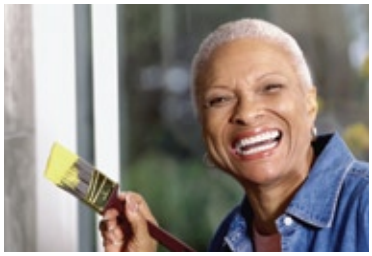

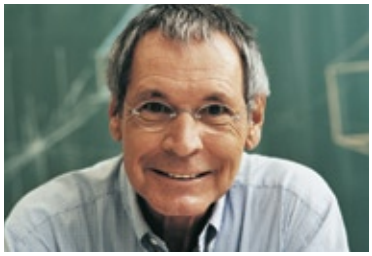

Getting Started with Roth 401(k) Deferrals

A new way for your employees to save for a secure retirement

This brochure describes the Roth 401(k) deferral feature and how it can benefit your participants. The chart on the reverse page outlines the difference between Roth and other retirement plan contributions.

Introducing Roth 401(k) Deferrals

Roth 401(k) deferrals give your employees another tax-advantaged option to use in saving for their retirement goals.

By taking advantage of Roth 401(k) deferrals, participants can benefit from tax-free distributions in retirement.

How it Works

1. A dollar amount or percentage of a participant's pay may be designated as a Roth deferral.
2. Roth deferrals are made on an after-tax basis.
3. Roth deferrals ***and*** associated earnings may be withdrawn tax-free when certain criteria are met.

Roth 401(k) deferrals are made on an after-tax basis, similar to Roth IRA contributions. However, the maximum amount that may be contributed to a 401(k) is significantly higher than a Roth IRA.

Contribution Limits

The 401(k) contribution limit applies to the combination of both "regular" and Roth deferrals. Participants can choose to continue making regular contributions only or designate a portion (or all) of their contributions as Roth deferrals.

Distributions

Roth deferrals and associated earnings may be withdrawn tax-free provided that:

- A period of five (5) taxable years has passed since the participant's first Roth deferral; and
- At least one of the following also applies:
  - The distribution is made on or after the date the participant attains age 59½,
  - The participant is deceased, or
  - The participant is disabled.

How to Get Started

The enclosed materials include suggested implementation steps and a plan amendment for your review. To add Roth deferrals to your plan, simply execute the plan amendment and return the signature page to ICMA-RC. As soon as your amendment has been executed, you can make the new deferral feature available to participants.

If you elect to offer the Roth 401(k) feature, ICMA-RC will help educate your employees regarding Roth 401(k) deferrals and provide information to help them decide whether this new option makes economic sense. Educational materials will explain the advantages, disadvantages, and applicable rules of Roth 401(k) deferrals.

Employee Benefits

Your employees will have an additional tax-savings opportunity, allowing them to make the most of their retirement savings. Key benefits include:

- Choice of pre-tax or Roth deferrals
- Opportunity to pay taxes now and plan for tax-free distributions in retirement
- Higher contribution limits than a Roth IRA
- Eligibility at all income levels
- Flexibility to roll-over Roth 401(k) assets to other retirement plans that allow for Roth deferrals (e.g., 401(k), 403(b)) or a Roth IRA

For more information, please contact your ICMA-RC Client Services Team at 800-326-7272.

ICMA-RC Services, LLC, a wholly owned broker-dealer subsidiary of the ICMA Retirement Corporation, member FINRA and SIPC.

PLAN FEATURES OVERVIEW

	401(k)			Roth IRA
CONTRIBUTIONS				
Feature	**Roth[2]**	**After-Tax**	**Pre-Tax**	**After-Tax**
Maximum Contribution (2009)	$16,500 or 100% of compensation[1], whichever is less. Over 50 Catch-Up Provision: + $5,500 ($22,000 total)			$5,000 Over 50 Catch-Up Provision: + $1,000 ($6,000 total)
Contributions Reduce Taxable Income	No	No	Yes	No
Earnings Accumulate Tax Deferred	Yes	Yes	Yes	Yes
WITHDRAWALS				
Earnings Taxed Upon Withdrawal	No, if distribution is qualified[2] (e.g., account held for five years, and you are over age 59½).	Yes	Yes	No, if certain criteria are met[3] (e.g., account held for five years, and you are over age 59½).
Contributions Taxed Upon Withdrawal	No	No	Yes	No
10% Early Distribution Penalty	Yes, the penalty may apply to the earnings portion of the withdrawal, unless certain criteria are met.[5]	Yes, the penalty may apply to the earnings portion of the withdrawal, unless certain criteria are met.[5]	Yes, if withdrawn prior to age 59½ (unless an exception applies).[5]	Yes, the penalty may apply to the earnings portion of the withdrawal, unless certain criteria are met.[3, 4]
Available for Loan	Yes, if elected by the employer.			No
Minimum Withdrawals Required After Age 70½	Yes			No

[1] *Compensation is defined as gross compensation reduced by any "picked-up" contributions to a 401 plan (under IRC section 414(h)(2)).*

[2] *A qualified distribution of designated Roth contributions is generally a distribution that is made after a 5-taxable-year period of participation* ***and*** *that either: (1) is made on or after the date you attain age 59½, (2) is made to your beneficiary(ies) after your death, or (3) is attributable to you being disabled.*

[3] *To qualify for tax-free withdrawals of your earnings from your Roth IRA, you must meet the following conditions: You have held the account for at least five years* ***and*** *(1) you are at least 59½* ***or*** *(2) you are using the money for a first-time home purchase (limited to $10,000 over your life-time)* ***or*** *(3) you are disabled* ***or*** *(4) your Beneficiary is withdrawing assets in the event of your death.*

[4] *Roth IRA earnings can be withdrawn penalty-free in the following situations: You have reached age 59½, you are disabled, you are the beneficiary of a deceased IRA owner, you use the distribution to pay certain qualified first-time homebuyer amounts, the distributions are part of a series of substantially equal payments, you have significant unreimbursed medical expenses, you are paying medical insurance premiums after losing your job, the distributions are not more than your qualified higher education expenses, or you are a military reservist called to active duty for more than 180 days.*

[5] *The 10% penalty generally does not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you retire due to disability, (3) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) payments that are paid directly to the government to satisfy a federal tax levy, (5) payments that are paid to an alternate payee under a qualified domestic relations order, (6) payments that are paid to military reservists called to active duty for more than 180 days, or (7) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10% tax.*