Deferred Compensation Roth option offers tax-free retirement income

About the Deferred Compensation Roth option: Your plan now gives you the option to contribute to a Deferred Compensation Roth through your retirement savings plan. Does a Deferred Compensation Roth option make sense for you?

An additional way to save in your plan

Unlike a traditional, pretax Deferred Compensation Plan, the Deferred Compensation Roth option allows you to contribute after-tax dollars, but then withdraw tax-free dollars from your account when you retire.* The following information can help you decide whether the Deferred Compensation Roth option makes sense for you.

How the Deferred Compensation Roth option compares with a traditional, pretax Deferred Compensation Plan

Just as with a traditional, pretax Deferred Compensation Plan:

- You elect how much of your salary you wish to contribute
- Your contributions to a Deferred Compensation Roth option and traditional, pretax Deferred Compensation Plan cannot exceed IRS limits
- Your contribution is based on your eligible compensation

Unlike a traditional, pretax Deferred Compenation Plan, the Deferred Compensation Roth option allows you to withdraw your money tax free when you retire.* But it will also require you to make after-tax contributions now.

Who might benefit from a Deferred Compensation Roth option?

A Deferred Compensation Roth could be a good option for:

- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings
- Highly compensated individuals who aren't eligible for Roth IRAs, but who want a pool of tax-free money to draw on in retirement
- Employees who want to leave tax-free money to their heirs

ACTION PLAN

- Read this information about the Deferred Compensation Roth option
- Contact a tax professional for specific advice on your personal situation

Taxes: Pay now or pay later

	Traditional pretax Deferred Compensation Plan	Deferred Compensation Roth Option
Employee contributions	Pretax dollars	After-tax dollars
Employee withdrawals	Taxable upon withdrawal	Tax-free upon withdrawal*

*In the event of either retirement or termination, your earnings can be withdrawn tax free as long as it has been five tax years since your first Deferred Compensation Roth contribution and you are at least 59½ years old. In the event of death, beneficiaries may be able to receive distributions tax free if the deceased started making Roth contributions more than five tax years prior to the distribution. In the event of disability, your earnings can be withdrawn tax free if it has been five tax years from your first Deferred Compensation Roth contribution.

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The Deferred Compensation Roth Option: Is it right for you? Four questions to ask yourself.

The Deferred Compensation Roth option was designed to combine the benefits of saving in your tax-deferred workplace retirement plan with the advantage of avoiding taxes on your money when you withdraw it at retirement.

If you answer "yes" to some or all of these questions, the Deferred Compensation Roth option may be right for you.

1 **Will I be in a higher marginal tax rate in retirement than I will be during my working years?** This is a question that nobody can answer with certainty. Marginal income tax rates have declined over the last two decades. If tax rates were to continue to decline, a traditional, pretax Deferred Compensation Plan might be the better option. The same is true for individuals who expect their marginal tax rate to be lower in retirement as the result of a lower income.

Generally:

- If tax rates stay the same, a traditional, pretax or Deferred Compensation Roth option will likely yield the same nest egg after taxes
- If tax rates rise, paying taxes now through a Deferred Compensation Roth option will likely yield a higher after-tax retirement benefit than a traditional, pretax Deferred Compensation Plan
- If tax rates decrease, deferring taxes now in a traditional, pretax Deferred Compensation Plan would probably benefit you more at retirement

2 **Can I afford to maximize my contributions and save up to the IRS limit?** If you can afford it, making maximum contributions to a Deferred Compensation Roth may be a good option. Since any earnings accumulate tax-free rather than simply tax-deferred, a qualified Deferred Compensation Roth distribution could provide more cash upon retirement than an equivalent traditional, pretax Deferred Compensation Plan distribution would.

3 **Do I want to leave tax-free money to my heirs?** Your beneficiaries may be able to receive your Roth account tax-free if you die. Additionally, you can roll Deferred Compensation Roth funds into a Roth IRA, potentially delaying minimum required distributions from those amounts during your lifetime.

4 **Do I make too much money today to invest in a Roth IRA?** Unlike Roth IRAs, there are no maximum income limits for Deferred Compensation Roth contributions. Even if your income is too high to qualify for a Roth IRA, you can make Deferred Compensation Roth contributions.

Things to remember:

- Because Roth contributions are under the same IRS limits as pretax contributions to your plan, each dollar of a Roth contribution reduces the amount that can be contributed pretax (and vice versa).
- Your take-home pay will be less than it would be if you made an equivalent traditional pretax Deferred Compensation Plan contribution, because income taxes must be currently withheld and paid on after-tax Deferred Compensation Roth contributions.

Sally's story

Sally earns $40,000 annually and has elected to put 6% in her Deferred Compensation Roth and 6% in her traditional, pretax Deferred Compensation Plan each month.

	Deferred Compensation Roth option	Traditional pretax Deferred Compensation Plan
Sally's monthly contribution into each account	$200	$200
Sally's reduction in take-home pay is different	$200	$150

†This hypothetical example is based solely on an assumed federal income tax rate of 25%. No other payroll deductions are taken into account. Your own results will be based on your individual tax situation.

Make an informed decision for your retirement readiness.

Your retirement plan now gives you the choice of contributing to a traditional, pretax Deferred Compensation Plan, a Deferred Compensation Roth option, or a combination of the two. Whether you choose the Deferred Compensation Roth really depends on which option is likely to benefit you most in the future.

It makes sense to consult a personal tax advisor before making a final decision, but this short checklist can help you focus on the key considerations:

Decision checklist

1. Do you expect to be in a higher tax bracket in retirement than you are now?

☐ Yes ☐ No

2. Can you afford to maximize your contributions now?

☐ Yes ☐ No

3. Do you want to leave tax-free money to your heirs?

☐ Yes ☐ No

4. Do you earn too much to be eligible for a Roth IRA?

☐ Yes ☐ No

If you answered yes to some or all of these questions, a Deferred Compensation Roth might be a good option for you.

HERE'S HELP

- Go to www.fidelity.com/atwork/roth
- Call your plan's toll-free phone number to speak with a Fidelity representative
- Contact a tax professional for specific advice on your personal situation

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