Roth 401(k):

A tool for retirement planning for Agents

Your goals for your retirement years are as unique as you are. Do you want to travel, start a business, teach, study a language, fish, sail, hike the Appalachian Trail—or do all of these and more?

Just like there's more than one way to spend your retirement, there are many ways to plan, save, and prepare for how you'll pay for it. But there is one common denominator. To have the retirement you want, it's up to you to take steps now to make it happen.

New York Life helps you take those steps with savings and retirement benefits that share with you the responsibility for preparing financially for your future. As an important part of your New York Life Total Rewards, the 401(k) Savings Plan should also play a key role in your financial planning, with its tax-advantaged savings features, personalized planning strategies, and other tools and resources to help you manage your savings.

With Roth contributions to the 401(k) Savings Plan, you have another way to prepare for your future—**if it's a good fit for you**.

Roth 401(k) contributions: Opportunity and flexibility

Roth 401(k) contributions are different from the pre-tax contributions you're familiar with because Roth contributions are taxed at the time you make them. They don't lower your taxable income like pre-tax contributions do—and you don't pay taxes on them when you withdraw them in retirement.

The **earnings on Roth contributions are not taxed**,* and you don't owe any taxes when you receive a qualified distribution from your Roth account—in other words, Roth contributions and earnings are tax-free income in retirement.

Take a look at the key differences in the types of 401(k) contributions:

	Pre-tax	Roth
Contributions from Ledger	Not taxed (until distribution)	Taxed in the year earned
Earnings	Taxed at distribution	Not taxed*
At distribution	Pay taxes on contributions and earnings	No taxes due*

You can make pre-tax or Roth catch-up contributions if you're at least age 50 at any time during the year.

*To receive a tax-free distribution of earnings, you must be at least age 59½ (or disabled) and the Roth account must be at least five years old.

Roth 401(k) limits

Roth contributions have some of the same limitations as pre-tax contributions:

- Roth contributions are subject to the same annual 401(k) contribution limit. In 2019, this limit is $19,000. **The total of your Roth 401(k) and pre-tax contributions can't exceed this limit**.
- Generally, you'll pay a 10% penalty on earnings if you take a distribution from your Roth account before you reach age 59½.
- To avoid taxes on earnings at distribution, the Roth account must be at least five years old and you must be at least age 59½ (or disabled).
- No in-service distributions (except in case of hardship) before you reach age 59½.

It's all about the taxes...and the "when"

Depending on your situation, you'll need to evaluate whether you prefer a tax savings now or tax-free income during retirement.

Pre-tax 401(k) contributions can be attractive because they lower your current taxable income. Plus, taxes on earnings are deferred, which can allow your account to grow more quickly. The idea behind pre-tax contributions is that when you retire, you may be in a lower tax bracket than you are when you're making the contributions, so the tax you pay when you take the money out could be lower. However, you'll also be paying taxes on the earnings at distribution.

Roth 401(k) contributions are taxed when you make them, but their earnings aren't taxed.* So if you think you might be in a higher tax bracket in the future when you take the money out, the idea of not paying taxes at the time of distribution can be more appealing.

Should you add Roth contributions to your 401(k)?

Here are some things to consider when deciding if Roth contributions are a good fit with your savings strategy.

It's a personal decision, and you should discuss the advantages and disadvantages of Roth 401(k) contributions with your tax or financial advisor.

How will your tax bracket change?

Obviously, it's impossible to know for sure how your tax bracket at retirement will compare to your current tax bracket. However, if you think you will be in the same or higher tax bracket at retirement than you are now, Roth 401(k) contributions may offer the greater tax advantage. If you believe you'll be in a lower tax bracket at retirement than you are now, pre-tax contributions may provide the best tax advantage.

How long until you retire?

Do you have a target retirement age in mind? How far off is it? The longer the time is until you retire, the more attractive Roth 401(k) contributions may be. That's because your potential for investment earnings is greater if you have more time, and the earnings on Roth 401(k) contributions are tax-free when you take a distribution (as long as you're at least age 59½ and your Roth account is at least five years old).

Use the tools available to you on Your Benefits Resources™ (YBR) at **http://digital.alight.com/newyorklife** to help you decide whether Roth contributions might be right for you.

*To receive a tax-free distribution of earnings, you must be at least age 59½ (or disabled) and the Roth account must be at least five years old.

Converting your current eligible balances to a Roth account

You can convert all or a portion of your current eligible 401(k) Savings Plan account balance to a Roth account (called an "in-plan conversion")—which would mean that money will not be taxed at distribution.* There can be advantages to in-plan conversion, but there are some important considerations to keep in mind.

Important tax considerations if you convert pre-tax money to a Roth account:

- The amount you convert will be reported as taxable income for the year the conversion is complete.

For example:

	If you convert $500,000:	**If you convert $40,000:**
Effective tax rate	37% (30% federal tax, 7% state tax)	29% (22% federal tax, 7% state tax)
Tax payable for year of conversion	**$185,000**	**$11,600**

- The increase in taxable income from the conversion might be enough to push you into a higher federal income tax bracket.
- The increase in taxable income from the conversion could also cause your income to exceed thresholds that may result in additional tax on investment income.
- You may also need to increase your tax withholding amount for the year of the conversion or make estimated tax payments to avoid an underpayment penalty.

REMEMBER: The tax you owe as a result of a conversion could be significant, and state and local income taxes may also apply.

Before converting your existing plan balance to a Roth account, you should consult with your personal tax advisor to make sure you understand the costs as well as the benefits of converting existing balances to Roth.

For tax-free distribution, you must be at least age 59½ (or disabled), and the Roth account must be at least five years old.

*To receive a tax-free distribution of earnings, you must be at least age 59½ (or disabled) and the Roth account must be at least five years old.

Learn more

To find out more about how Roth 401(k) contributions might fit in your retirement planning picture, visit:

- **www.nylbenefits.com** for general 401(k) Savings Plan information (under "Savings and Retirement").
- **Your eGuide to getting the most from your New York Life 401(k) Savings Plan**, located on **www.nylbenefits.com**, for a visual, easy-to-navigate overview of the full New York Life 401(k) Savings Plan. It includes information about Roth contributions, conversions, and real-world examples that can help you decide if Roth makes sense for you.
- **Your Benefits Resources (YBR)** at **http://digital.alight.com/newyorklife** to enroll, change contribution rates and investments, review your current retirement and savings plan balances, use retirement planning tools, and find more information and FAQs on saving and investing.

Note: This is a general description of certain provisions of the New York Life Insurance Company Agents Progress-Sharing Investment Plan ("401(k) Savings Plan"). In the event of any conflict between this information and the plan document, the provisions of the plan document will govern. New York Life reserves the right to amend or terminate the 401(k) Savings Plan at any time. New York Life does not provide you with tax, financial, or investment advice regarding the 401(k) Savings Plan. You are encouraged to consult with your own professional advisors.