

UNITED OF OMAHA LIFE INSURANCE COMPANY  
COMPANION LIFE INSURANCE COMPANY

MUTUAL OF OMAHA RETIREMENT SERVICES



Roth 401(k)

# Guide for Plan Sponsors



## ROTH 401(K) EXPANDS YOUR OPTIONS

Drive participation in your company's retirement plan with more options and greater flexibility. Mutual of Omaha's subsidiary companies, United of Omaha Life Insurance Company and Companion Life Insurance Company, are pleased to offer capabilities to support Roth and traditional 401(k) contributions.

Introduced as part of the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA), Roth 401(k) allows plan participants to make contributions to a 401(k) plan on an after-tax basis. In addition, Roth contributions and related earnings are distributed tax free when certain requirements are met. Plan participants have the flexibility to make their retirement plan contributions using both Roth (after-tax) contributions and traditional (pre-tax) contributions. This option encourages saving for retirement and helps employees appreciate your company's retirement benefits even more.



# ROTH 401(K) AT-A-GLANCE

FEATURES	BENEFITS
Amendment assistance and support	<ul style="list-style-type: none"><li>■ Avoid potential pitfalls and quickly get the program up and running smoothly with Mutual's documentation, tools and guidance</li></ul> <p>Use Mutual's Roth 401(k) Amendment to get started (you should ensure your payroll vendor can handle Roth 401(k) accounting and reporting requirements before executing the amendment documentation)</p>
Program guidance and support	<ul style="list-style-type: none"><li>■ Designed to operate in compliance with Roth regulations</li></ul>
Plan set-up, payroll submission and deferral assistance	<ul style="list-style-type: none"><li>■ Easily access online information and tools to adjust your payroll submission process with payroll vendors and ensure pre-tax and Roth 401(k) deferrals are captured and reported accurately. This allows you to facilitate accurate IRS reporting, compliance testing and distribution support.</li></ul>
Broad range of participant communication vehicles and avenues	<ul style="list-style-type: none"><li>■ Educate participants about the differences between Roth 401(k) contributions and traditional pre-tax deferrals, including how to make their deferral elections</li><li>■ We'll help you keep new and existing participants informed about their Roth and traditional deferral options with ready-to-use literature, convenient access to enrollment materials and a Web-based calculator to compare the financial results of making Roth vs. traditional pre-tax contributions</li></ul>
Roth 401(k) plan administration and maintenance	<ul style="list-style-type: none"><li>■ All required operations and procedures (including compliance testing) are compatible with Roth 401(k) plans</li><li>■ Roth deferrals are properly maintained as a separate money source</li><li>■ Plan sponsor Web site tools are available to help you track important plan data</li></ul>
Plan-level reporting to the plan sponsor	<ul style="list-style-type: none"><li>■ Stay apprised of all pertinent details regarding your company's plan, from set-up and installation through ongoing administration</li></ul>

Additional choices are available. To get started, contact your financial advisor or Mutual's Client Service Team.

# PLAN SPONSOR GUIDE TO ROTH 401(K) PROVISIONS

Adding Roth 401(k) provisions to your retirement plan can be confusing, particularly as the IRS develops further guidance. We can help. This guide outlines what you need to know.

## FREQUENTLY ASKED QUESTIONS

### What is a Roth 401(k)?

Also known as a designated Roth contribution, Roth 401(k) plans allow plan participants to make contributions after taxes have already been paid. Then, if certain requirements are met, future distributions and earnings are tax free.

### Are there advantages to Roth 401(k) contributions?

Yes, Roth 401(k) contributions feature tax benefits similar to Roth IRAs, plus contribution limits are higher and eligibility to make contributions is not restricted by a participant's income level. It's difficult to predict whether Roth or pre-tax contributions are most appropriate for each participant. However, participants who may benefit most by making Roth 401(k) contributions are those who:

- Have long time horizons before retirement
- Expect tax rates to be higher at retirement age than they are today
- Are high income earners unable to make Roth IRA contributions
- Expect to pay taxes on Social Security benefits and wish to lower this tax burden
- Are looking for estate planning flexibility  
*(Roth deferrals can be rolled into a Roth IRA, thus avoiding the required minimum distribution requirement at age 70½)*

It's best to speak with your company's financial representative for assistance in providing appropriate, personalized guidance in this regard. We also provide a Web-based calculator that can serve as an additional aid.

Note: Participants are required to designate which contributions are Roth 401(k) contributions and which are traditional pre-tax contributions before making the deferral. Once deferrals are made, the election to treat them as Roth or traditional contributions is irrevocable. Participants may, however, change their elections on new deferrals prospectively. Roth 401(k) deferrals and their related earnings must also be tracked separately (supported by our recordkeeping system).

### Is there a limit to Roth 401(k) contributions?

Roth 401(k) contributions are subject to the same IRS-imposed contribution limits that apply to traditional 401(k) deferrals. All deferrals (Roth and pre-tax) are combined to determine this total amount. Those who are age 50 or older by the end of the taxable year also are eligible to make catch-up contributions. These limitations apply to the combined Roth 401(k) contributions and pre-tax deferrals. As with individual pre-tax deferrals, individual Roth 401(k) contributions always are 100 percent vested.

### Are employer matching contributions allowed for Roth 401(k) contributions?

Absolutely. If you currently match employee pre-tax contributions, the formula may also apply to Roth 401(k) deferrals. Your company's plan document dictates which contributions are eligible for the matching contributions. Any employer match to a Roth 401(k) is taxed upon distribution.

**Are small business owners eligible to make Roth 401(k) contributions to owner-only 401(k) or Individual(k) plans?**

Yes, although overall contribution limits do not increase. As with all plan participants who make Roth 401(k) deferrals, the primary tax benefit is derived at the time of distribution, when Roth 401(k) contributions and earnings are distributed on a tax-free basis, provided the distribution satisfies certain requirements.

**Can participants have the option to make both Roth 401(k) contributions and traditional pre-tax contributions at the same time?**

Yes. You may choose to allow plan participants to designate a portion of each contribution as a Roth 401(k) deferral and a portion as a traditional pre-tax deferral. Remember, to do this your plan document must permit both types of contributions to be made simultaneously, and you must adjust your payroll process to properly track both types of deferrals.

**How do Roth 401(k) contributions affect a plan's compliance testing?**

Roth 401(k) contributions are treated in the same manner as pre-tax deferrals for compliance testing. For example, Roth 401(k) contributions will be treated as annual additions and will be included in the ADP test, top-heavy test and coverage test.

**Are all Roth 401(k) distributions completely tax free?**

No. Roth 401(k) distributions are completely tax free only if the following requirements are met.

- Participants must generally wait five years after making their initial Roth 401(k) deferral, and
- Distributions must be made after one of the following events:
  - Age 59½
  - Death
  - Disability

Since the first requirement imposes a five-year waiting period, the first time a participant would be eligible for tax-free distributions is 2015 (assuming a Roth contribution is made in 2010). Non-qualified Roth distributions (distributions taken before satisfying the five-year and qualifying event requirements) will be taxed as though a pro rata share of Roth contributions and earnings are being distributed, and the earnings are taxable.



### **How is the five-year period determined?**

The five-year period for determining qualified Roth distributions generally begins with the first year in which the first Roth contribution is contributed to the plan and included in the employee's income. If the participant rolls over Roth 401(k) assets from another eligible plan, and if those Roth contributions were made before any Roth contributions were made to the receiving 401(k) plan, the beginning of the five-year period starts with the year in which the Roth contributions were first made to that other eligible plan.

### **Are Roth contributions available for loans?**

Yes, Roth contributions are included in the loan amount calculation.

**Note:** Although nothing in the Roth regulations prohibits loans from Roth contributions, defaulted loans are not considered qualified distributions and are subject to complex taxation rules. Roth contributions are included in determining the total amount available for a plan loan. However, actual loan dollars must come from non-Roth contributions. This may reduce the overall amount of the loan distribution.

### **Can Roth contributions from other 401(k) plans be rolled over into the Roth 401(k) plan?**

Yes, Roth amounts may be directly rolled over (i.e., check made payable to receiving plan) between similar Roth plans – Roth 401(k) to Roth 401(k). If a Roth distribution is paid to a participant, only the pre-tax earnings portion can be indirectly rolled over to a Roth 401(k). Special reporting and five-year tracking rules apply to Roth rollovers.

**Note:** Many plans prohibit Roth rollover contributions to simplify tracking and reporting.

### **Can Roth 401(k) plan assets be rolled over to a Roth IRA?**

Yes, but Roth IRA assets cannot be rolled over to a Roth 401(k) even if separately tracked within the IRA.

### **Are Roth 401(k) contributions available for hardship distributions?**

You select the availability of Roth 401(k) deferrals for hardship distributions in your plan document. If you permit hardships, these distributions will be subject to complex tax rules and will be partially taxable.

**Note:** Many plans have elected not to permit hardship distributions from Roth deferrals.

### **Do I have to offer the Roth 401(k) deferral option?**

Offering plan participants the Roth 401(k) deferral feature is optional. If you elect to add Roth 401(k) features to your plan, participants still retain the right to make pre-tax deferral elections in addition to Roth deferrals. While they have the ability to change whether future deferrals are characterized as Roth or pre-tax, once made, past deferral elections are irrevocable and cannot be changed from pre-tax to Roth or vice versa.

### **What's required to add a Roth 401(k) feature to my company's retirement plan?**

There are several requirements to adopt this provision, including amending your plan document, notifying and educating participants about the new Roth features, ensuring that your payroll vendor (if applicable) can support Roth contributions, and adjusting how you submit your payroll files to us. For details, please refer to our *Step-by-Step Guide for Plan Sponsors*.

# STEP-BY-STEP GUIDE FOR PLAN SPONSORS

ACTION	DESCRIPTION	MUTUAL OF OMAHA AND FINANCIAL ADVISOR ASSISTANCE
1. Contact payroll vendor	<ul style="list-style-type: none"> <li>■ Verify vendor’s ability to support Roth 401(k) contributions</li> </ul>	Guidance and support available
2. Submit plan document amendment	<ul style="list-style-type: none"> <li>■ Regulations require plan document amendment</li> <li>■ We will provide a Roth amendment for plan sponsors using a prototype or volume submitter plan document</li> <li>■ We also support plans that use individually designed documents</li> </ul>	<i>Roth 401(k) Amendment</i> available
3. Provide participant education, enrollment and communications	<ul style="list-style-type: none"> <li>■ Existing and newly eligible participants must be informed of Roth and traditional 401(k) options</li> <li>■ Communications support: Web site, Interactive Voice Response (IVR) system, enrollment materials, Web-based calculator, participant services</li> </ul>	Guidance and support available, including enrollment forms, communication materials and contribution projection tools
4. Update/verify payroll submission	<ul style="list-style-type: none"> <li>■ Payroll submission changes required to accurately account for additional money source</li> <li>■ Paper-based payroll submissions must be converted to Web or electronic delivery methods</li> </ul>	Guidance and support available

## ADD ROTH 401(K) TO YOUR PLAN

To get started, contact your financial advisor or Mutual’s Client Service Team.

## PROVEN RETIREMENT PRODUCT EXPERTISE

You can count on Mutual of Omaha’s subsidiary companies, United of Omaha Life Insurance Company and Companion Life Insurance Company, not just for a successful retirement program, but also for the strength and stability you demand in uncertain times. In fact, the industry’s leading rating agencies have recognized our efforts with consistently high marks.

From three levels of fiduciary support to world-class investment options, our comprehensive approach to retirement solutions can help your plan exceed expectations.



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Investment options are offered through a group variable annuity contract (Forms 902-GAQC-09 or 902-GAQC-09(OR) or 901-GAQC-07 or 901-GAQC-07(OR)) underwritten by United of Omaha Life Insurance Company for contracts issued in all states except New York. United of Omaha Life Insurance Company is not licensed in New York. In New York, Companion Life Insurance Company, Hauppauge, NY underwrites the group variable annuity (Form 900-GAQC-07(NY)). Each company accepts full responsibility for each of their respective contractual obligations under the contract but does not guarantee any contributions or investment returns except as to the Guaranteed Account and the Lifetime Guaranteed Income Account as provided under the contract. Neither United of Omaha, Companion Life Insurance, nor their representatives or affiliates offers investment advice in connection with the contract.

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