

# SIP EXTRA

February 2006

## *Plan Limits - 2006*

### Pretax 401(k) or Roth 401(k)- \$15,000

#### Pretax or Roth 401(k) catch-up - \$5,000

This deduction is only available to those employees who will be age 50 or over by 12/31/06.

#### Payroll Deductions (not to exceed 100%)

**Pretax 401(k)** - up to 65%

**Roth 401(k)** - up to 65%

**Pretax Catch-up** - up to 35%

**Roth Catch-up**—up to 35%

**After-tax** - up to 45%

When selecting a deduction percentage, it is the responsibility of the employee to ensure enough money is available in each paycheck to cover other payroll deductions (such as after-tax insurance deductions).

#### Total Contribution - \$44,000 or 100% of S&L wages, whichever is less

This includes all 401(k), after-tax, employer matching and employer non-matching contributions. (Excludes pretax "catch-up")

**Employer Match** - 50% of the first 4% of payroll deduction (base wages) for eligible employees\*

**Employer Non-Match** - 2% of base wages for eligible employees\*

\*all full-time and part-time employees (not WG #279 & #289).

**To Call Fidelity:  
1-800-835-5095**

\*Enter Social Security Number

\*Enter PIN

\*Enter "0" to speak with phone rep.

**Via Internet:**

**www.401k.com**

## ROTH 401(k)

Effective April 1, 2006, the Roth 401(k) contribution option will be available to all current S&L employees. Unlike pretax 401(k) deferrals, the Roth 401(k) allows you to contribute after-tax dollars and then withdraw this money tax-free (principal & interest) when you retire.

NOTE: Unless extended by Congress, this option is only available through December 2010. If that happens, money already in a Roth 401(k) account would be allowed to remain in the plan but no new contributions would be allowed.

There will be a lunch-hour meeting on **Wednesday, March 1** to learn more about this new option. If you are interested in attending please contact Kathy Davis in Chicago, Carol Newhard in Wilmington, or Varinia Maldonado-Fuller in Chattanooga.

There are differences between the traditional pretax 401(k) and Roth 401(k) accounts. For a regular 401(k) deferral, the taxable wages on your W-2 are reduced by the deferral contribution; therefore, you pay less current income tax. However, you will eventually pay tax on these contributions and earnings when those funds are distributed to you from the account. A Roth 401(k) deferral is an after-tax contribution, which means your contribution is taken after taxes have been calculated. But you won't pay tax on it again upon distribution. If you satisfy certain distribution conditions (see page 2), you won't have to pay tax on the earnings either.

Deciding how to allocate money between a traditional 401(k), Roth 401(k), SIP after-tax, and a Roth IRA outside of the S&L SIP (see page 3) could be challenging. Some employees may want to take advantage of all four. **Evaluate the advantages and disadvantages (page 2) of each type of account before changing your current deductions.**

Employees may combine the 401(k) and Roth 401(k) in any combination up to the maximum \$15,000 (or \$20,000, including \$5,000 maximum catch-up for those age 50 and over by December 31).

The Roth 401(k) was designed to combine the benefits of saving in an employer's tax-deferred retirement plan with the advantage of being able to withdraw contributions and earnings tax free at retirement.

By contributing to a Roth 401(k) you are giving up a tax break on contributions today for a tax break on earnings in the future.

<b>S&amp;L SAVINGS INVESTMENT PLAN</b>				
	<b>Pretax 401(k)</b>	<b>After-tax Roth 401(k)</b>	<b>SIP After-tax</b>	<b>After-tax Roth IRA</b>
<b>2006 Limit</b>	\$15,000 (combined with Roth 401(k) contributions)	\$15,000 (combined with 401(k) contributions)	\$44,000 minus 401(k), Roth 401(k) & employer contributions	\$4,000
<b>2006 Limit Catch-up</b>	\$5,000 (combined with Roth 401(k) contributions)	\$5,000 (combined with 401(k) contributions)	Not applicable	\$1,000
<b>Income Limits</b>	None	None	None	\$110,000 (single) \$160,000 (married, filing jointly)
<b>S&amp;L Match</b>	Yes, if eligible	Yes, if eligible	Yes, if eligible	Not applicable
<b>Taxable Income</b>	Contributions & earnings, at time of distribution	No, if a qualified distribution*	Earnings only, at time of distribution	No, if a qualified distribution*
<b>Lump Sum Contributions</b>	No, through payroll deduction only	No, through payroll deduction only	Yes	Yes
<b>Partial Withdrawals</b>	Restrictions apply if less than age 59-1/2	Yes, but earnings taxed if not qualified	Yes, but earnings taxed if not rolled into Rollover IRA	Can withdraw contributions at any time, earnings taxed if not qualified
<b>Required Distributions</b>	Later of age 70-1/2 or retirement	Later of age 70-1/2 or retirement, unless rolled into a Roth IRA	Later of age 70-1/2 or retirement	None
<b>Eligible for SIP Loan</b>	Yes	Yes	Yes	Not applicable
<b>Contributions Reduce Current Income &amp; Taxes</b>	Yes	No	No	No

\*Distribution is "qualified" if account is at least 5 years old **AND** distributed after reaching age 59-1/2, death or disability.

#### ***Who May Benefit From Roth 401(k)***

- \* Employees (generally younger) who may be in their lowest tax bracket years, assuming they will be in a higher tax bracket when they reach retirement age.
- \* Employees who believe their retirement savings will be taxed, when distributed, at a rate higher than their current income.
- \* Families who can significantly lower current taxable income through itemized deductions, tax credits for child care or earned income tax credit.

- \* Employees whose wages make them ineligible for a Roth IRA but may want the option of leaving tax-free money to their heirs.
- \* Employees who are saving for a child's education in a Section 529 plan. This is especially true if they are not currently contributing the maximum to their retirement plan and if the investment options in the Section 529 plan have higher expense ratios than those in the retirement plan. Employees should consider what their age will be when the money will be needed for college (age 59-1/2, for example) and whether the plan allows loans from the Roth 401(k).

#### ***Qualified Roth 401(k) Distributions***

If the distribution is made after age 59-1/2, upon death or disability **AND** the 5-year participation requirement has been satisfied, the contributions and earnings would be distributed tax-free.

The 5-year participation requirement means that the Roth 401(k) account must have been originally funded at least 5 years prior to the distribution, although contributions do not have to be made in each of those years.

*NOTE: Death is not an exception to the 5-year participation requirement. A beneficiary needs to wait until the end of the 5-year participation period before a distribution would be considered "qualified".*

### ***Non-Qualified Roth 401(k) Distributions***

In a Roth IRA, contributions may be withdrawn at any time without also withdrawing the earnings. This is not true for Roth 401(k) withdrawals.

Distributions that are not "qualified" will be withdrawn proportionally from contributions and earnings, with the earnings subject to federal tax and a 10% early withdrawal penalty tax.

Exceptions to the 10% penalty are distributions:

- \* following termination of employment after reaching age 55
- \* after termination of employment and payable in substantially equal installments over your life expectancy
- \* used for payment of medical expenses, if deducted on your 1040 tax return.

### ***What is an IRA?***

There are several types of Individual Retirement Accounts (IRA), which are available through financial institutions. Such accounts allow earnings to compound over time on either a tax-deferred or tax-free basis.

**Traditional Deductible IRA**—available to an individual (and /or spouse) who is either not covered by a qualified retirement plan or has an adjusted gross income (AGI) below a certain level (depends upon filing status). Maximum deductible contribution for 2006 is \$4,000. Contributions & earnings are tax-deferred until withdrawn.

**Rollover IRA**—accepts money transferred from a qualified retirement or 401(k) plan and retains its tax-deferred status until funds are withdrawn. There is no maximum amount.

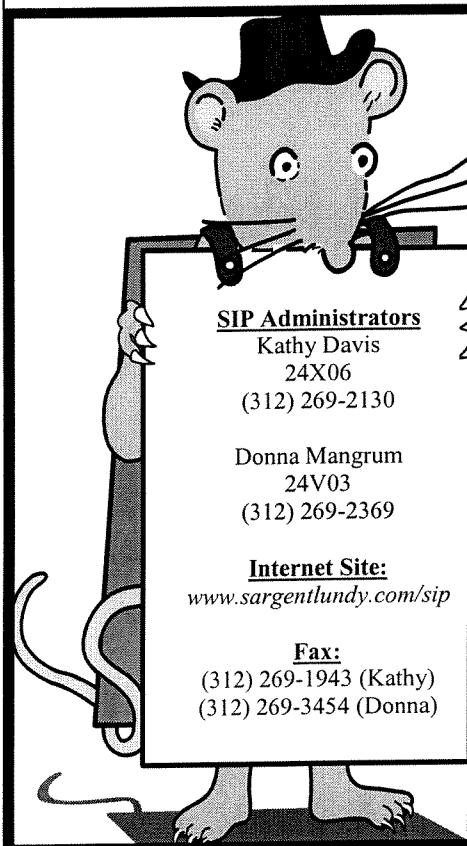
**Roth IRA**—an after-tax account available to any individual with taxable wages below a certain level (depends upon filing status). Contributions are not tax deductible. The maximum contribution for 2006 is \$4,000 (or \$5,000 if age 50 or over). Contributions & earnings are tax-free when withdrawn, if qualified.

### ***Payroll Deadline***

Starting Wednesday, March 29, you may elect Roth 401(k) deductions at any time. The deadline is Tuesday, April 11 for the April 25 paycheck.

### ***Other Considerations***

- \* Employees will not be able to elect Roth 401(k) contributions using wireless technology (notebooks or Blackberries).
- \* Employees with a Roth 401(k) account will not be able to model a withdrawal on-line. Withdrawals should be requested through a Fidelity phone representative.



### ***Roth IRA Contributions***

Roth 401(k) contributions do not affect your ability to make Roth IRA contributions. However, there is an income limitation that restricts eligibility for a Roth IRA (see chart).

### ***Roth IRA Rollovers***

Upon termination of employment, you may roll over your Roth 401(k) account into a Roth IRA. But you may **not** roll an existing Roth IRA into your SIP Roth 401(k) account, into a regular IRA or any other employer's qualified plan.

You may not convert any portion of an existing 401(k) account into a Roth 401(k).