

## ideas for advisers

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# Roth 401(k)s and 403(b)s are here to stay

With the passage of the Pension Protection Act of 2006 making Roth 401(k) and 403(b) contributions permanent, you may find that your retirement plan clients have more of an appetite for the Roth. Here are three reasons why the Roth may be more appealing, and some key facts you should know:

### 1 The sun will not set on Roth 401(k)s and 403(b)s

Remind your clients that Roth provisions are here to stay, giving their participants even more flexibility when saving for retirement. Many plan sponsors avoided signing up for this new contribution type during the past year because the legislation was set to expire after 2010.

### 2 Highly compensated employees are now eligible to save after taxes

Tell your prospects and clients that Roth contributions give all employees the opportunity for a larger nest egg at retirement. In particular, the Roth 401(k) and Roth 403(b) can be of interest to highly compensated employees who are denied this kind of retirement investment through the Roth IRA because of their income limits. And while there's no tax deduction for their Roth contributions, these participants won't ever pay taxes on their Roth account as long as they hold the account for at least five years and are age 59½ or older when they take a distribution.

### 3 American Funds tools help ease your clients' transition to Roth 401(k)

We offer a suite of Roth 401(k)/403(b) tools and materials for participants. A calculator helps them choose which may be the best way to invest — with Roth after-tax or traditional before-tax contributions or both. Visit our website at [americanfundsretirement.com](http://americanfundsretirement.com) (keyword: rothcalc) to try it. We also have a short *Saving Just Got Sweeter* brochure and presentation that are ideal for lunch-n-learn seminars. They're available from [americanfunds.com/adviser](http://americanfunds.com/adviser) (keyword: roth 401(k)). Our enrollment books also feature the latest information on the Roth contributions.

### Other key facts about Roth 401(k)s/403(b)s:

#### Earnings are tax-free

Earnings on employee Roth after-tax contributions are tax-deferred and will be tax-free when withdrawn as long as the account is at least five years old and the participant is at least age 59½ before a withdrawal is made.

#### Employee contributions

Participants can split their contributions between before-tax and Roth after-tax contributions. The annual deferral limit applies to both pre-tax and Roth after-tax contributions. For 2007, it's a combined total of \$15,500 (plus an extra \$5,000 if the participant is age 50 or older).

#### Rollovers

Plan participants can roll their Roth 401(k)/Roth 403(b) contributions directly into a Roth IRA if they leave their job. By rolling into a Roth IRA, investors are no longer subject to the required minimum distribution (RMD) rules that they were subject to in their 401(k) or 403(b) plan.

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