The Roth Option

Your retirement plan offers you the ability to contribute on a pre-tax basis, Roth after-tax basis or both.

The difference between pre-tax and Roth after-tax contributions

When deciding which contribution type is right for you it's important to understand how they work. Pre-tax, or traditional contributions, are deducted from your pay before taxes. Once you begin taking distributions from the plan, your distributions, which consist of both contributions and earnings, are taxed as ordinary income.

With the Roth option, you pay your taxes up front. Roth contributions are deducted from your pay with after-tax dollars, which means that first you are taxed on the full amount you earn and then your contribution is deducted. Your contributions and earnings accumulate tax free and qualified distributions (both your contributions and earnings) are also tax free when you begin taking distributions. A qualified distribution generally occurs after you've reached age 59½ and five years have elapsed since your first Roth contribution, you become disabled or die.

Additional information about Roth after-tax contributions

The Roth option is not for everyone. It may be advantageous if you believe you'll be in a higher tax bracket when you retire or if you prefer to reduce your future tax liability instead of your current tax liability. You may also want to consider how much you can afford to save and when you may retire. Younger investors, in particular, may find Roth after-tax contributions beneficial due to the length of time contributions have to grow tax free. You may wish to consult a tax advisor to help determine which contribution option is best for you.

Roth after-tax contribution and pre-tax contributions are treated similarly regarding many plan provisions.

- You may change your Roth contribution election whenever your plan allows for pre-tax contribution changes. You may also make both pre-tax and Roth contributions.
- Roth and pre-tax contributions are combined in determining maximum plan contributions and catch-up contributions, if allowed by your plan.
- If your plan makes matching contributions, the amount of contributions that you make during the plan year, regardless of whether the contributions are pre-tax or Roth after-tax, will be considered. However, any employer matching contributions will be taxable at distribution.
- Roth contributions have the same distribution guidelines as pre-tax contributions. So, your Roth contributions may be withdrawn only upon retirement, death, disability or severance of employment. Your Roth contributions may also be eligible for in-service withdrawals at age 59½ or in the event of hardship, if such features are available in your plan.
- The same Required Minimum Distribution rules apply to both pre-tax and Roth after-tax contributions.
- Roth after-tax account balances may be directly rolled into the plan if other rollovers are currently allowed into your plan. You will be responsible for providing the first contribution date and cost basis of the Roth after-tax account you are rolling over into your plan.

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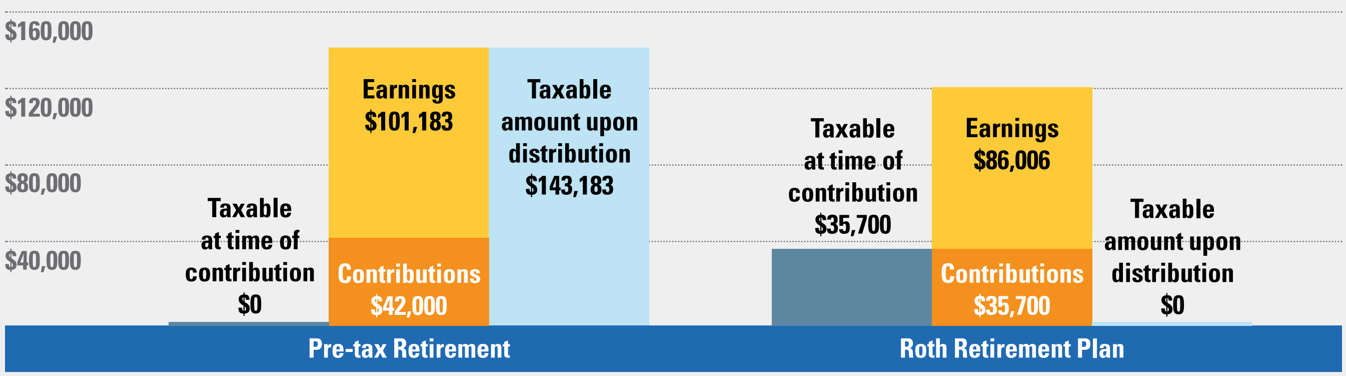
Comparing pre-tax and Roth accounts

Assuming identical investment returns, what happens to long-term investments in a pre-tax versus a Roth account?

Let's assume you contribute $100 per month on a pre-tax basis for 35 years. Your total contributions equal $42,000, earnings equal $101,183. Upon withdrawal, you will be responsible for paying federal and perhaps state income tax on the entire account balance.

If you contribute on a Roth after-tax basis, and you want to maintain the same take-home pay as with a $100 pre-tax deferral, you contribute $85 a month to your account for a total of $35,700, earnings equal $86,006. Upon withdrawal, you will not have to pay federal or state taxes (in most states) on your qualified account balance because you've already paid taxes on your initial contribution and your earnings are tax-free.

Growth of contributions



Note: This example assumes a 6% annualized rate of return and does not take into account possible penalties applicable upon early withdrawal. Actual rates of return may vary. Tax calculations assume a total tax liability of 15%. This chart is for illustrative purposes only and does not represent the performance of any particular investment.

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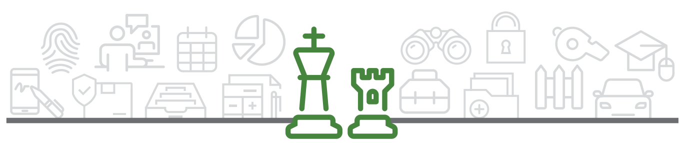

To determine whether the Roth option is right for you visit **oneamerica.com/mytrack**

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