

Questions and Answers about the Roth 401(k)

How the Roth 401(k) Works

Q. What is the Roth 401(k) contribution option?

A. The Roth 401(k) contribution option allows you to contribute to your 401(k) plan on an after-tax basis, and pay no taxes on your investment earnings when withdrawn as qualified distributions.*

Q. How are Roth 401(k) contributions different than my traditional 401(k) contributions?

A. With a choice between traditional 401(k) and Roth 401(k) contributions, you can decide when you'll pay the tax on your retirement income:

- *At the time of withdrawal:* You can make traditional 401(k) contributions with pre-tax dollars and reduce your current taxable income now. You don't pay taxes on the contributions or any investment earnings until you take a distribution.

OR

- *At the time you contribute:* You can make Roth 401(k) contributions with after-tax dollars and pay taxes today, and you will not pay any taxes on any investment earnings if you take a qualified distribution.*

Unlike traditional 401(k) contributions, Roth 401(k) contributions are made with dollars withheld from your after-tax pay — they do not reduce your current taxable income. Traditional 401(k) contributions are made “pre-tax” so they reduce your taxable income. As a result, dollar for dollar, Roth 401(k) contributions will reduce your take-home pay more than traditional 401(k) contributions.

* A qualified withdrawal is one that is taken at least five tax years after the year of your first Roth contribution and after you have attained age 59½ (or upon disability or death).

A 10% penalty tax generally applies to withdrawals of taxable amounts taken prior to age 59½, but certain exceptions apply, such as death and disability. If you leave your employer in the year you reach age 55 or later, distributions from your employer sponsored qualified retirement plan will be exempt from the 10% penalty. Other exceptions may apply.

Q. Am I eligible to make Roth 401(k) contributions?

A. Any eligible participant can make Roth 401(k) contributions. You may already be familiar with Roth IRAs, which are designed for saving outside an employer-sponsored retirement plan. Roth IRAs have restrictions on who can contribute based on income; these restrictions do not apply to the Roth 401(k).

Q. How much can I contribute to a Roth 401(k) each year?

A. Generally, the IRS and plan contribution limits apply to the combined total of any traditional 401(k) and Roth 401(k) contributions you make. The IRS dollar limit is \$15,000 for 2006, and \$15,500 for 2007. Plan limits vary. Beginning in the year you reach age 50 and if you make the maximum allowable contribution to your plan, you can also make catch-up contributions of an additional \$5,000 per year — this is the same for 2006 and 2007.

Q. Can I transfer part of my existing 401(k) balance to the Roth 401(k)?

A. No, you cannot transfer any amount between a traditional 401(k) and a Roth 401(k). The two balances must be kept entirely separate because of the differences in taxation. The traditional 401(k) contains pre-tax contributions along with any investment earnings, all of which are subject to taxes at distribution. The Roth 401(k) contributions have already been taxed and will not be taxed again upon distribution; any earnings in the Roth 401(k) will not be taxed if received in a qualified distribution.

Q. Will Roth 401(k) contributions be eligible for an employer match (if available)?

A. Yes, the employer match, if available, applies both to traditional 401(k) and Roth 401(k) contributions. Keep in mind that all employer contributions are made on a pre-tax basis and are subject to tax at withdrawal, and may be subject to a 10% tax penalty if withdrawn before age 59½.

Q. Will Roth 401(k) contributions affect the employer match (if available)?

A. No, if your plan permits an employer match, the match is calculated the same for Roth 401(k) and traditional 401(k) contributions. However, you will find that this new type of contribution has a greater impact on take-home pay. This is because traditional contributions are made on a pre-tax basis, and Roth contributions are made on an after-tax basis. If you elect Roth 401(k) contributions but reduce your contribution percentage to keep take-home pay the same as before, you may lose a portion of the match. Consider what percentage of pay you must contribute in order to receive the maximum employer match.

Q. Can I stop making Roth 401(k) contributions and go back to the traditional 401(k)?

A. Yes, you can change your elections or stop contributing at any time. However, the assets in your Roth 401(k) cannot be transferred to a traditional 401(k), or vice versa. Once you have made Roth 401(k) contributions, you will need to leave the money in a Roth 401(k) unless you qualify for a hardship withdrawal or a distribution at termination of employment (penalties may apply), or after you meet the requirements for a qualified distribution.

Your Investment Direction

Q. How will Roth 401(k) contributions affect the investment of my account?

A. The plan's investment menu is the same for both traditional 401(k) or Roth 401(k) contributions. If you switch from one type of contribution to the other, the investment of your account will remain the same unless you enter a new investment election. As mentioned elsewhere, any investment earnings in a Roth 401(k) will be tax free if received in a qualified distribution.

Q. Can I make Roth 401(k) contributions if I am enrolled in Merrill Lynch Advice Access?

A. Yes. The Merrill Lynch Advice Access service will always take into account traditional 401(k) contributions first. If you are currently making traditional 401(k) contributions, you can review your Advice Access recommendation using the new Roth 401(k) contribution. You also may compare Roth 401(k) to traditional contributions using the Roth 401(k) Comparison Calculator, and then change your savings goal if you wish.

Q. How will Roth 401(k) contributions and investment results appear on my statement?

A. Participants who have existing assets in a traditional 401(k) and begin making Roth 401(k) contributions will see separate listings in their account statements. The type of contribution will not affect the investment results of your account. However, at distribution, the traditional 401(k) balance will be subject to taxes in the year it is received, and the Roth 401(k) balance will be tax free if received in a qualified distribution.

Q. If I make Roth 401(k) contributions, can I also make Roth IRA contributions?

A. Yes, if you are eligible to make Roth IRA contributions. One Roth-style contribution does not affect the other. Separate contribution limits apply to both, and certain income limits apply to the Roth IRA.

Important Facts to Help You Choose

Q. What are some important considerations that will help determine whether traditional 401(k) or Roth 401(k) contributions make sense for me?

A. The first and most important consideration is whether or not you expect your tax rate to be lower, the same, or higher when you take distributions from your 401(k) plan. Although the tax law states specific "tax brackets" as a percentage of pre-tax income, the actual percentage you pay will depend on your individual situation, including number of dependents, any tax deductions you may have and any tax credits you may be eligible to receive.

Second, traditional 401(k) contributions are made "pre-tax" and Roth 401(k) contributions are made after tax. Therefore, dollar for dollar Roth contributions will result in less take-home pay. You may also consider other personal factors in making your choice. If so, or if your tax planning situation is complex, you may wish to consult a tax specialist for assistance.

Q. Which type of contribution will provide the largest amount of after-tax income during retirement?

- A.** That will depend on your tax situation at retirement. No one can predict what changes government may make to tax rates in the future and how the tax laws may affect you at that time. Assuming your current tax rate does not change and you realize the same rate of return, if you make tax-equivalent contributions (contributions that would result in the same net take-home pay) to either a traditional 401(k) or Roth 401(k), the after-tax distributions will be the same.

If you expect the average tax rate you would pay on your distributions to be higher than your current tax rate, you may benefit from paying taxes now and making Roth contributions. If on the other hand you expect your average tax rate to be lower on your distributions, you may benefit from deferring current taxes with traditional 401(k) contributions.

Some people who already have substantial tax-deferred savings may want to hedge their bets on future tax policy and switch to Roth 401(k) contributions so that they have a mix of taxable and Roth 401(k) distributions. However, this decision should be made based on your personal situation.

Q. Are there additional advantages of a Roth 401(k)?

- A.** There are several potential advantages to electing Roth 401(k) contributions, but these will not apply to all participants. Please consider whether the following may apply to your situation:
- Qualified distributions from a Roth 401(k) will not be subject to taxes. This may reduce your overall taxable retirement income which could potentially affect any taxes on Social Security benefits you may receive.
 - Employees at certain income levels (\$160,000 or above for married filing jointly; \$110,000 or above for single or married filing separately) are not allowed to make Roth IRA contributions. The Roth 401(k) is not subject to those income restrictions, and may offer highly compensated employees the opportunity to make Roth-style contributions in a Roth 401(k).
 - The Roth 401(k) contribution limit is \$15,000 (\$15,500 in 2007), plus an additional \$5,000 if age 50 or older. This is significantly higher than the Roth IRA limit of \$4,000, plus an additional \$1,000 if age 50 or older. (The IRA contribution limits are the same for 2006 and 2007.)
 - A Roth 401(k) may be a useful estate planning tool for some participants. The Roth 401(k) can be rolled into a Roth IRA, which has no required minimum distributions at any age as employer-sponsored plans do. A rollover to a Roth IRA allows you to delay distribution or even pass down the account to your heirs, and any amounts they don't take in distributions can even be passed down to their heirs. Also, they will receive the money tax-free when they do take a distribution.

Understanding Distributions and Rollovers

Q. What is a “qualified distribution”?

- A. There are two requirements to take a tax-free distribution, otherwise known as a “qualified distribution,” from a Roth 401(k):
- At least five years must elapse from the year of your initial contribution, and
 - You must have reached age 59½ or become disabled or deceased [for purposes of qualified distributions, disability must meet the definition stated in Internal Revenue Code Section 72(m)(7)].

Q. What if I take a “non-qualified” distribution?

- A. If you take a non-qualified distribution, any Roth 401(k) investment returns are subject to regular income tax, plus a 10% tax penalty if withdrawn before age 59½. Because your contributions are made with after-tax income, they will not be subject to taxes. Note that any distributions will include both contributions and investment returns. You may not take contributions only. Keep these facts in mind if you are planning to take a distribution from your Roth 401(k).

Q. Can I roll over a Roth 401(k) balance if I terminate employment?

- A. A Roth 401(k) balance can be rolled over to a Roth IRA or rolled over to another qualified retirement plan that accepts Roth 401(k) contributions.

Q. Can I take a loan or hardship withdrawal from a Roth 401(k)?

- A. If permitted by the plan, Roth 401(k) contributions are available for loans and hardship withdrawals under the same provisions as traditional 401(k) contributions. Roth 401(k) amounts will include a portion attributed to investment earnings. If you are not eligible for a qualified distribution and take a hardship withdrawal, such earnings may be taxable and will be subject to a 10% tax penalty if distributed before you reach age 59½. You may wish to consult a tax advisor for assistance.

Comparing and Choosing Your Contribution Options

Q. How can I compare making traditional 401(k) and Roth 401(k) contributions?

- A. Before you decide to begin making Roth 401(k) contributions, it's important that you understand how a Roth 401(k) works, and whether or not it makes sense for your situation. Begin by taking advantage of the information and tools available to you (see next page). You may also wish to consult with a qualified tax advisor.

To Learn more...

Use the interactive Roth 401(k) Comparison Calculator to see how a Roth 401(k) works in a side-by-side comparison with a traditional 401(k):

- Go to the “Planning” tab.
- Click on “Tools.”
- Click on the “Roth 401(k) Comparison Calculator” and enter the required data to complete the comparison.

You can find more Roth 401(k) information under the “Planning” tab.

Q. How do I elect to make Roth 401(k) contributions?

A. You can elect to make Roth 401(k) contributions online or by phone:

- Select the “Current Elections” tab for the 401(k) plan on Benefits OnLine, click on “Change Contribution Rate.”
- Enter your Roth 401(k) contribution election.
- Or call the Retirement Service Center virtually 24 hours a day, 7 days a week.



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