Plan savings option over another. But you'll make a *terrible* mistake if you decide – intentionally or by simply doing nothing – not to save. So save now! Save enough to get the employer match! And increase your savings every year.

And remember that you can change your Thrift Plan savings options, your savings amounts, or your investment mix any time during the year. However, you may only redistribute your account (transfer your existing account balance into available mutual funds) once every 15 days.

The basic difference in the Thrift Plan options is in the taxes!

Look below to compare the four investment sources and tax treatments for the three savings options:

	Before-tax Traditional 401(k)	After-tax Option	After-tax Roth 401(k)
Employee Contributions	Taxed When Withdrawn	Taxed Before Contribution	Taxed Before Contribution
Employee Contribution Earnings	Taxed When Withdrawn	Taxed When Withdrawn	Tax Free*
Employer Matches	Taxed When Withdrawn	Taxed When Withdrawn	Taxed When Withdrawn
Employer Match Earnings	Taxed When Withdrawn	Taxed When Withdrawn	Taxed When Withdrawn

Before-tax Traditional 401(k): Your taxes are deferred until you take your money out of the plan.

After-tax Option: You pay taxes now, before you contribute, but your earnings are taxed when you withdraw them.

After-tax Roth 401(k): You pay taxes now, before you contribute. And if you meet the qualified distribution requirements (**your account has been open for at least five years and you are 59½ or older when you withdraw*), your investment earnings are tax free!

Note: All employer matches and the earnings on employer matches are taxed when withdrawn.

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