

Roth 401(k) option offers tax-free retirement income

About the Roth 401(k) option: Effective January 1, 2016 you will have the option of contributing to a Roth 401(k) through your ILWU-PMA Savings (401(k)) Plan. Does a Roth 401(k) make sense for you?

An additional way to save in your plan

Unlike a traditional pretax 401(k), the Roth 401(k) allows you to contribute after-tax dollars and then withdraw tax-free dollars from your account when you retire.* The following information can help you decide whether the Roth 401(k) makes sense for you.

How the Roth 401(k) compares with a traditional pretax 401(k)

Just as with a traditional pretax 401(k):

- You elect how much of your salary you wish to contribute.
- Your contributions to a Roth 401(k), a traditional pretax 401(k), or a combination of contributions to both options, cannot exceed IRS limits.
- Your contribution is based on your eligible compensation.

Unlike a traditional pretax 401(k), the Roth 401(k) allows you to withdraw your money tax-free when you retire.* But it will also require you to make after-tax contributions now.

Who might benefit from a Roth 401(k)?

A Roth 401(k) could be a good option for:

- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings.
- Highly compensated individuals who aren't eligible for Roth IRAs, but who want a pool of tax-free money to draw on in retirement.
- Employees who want to leave tax-free money to their heirs.

ACTION PLAN

- Read this information about the Roth 401(k) option
- Contact a tax professional for specific advice on your personal situation

Taxes: Pay now or pay later		
	Traditional Pretax 401(k)	Roth 401(k)
Employee contributions	Pretax dollars	After-tax dollars
Employee withdrawals	Taxable upon withdrawal	Tax free upon withdrawal*

*In the event of either retirement or termination, your earnings can be withdrawn tax free as long as it has been five tax years since your first Roth 401(k) contribution and you are at least 59½ years old. In the event of death, beneficiaries may be able to receive distributions tax free if the deceased started making Roth contributions more than five tax years prior to the distribution. In the event of disability, your earnings can be withdrawn tax free if it has been five tax years from your first Roth 401(k) contribution.

The Roth 401(k): Is it right for you? Four questions to ask yourself.

The Roth 401(k) was designed to combine the benefits of saving in your tax-deferred workplace retirement plan with the advantage of avoiding taxes on your money when you withdraw it at retirement.

If you answer yes to some or all of these questions, a Roth 401(k) might be right for you.

1 Will I be in a higher marginal tax rate in retirement than I will be during my working years? This is a question that nobody can answer with certainty. Marginal income tax rates have declined over the last two decades. If tax rates were to continue to decline, a traditional pretax 401(k) might be the better option. The same is true for individuals who expect their marginal tax rate to be lower in retirement as the result of a lower income.

Generally:

- If tax rates stay the same, a traditional pretax or Roth 401(k) will likely yield the same nest egg after taxes.
- If tax rates rise, paying taxes now through a Roth 401(k) will likely yield a higher after-tax retirement benefit than a traditional pretax 401(k).
- If tax rates decrease, deferring taxes now in a traditional pretax 401(k) will likely benefit you more at retirement.

2 Can I afford to maximize my contributions and save up to the IRS limit? If you can afford it, making maximum contributions to a Roth 401(k) may be a good option. Since any earnings accumulate tax free rather than simply tax deferred, a qualified Roth 401(k) distribution could provide more cash upon retirement than an equivalent traditional pretax 401(k) distribution would.

3 Do I want to leave tax-free money to my heirs? Your beneficiaries may be able to receive your Roth account tax free if you die. Additionally, you can roll Roth 401(k) funds into a Roth IRA, potentially delaying minimum required distributions from those amounts during your lifetime.

4 Do I make too much money today to invest in a Roth IRA? Unlike Roth IRAs, there are no maximum income limits for Roth 401(k) contributions. Even if your income is too high to qualify for a Roth IRA, you can make Roth 401(k) contributions.

Things to remember:

- Because Roth contributions are under the same IRS limits as pretax contributions to your plan, each dollar of a Roth contribution reduces the amount that can be contributed pretax (and vice versa).
- Your take-home pay will be less than it would be if you made an equivalent traditional pretax 401(k) contribution, because income taxes must be currently withheld and paid on after-tax Roth 401(k) contributions.
- Annual IRS limits apply to both pretax 401(k) and after-tax Roth 401(k) contributions, or a combination of contributions to both options.

Joe's story		
Joe earns \$40,000 annually and has elected to put 6% in his Roth 401(k) and 6% in his traditional pretax 401(k) each month.		
	Roth 401(k)*	Traditional Pretax 401(k)*
Joe's monthly contribution into each account	\$200	\$200
Joe's reduction in take-home pay is different	\$200	\$150

*This hypothetical example is based solely on an assumed federal income tax rate of 25%. No other payroll deductions are taken into account. Your own results will be based on your individual tax situation.

Make an informed decision for your retirement readiness.

Effective January 1, 2016 your ILWU-PMA Savings (401(k)) Plan will give you the choice of contributing to a traditional pretax 401(k) option, a Roth 401(k), or a combination of the two. Whether you choose the Roth 401(k) really depends on which option is likely to benefit you most in the future.

It makes sense to consult a personal tax advisor before making a final decision, but this short checklist can help you focus on the key considerations:

Decision checklist

1. Do you expect to be in a higher tax bracket in retirement than you are now?

Yes No

2. Can you afford to maximize your contributions now?

Yes No

3. Do you want to leave tax-free money to your heirs?

Yes No

4. Do you earn too much to be eligible for a Roth IRA?

Yes No

If you answered yes to some or all of these questions, a Roth 401(k) might be a good option for you.

HERE'S HELP

- Log on to Fidelity NetBenefits[®] and click the *Library* tab.
- Call your plan's toll-free phone number to speak with a Fidelity representative.
- Contact a tax professional for specific advice on your personal situation.