BLACKROCK®

WEALTH MANAGEMENT

Picking the Right 401(k) Plan

Examining Traditional and Roth 401(k)s

The traditional 401(k), a widely utilized retirement savings vehicle, allows you to defer paying taxes until retirement. The Roth 401(k), made permanent under the Pension Protection Act of 2006, allows you to pay taxes on your contributions and, later, withdraw your assets federally income tax-free, provided your withdrawal is "qualified."

Defer Taxes or Pay Them Now? Points to Consider

- When you know taxes will be lower in the future, deferring your taxes will likely pay off.
- When you know taxes will be higher in the future, paying taxes now may ultimately be your best move.
- When the future of taxes is uncertain, diversified tax exposure can help you optimize your after-tax income.

Key Differences Between Traditional and Roth 401(k)s

	Traditional 401(k)	Roth 401(k)
Contributions	Pre-tax contributions reduce current taxable income.	After-tax contributions do not affect current taxable income.
Withdrawals After Age 59½	Taxed as current income.	Tax-free for investors who have had the account for at least five years.
Required Minimum Distributions	April 1 of the year following the year the owner attains age 70½ or separates from service, whichever is later.	

Contributions

Currently, employees can invest in a traditional 401(k) through payroll deductions or by converting money from other retirement accounts into a traditional 401(k). Employees can invest in a Roth 401(k) through payroll deductions or intra-plan conversions of "qualified" distributions from a traditional 401(k).

The maximum amount you can contribute in 2012 toward any combination of traditional and Roth 401(k)s is $17,000 ($22,500 for those age 50 and older). Employers may match employee contributions to either traditional or Roth 401(k)s. However, matching funds are always pre-tax.

Withdrawals After Age 59½

Earnings in both traditional and Roth 401(k) accounts grow tax-deferred. "Qualified" withdrawals from a Roth 401(k), however, will be exempt from federal income tax, while all withdrawals from a traditional 401(k) are taxed at ordinary income rates.

If you elect to make a non-qualified withdrawal from a Roth 401(k), only the earnings on the contributions, not the contributions themselves, are subject to federal income tax. For example, if 20% of your current Roth 401(k) balance is earnings, 20% of any non-qualified withdrawal would be subject to income tax.

Making "Qualified" Withdrawals

In order to make a "qualified" withdrawal, you must meet two conditions:

1. Have had a Roth 401(k) for at least five years. The five-year minimum holding period begins January 1 of the year you first contribute money to a Roth 401(k), regardless of when during the year the contribution is actually made.
2. Be at least age 59½, disabled or deceased.

Required Minimum Distributions (RMDs)

Both traditional and Roth 401(k)s have RMD requirements beginning at age 70½. If you are still working at age 70½, you may delay taking RMDs from both until you separate from service.

Which One is Right For You?

A traditional 401(k) may be better if:

- You need a lower tax bill now.
- Your employer does not match contributions to the Roth 401(k).
- Your plan does not allow loans against Roth 401(k) balances.

A Roth 401(k) may be better if:

- You expect your income tax rate to be higher in retirement than it is now.
- You can afford to make the full Roth 401(k) contribution.
- It is likely you will not need the entire 401(k) for retirement income. With a Roth 401(k) you can roll into a Roth IRA without additional tax implications, allowing you to avoid RMDs and preserve assets for a beneficiary who can "stretch" the money tax-free.

Moving Money From Your 401(k)

Permitted Rollovers

Roll From	Roll To			
	Traditional 401(k)	**Roth 401(k)**	**Traditional IRA**	**Roth IRA**
Traditional 401(k)	**YES**	**YES**	**YES**	**YES**
Roth 401(k)	NO	**YES**	NO	**YES**

Traditional 401(k) to Roth 401(k)

- Investors may perform intra-plan conversions of "qualified" distributions.
- Investors must include pre-tax dollars in income.

Traditional 401(k) to Roth IRA

- Investors must include pre-tax dollars in income.

Roth 401(k) to Roth 401(k)

- Must be completed as a trustee-to-trustee transfer.
- Your new employer must maintain a Roth 401(k).
- Five-year holding period carries over (distributing plan provides original start date).

Roth 401(k) to Roth IRA

- After-tax dollars are rolled first during partial rollovers.
- Five-year holding period from 401(k) does not transfer to IRA.

Sources: BlackRock; Internal Revenue Service.

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