



DANA CONSULTING GROUP
JENNINGS LAW FIRM

ROTH 401(K) ANALYZER INSTRUCTIONS

Dana Consulting Group and Jennings Law Firm are dedicated to being *the* resource employers and their advisors rely on when they need to make informed decisions on designing and administering their qualified retirement plans.

We developed the Roth 401(k) Analyzer to enable our business partners to compare the financial effect of traditional 401(k) contributions with Roth contributions under a variety of assumptions.

This worksheet is available on our website (www.danaconsulting.com) for downloading at no cost.

Downloading the Roth 401(k) Analyzer

- Download the Analyzer from our website (you will need Microsoft Excel 97 or higher) and save it to your hard drive to use it again and again. After you insert your name and contact information, you may want to add your firm's logo to further customize the Analyzer to your needs.
- Each time you prepare an analysis, save and rename the worksheet as "Roth 401k Analyzer-Client/Prospect Name."

Using the Roth 401(k) Analyzer

Enter information in the following data fields:

Basic Data

Annual Wages Available for Savings – This is the amount the Analyzer will use to compare investing with a traditional 401(k) contribution and a Roth contribution. This is NOT the employee's gross annual wages.

Year of Birth – This determines the number of years to retirement date and, if the employee is less than age 50, the year in which he/she attains age 50 and becomes eligible to make catch-up contributions to the plan.

Retirement Age – This is the age the employee will retire (generally age 65) and begin receiving the income stream.

Tax Rates & Annual Rates of Return

Federal Marginal Tax Rate (pre-retirement) – Enter the employee's current federal income tax rate. The 2005 highest rate is 35%. This rate will remain the same during the years before retirement.

State Tax Rate (pre-retirement) – Enter the employee's current state income tax rate. This rate is 3% in Illinois.

Federal Marginal Tax Rate (post-retirement) – Enter the employee's expected tax rate when he/she retires. This rate will remain the same during the years after retirement.

State Tax Rate (post-retirement) – Enter the employee's expected state tax rate when he/she retires.

Annual Rate of Return (pre-retirement) – Enter the expected annualized return on investments throughout the pre-retirement years.

Annual Rate of Return (post-retirement) – Enter the expected annualized return on investments after retirement.

Minimum Wage Needed to Maximize Roth Contributions

The Analyzer will compute the following amounts:

Pre-Age 50 – Based on the pre-retirement tax rates you entered, this is the minimum wage the employee must have available to save in order to make his maximum Roth contribution for the year *after* paying income taxes.

Age 50 or Older – Based on the pre-retirement tax rates you entered, this is the minimum wage the employee must have available to save in order to make his maximum Roth contribution (including catch-up contribution) for the year *after* paying income taxes.

Results (from left to right)

Wages Available for Savings (annual override) – This column allows you to override the amount you entered for Annual Wages Available for Savings above for any particular year. You can copy the overridden amount to later years if the change will be permanent.

401(k) Contributions – This amount is calculated based on the Wages Available for Savings. This amount will be capped at the current limit of \$15,000 (the 2006 limit without catch-up contribution) and \$20,000 (the 2006 limit with catch-up contribution).

After-tax Savings Contributions – This amount is calculated and is equal to the employee's Wages Available for Savings, less his 401(k) contribution, and less the income taxes paid on the remaining amount.

Inception-to-date Accumulation – This is the lump sum account value at the end of each year based on historical contributions, Rate of Return and Retirement Age.

This amount represents (a) the balance in the 401(k) account *before* any income taxes have been paid, and (b) the balance in the after-tax account *after* all income taxes have been paid. You should *not* compare this with the comparable column under the Roth contribution section since both accounts under that section are *after* all income taxes have been paid.

Annual After-tax Income Stream at Retirement – This is the expected annual after-tax stream of income from the employee's Retirement Age to the employee's 80th year.

This annual income stream is *after* paying any incomes due on the income stream for that year. You should compare this column with the comparable column under the Roth contribution section since both amounts are *after* all income taxes have been paid.

Roth Contributions – This amount is calculated based on the Wages Available for Savings and after paying all income taxes due on those wages.

If the Wages Available for Savings is less than the minimum wage necessary to maximize the Roth contribution entered above, the Roth contribution amount is whatever amount is left *after* paying income taxes.

Inception-to-date Accumulation – This is the lump sum account value at the end of each year based on historical contributions, Rate of Return and Retirement Age.

This amount represents the balances in both accounts *after* all income taxes have been paid.

Annual After-tax Income Stream at Retirement – This is the expected annual stream of income from the date of retirement to the employee's 80th year.

Distributions from the Roth account are completely tax-free. There are income taxes to pay on the annual income on the after-tax savings account.

Savings Advantage Roth vs. Pre-tax – This represents the income stream under the Roth 401(k), compared to the income stream using the traditional pre-tax 401(k).

A percentage over 100% means the Roth option provides higher after-tax income than the traditional 401(k) option. A percentage equal to 100% means the Roth and 401(k) options are the same. A percentage less than 100% means the Roth option provides less after-tax income than the traditional 401(k) option.

You will see that in most cases where the Roth option provides higher after-tax income than the traditional 401(k) option, the annual percentage drops with each successive calendar year. What this is showing is that the benefits of the Roth option increase the younger the employee is when he/she

starts making Roth contributions. This should not be surprising since it reflects, at least in part, the power of compounding rates of return.

Making the Most of the Roth 401(k) Analyzer

- Consider preparing a set of worksheets for hypothetical employees under a variety of assumptions which can be reviewed with clients and prospects. This will allow you to quickly demonstrate how a traditional 401(k) contribution compares with a Roth contribution. Some comparisons to make:
 - An employee age 40 vs. age 60
 - Wages available for savings of \$15,000 vs. \$40,000
 - Wages available for savings increasing after five years
 - Rate of return of 7% vs. 0%
 - Federal tax rates after retirement that are higher vs. lower than pre-retirement
- If you use a laptop computer, you can prepare customized proposals while in a meeting.

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We developed the Roth 401(k) Analyzer to assist you with providing the highest quality and innovative services to your existing and prospective clients. If you have any comments or suggestions about the Analyzer, please let us know. Finally, if we can be of additional assistance to you in building your retirement plan business, do not hesitate to contact Lee T. Jennings in our office.