The Roth Option: Is It Right for You?

The TD Ameritrade 401(k) Profit Sharing Plan ("Plan") accepts Roth 401(k) contributions, giving you the flexibility to designate all or a portion of your 401(k) elective contributions as Roth contributions.

Roth 401(k) after-tax contributions and before-tax 401(k) contributions each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution percentages.

How are Roth contributions different from Traditional 401(k) contributions?

Roth contributions are made with after-tax dollars. Traditional 401(k) contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

Do I pay taxes when I take a distribution from my Roth 401(k) account?

If you withdraw your Roth contributions and potential earnings after you've reached age 59½ or severed employment due to disability or death (upon which your beneficiaries will take a withdrawal) and have held the account for at least five years, the distribution is income-tax and penalty-free.

If a distribution is made from your Roth 401(k) account before you reach age 59½ and it is not due to death or disability, or reaching the five-year period beginning with your first Roth contribution, you will pay income taxes plus a 10% penalty tax on any earnings that are distributed. Otherwise, there is no income or penalty tax due on the Roth contributions distributed from the Plan since they were made with after-tax dollars.

Do I pay taxes when I take a distribution from my Traditional 401(k) account?

Withdrawals of contributions and potential earnings from your traditional 401(k) are subject to income taxes. If the withdrawal is made prior to age 59½, a penalty tax may be due on the amount of the withdrawal, in addition to ordinary income tax.

How much can I contribute?

The maximum combined contribution limit in 2016 is $18,000. If you are age 50 or older, you can make additional "catch-up" contributions of $6,000.

How does the Roth 401(k) differ from a Roth IRA?

- Contribution Limits - Roth IRA contributions are limited to $5,500 in 2016 (or $6,500 if you are age 50 or older) versus $18,000 for the Roth 401(k) (or $24,000 if you are age 50 or older). So, you can contribute more on an after-tax basis to your Roth 401(k) than to a Roth IRA.
- Eligibility - If you're single and have a modified adjusted gross income of equal to or greater than $131,000 a year or are married with a modified adjusted gross income of more than $193,000 in 2016, you aren't eligible to contribute to a Roth IRA in 2016. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 401(k) Plan regardless of your income.

Can my employer make matching contributions?

Yes. Your employer can make matching contributions to your Roth 401(k) account. However, any employer-matching contributions to your Roth 401(k) are before-tax contributions and are treated as such, and subject to taxes when you take a distribution.

Can I Roll Over my Account if I Change Employers?

Should you leave your current employer, you still have the option of rolling over your Roth 401(k) account to a Roth IRA or to a 401(k) or 403(b) or a governmental 457(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional 401(k) account to a qualified 401(a), 401(k) or 403(b) plan, a traditional IRA or a governmental 457(b) plan, among others, if the planallows it.

You are encouraged to discuss rolling money from one account to another with your financial advisor/ planner, considering any potential fees and/or limitation of investment options.

Can I leave my money in my Roth 401(k) indefinitely?

Once you reach age 70½, the government requires that you begin taking minimum distributions from either a Roth 401(k) or a before-tax 401(k). If you are still employed with the employer who sponsors the plan or if you are less than a 5% owner of the business sponsoring the plan, you might not be required to take a minimum distribution. Refer to your Plan provisions for more information.

At-a-Glance Comparison

	Before-Tax 401(k)	Roth After-Tax 401(k)
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are potential earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after age 59½, death or disability and generally no earlier than five years after your first Roth 401(k) contribution
If I change jobs, can I roll over my account?	Yes, to a qualified 401(a), 401(k) or 403(b) plan, a traditional IRA or a governmental 457(b) plan, among others, if the plan allows it	Yes, to a Roth IRA, 401(k) plan, 403(b) plan or a governmental 457(b) plan if the plan has a designated Roth account and accepts rollovers
What is the maximum amount I can contribute?	Combined limit for contributions in 2016: $18,000 or $24,000, including the additional $6,000 Age 50+ Catch-Up contribution	
If I experience a hardship, can I make a withdrawal?	Yes, if your Plan allows hardship withdrawals	
Do I have to take a minimum distribution at age 70½?	Once you reach age 70½, you are generally required to begin taking minimum distributions from either a Roth 401(k) or a before-tax 401(k). If you are still employed with the employer who sponsors the plan or if you are less than a 5% owner of the business sponsoring the plan, you might not be required to take a minimum distribution. Refer to your Plan provisions for more information.	

Making the Best Choice for You

You will have to determine whether contributing to your Plan on an after-tax Roth basis or a before-tax basis makes more sense for your situation. The Roth 401(k) option essentially "locks in" today's tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire—the Roth 401(k) option may make the most sense. If you're one of those people, the Roth option allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay at retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to your 401(k) on a before-tax basis. You won't pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually at retirement (when many people expect their retirement earning power and tax burden to be lower than it is today).

The Bottom Line: Participate!

Regardless of which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If after you've done your research and consulted the experts you decide that Roth 401(k) contributions are right for you, you can make the appropriate changes to your account by visiting your Plan's website at www.tdameritrade401kplan.com or calling 888-TDA-401K. If you are not currently enrolled in your Plan, you can elect to make Roth 401(k) contributions by enrolling online or by calling 888-TDA-401K.[1]

For more information about Roth 401(k), please contact your Plan representative.[2]

1 Access to the voice response system and/or any website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.
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