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SPECTRA INSIGHT



Who is Spectra Management?

Originally established in 1986, the company has a track record of providing local businesses with innovative health insurance, savings and retirement plans that make sense today—and for years to come. Unlike other employee benefits companies, Spectra Management does not provide clients with cookie-cutter packages. Rather, Spectra's highly experienced staff works hand in hand with its clients to develop tailor-made solutions designed to strengthen employee security and well-being. Whether you're a business owner, a human resource director, or a company employee, Spectra Management can help ensure confidence in the benefit selection and management of your benefits package.

Roth Versus Traditional 401(k): Which is Right for You?

More plan sponsors offer the Roth 401(k) option today than ever before. Many employees are trying to decide what option best fits their personal needs. It's important to have an understanding of how the Roth versus traditional 401(k) plans work, including the pros and cons of each.

There is one basic yet commonly misunderstood fact that permeates the two retirement choices. While they are effectively mirror images of each other, with the traditional 401(k) you invest pre-tax dollars and pay taxes at withdrawal (eligibility for 2009 phases out between \$105,000 and \$120,000 for single filers and \$166,000 to \$176,000 for those married or filing jointly). With a Roth, you invest after-tax dollars, paying no taxes at the end when you withdraw with no income stipulations. In a pure economic sense... there's really no difference between the two.

The Roth Advantage

However, there is one minor difference that can give the Roth the advantage. While the maximum pre-tax dollar contribution for the traditional 401(k) in 2009 is \$16,500, the same goes for the after-tax Roth option meaning those who contribute \$16,500 to their Roth after taxes could ultimately save more money on a tax-advantaged basis for retirement—if they are disciplined enough to do so.

Investing Tax Savings

Of course, those who contribute to the regular 401(k) can reap huge tax savings. And, if the individual is financially savvy enough to invest those tax savings, they could very well duplicate the Roth's tax-free returns on those savings, meaning the amount you end up with after taxes in a traditional 401(k) and the Roth 401(k) could be the same.





Tax Rates & Age Matter

Tax rates combined with a long-term vision of your financial portfolio do matter in deciding between a regular 401(k) and Roth. Assuming your tax rate climbs from 25% to 33% by the time you withdraw money from your regular 401(k), then you would owe more in taxes on your regular 401(k), leaving you with less than in the Roth.

Conversely, if you happened to drop from the 25% to the 15% bracket by the time you withdraw the money from your regular 401(k), then you would deduct less in taxes, leaving you with more than in the Roth.

For younger participants in their 20s and 30s who want to save because it is the right thing to do, a Roth makes a lot of sense as it allows this demographic generally in a lower tax bracket to capture their employer's matching contributions and protects them from the pitfalls of premature distribution (if they withdraw savings before the age of 59.5) and taxation if they should leave their jobs, move employment, or find themselves in need of extra income.

Whether you foresee a higher tax bracket in your future or not, choosing between a Roth versus a traditional 401(k) shouldn't be an "either or" decision. You can contribute to both and give yourself the tax-deferred and tax-free flexibility required to satisfactorily manage your taxes well into retirement.

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If you have any questions for your Account Manager at Spectra Management, LLC, call (801) 327.7205. Visit www.spectrabenefits.com



roth versus traditional 401(k)

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Visit the following link for a personal analysis of which type of contribution method may be right for you:

- <https://www.askspectra.com/viewer.asp?url=http://www.advisorsquare.com/advdev/calculators/calcs.asp?advisorid=320785>

