Considerations for Plan Sponsors.

ADDING ROTH ACCOUNTS TO YOUR PLAN.

T. Rowe Price Retirement Plan Services, Inc.
T. Rowe Price has been supporting Roth accounts for our clients since 2006.

Roth accounts combine many of the tax benefits of Roth IRAs within the structure of a qualified salary deferral plan. Employees may contribute to Roth accounts with after-tax dollars and then withdraw those Roth contributions, along with any earnings on those contributions, tax-free in retirement when taking a qualified distribution.¹

Today, 60% of plan sponsors have added Roth accounts to their plan, and 33% offer an in-plan Roth conversion feature.¹ Participant adoption rates continue to climb: 52% of plans that offer Roth accounts have adoption rates above 5%.¹

---

Adding Roth Accounts to Your Plan

FOR YOUR EMPLOYEES: A BIG-PICTURE VIEW OF THEIR RETIREMENT BENEFIT.

The strongest financial advantage of Roth accounts is their potential ability to provide more spendable income in retirement than before-tax accounts may provide. This is due to the fact that all potential earnings on Roth contributions compound tax-deferred and are not taxed when a participant takes a qualified distribution.*

Adding Roth accounts can increase the value of your plan by satisfying employees who want to make Roth contributions and appealing to prospective employees. Since Roth contributions offer extremely effective estate planning opportunities, many highly compensated employees (HCEs) may want to take full advantage of them.

An additional appeal for HCEs is that there are no income restrictions on Roth contributions or In-Plan Roth Rollovers (IPRR) within an employer-sponsored retirement plan as there are with Roth individual retirement accounts (Roth IRAs).

BEFORE-TAX ACCOUNTS AND ROTH ACCOUNTS

### Attributes for Before-Tax and Designated Roth Contributions:
- One combined IRS annual deferral limit**
- Tested together in the average deferral percentage (ADP) test
- Eligible for employer match
- Require separate recordkeeping accounts

### BEFORE-TAX ACCOUNTS

**Attributes:**
- Before-tax contributions
- Tax-deferred potential earnings
- Taxable withdrawals

**Advantages:**
- Lowers taxable income today
- May provide tax breaks for items that are phased out at higher income levels, including:
  - itemized deductions,
  - personalized exemptions, and
  - lifetime learning credits.

### DESIGNATED ROTH CONTRIBUTIONS

**Attributes:**
- After-tax contributions
- Tax-free potential earnings*
- Tax-free withdrawals*

**Advantages:**
- Increases spendable income in retirement
- Can be rolled into a Roth IRA, which does not require the owner to take minimum distributions at age 70½
- Assets can be preserved for heirs as an income tax-free legacy

### IN-PLAN ROTH ROLLOVERS

**Attributes:**
- All contribution types
- Taxable in calendar year of the rollover
- Tax-free withdrawals

**Advantages:**
- 10% tax on early distributions will not apply*
- The participant, a surviving spouse beneficiary, or alternate payee who is a spouse or former spouse can elect an In-Plan Roth Rollover (subject to plan rules)

---

*This only applies to qualified distributions. A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution and if you’ve reached age 59½, become totally disabled, or died. If your distribution is not qualified, any earnings on your Roth contributions will be taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans.

**Plan limits may be less than the IRS limit.

---

*This only applies to qualified distributions. A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution and if you’ve reached age 59½, become totally disabled, or died. If your distribution is not qualified, any earnings on your Roth contributions will be taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans.

**Plan limits may be less than the IRS limit.
EVALUATING YOUR PLAN POPULATION

In order to thoroughly understand the types of participants who may benefit from contributing to Roth accounts, our financial planners have evaluated the tax implications of both before-tax and Roth accounts. The table below illustrates basic profiles of investors who may benefit from each contribution type.

INVESTOR ANALYSIS OF TAX TREATMENTS

<table>
<thead>
<tr>
<th>BEFORE-TAX ACCOUNTS</th>
<th>DESIGNATED ROTH CONTRIBUTION ACCOUNTS</th>
<th>IN-PLAN ROTH ACCOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>May be beneficial if you’re:</strong></td>
<td><strong>May be beneficial if you’re:</strong></td>
<td><strong>May be beneficial if you’re:</strong></td>
</tr>
<tr>
<td>Age 50 or older and expect your tax rate in retirement to be significantly lower.</td>
<td>Younger than age 50 and willing to forgo a tax break today to maximize spendable income in retirement.</td>
<td>Younger than age 50 and willing to have more income on your current tax bill to maximize spendable income in retirement.</td>
</tr>
<tr>
<td>OR</td>
<td>OR</td>
<td>OR</td>
</tr>
<tr>
<td>At any age and are more interested in taking advantage of the tax break you get now by making before-tax contributions.</td>
<td>Age 50 or older and do not expect your tax rate to decrease significantly in retirement, and you are willing to forgo a tax break today to maximize spendable income in retirement.</td>
<td>Age 50 or older and do not expect your tax rate to decrease significantly in retirement, and you are willing to have more income on your current tax bill to maximize spendable income in retirement.</td>
</tr>
</tbody>
</table>

T. ROWE PRICE ROTH ACCOUNT SERVICES

Our recordkeeping systems support Roth accounts and many of the essential services that accompany them, including: Roth salary deferral elections, distributions, and participant and sponsor reporting.

CLIENT SERVICES

Our service and support teams are fully trained and prepared to respond to participant and sponsor questions. These services include: phone support teams, the Plan Account Line, and the participant website.

Participants electing to take advantage of an In-Plan Roth Rollover may do so through our enhanced Web experience: by visiting the participant website or by speaking with a participant service center representative. Participants have the ability to select all or a portion of eligible non-Roth amounts as designated by the plan rules. T. Rowe Price processes In-Plan Roth Rollover requests received from participants that are in good order by the close of the NYSE (generally, 4 p.m. ET); otherwise, In-Plan Roth Rollover requests post and become effective the next business day.

30-DAY SETUP PERIOD

Due to the level of complexity involved in implementing designated Roth contribution accounts, there is a 30-day setup period that begins the date we receive your completed plan design questionnaire (ask your representative for a copy of this document).

During the setup period, we will work through all the necessary changes with you, including researching the levels of complexity of all the different client input files in order to ensure proper system interface. In addition, we need this time to develop a communication plan, revise forms, and prepare other written materials.

For In-Plan Roth Rollover, implementation may take additional time, based on plan complexity.
Considerations for Plan Sponsors

Below are details to discuss with your T. Rowe Price representative when considering Roth accounts for your plan.

**PLAN DESIGN**

- Plan sponsors offering T. Rowe Price Automatic Enrollment will need to decide whether to automatically enroll employees into a before-tax or Roth account.
- Plan sponsors offering T. Rowe Price Automatic Increase will need to determine which contribution type should be utilized as a plan-level default.
- Plan sponsors will need to combine Roth and before-tax contributions to determine any employer match. The employer match is considered before tax even if made on Roth contributions.
- Plan documents and summary plan descriptions will need to be updated and amended. There are many plan design features to be considered when adding Roth contributions or IPRRs, such as loans, hardships, in-service withdrawals, and withdrawal hierarchies. A plan sponsor should anticipate that the plan amendment will not be a single provision allowing Roth contributions and/or IPRRs—but, in fact, will necessitate many plan design and language changes. Sponsors can add Roth contributions and/or IPRRs to their plan during any year as long as the plan document is amended by year-end.

**DISTRIBUTION**

- Plan sponsors will be required to create a distribution hierarchy for excess contributions. Plan sponsors do not have to give HCEs the choice of where excess contributions are distributed from (before-tax or Roth contributions). The regulations specify that only income on a Roth contribution that is distributed as an excess contribution is subject to income tax.
- Plan sponsors may create a distribution hierarchy for partial distributions. For plans that permit participants to take partial distributions, adding Roth contributions could significantly affect plan design and operation. At distribution, participants who do not take a lump sum may need to decide how and when their monies should be withdrawn from Roth accounts versus the remainder of their accounts.
- Some plans provide that partial distributions are made pro rata across existing contribution types. You might want to consider the possibility of establishing a distribution hierarchy that dictates the order of withdrawal of funds. This would help to eliminate the need for participants to make these potentially confusing decisions and ease the administrative burden associated with distribution processing. On the other hand, you may have participants who are doing very specific tax planning and may desire to specify their distribution source.
- Plan sponsors may exclude Roth accounts when distributing loan proceeds. The Roth regulations prohibit a loan default (and deemed distribution) from being considered a nontaxable qualified distribution; plan sponsors may want to exclude Roth accounts from plan loans. Even if the Roth account is excluded, the value of the Roth account can still be included in determining the maximum loan amount. In addition, if the Roth account is excluded, it should be clearly communicated to all participants because loans are generally limited to 50% of the vested account balance.

---

* This only applies to qualified distributions. A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution and if you’ve reached age 59½, become totally disabled, or died. If your distribution is not qualified, any earnings on your Roth contributions will be taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans.
Considerations for Plan Sponsors (continued)

QUALIFIED PLAN ROLLOVERS

The compliance requirements for Roth rollovers are, by far, the most complex requirements in the Roth regulations.

According to the IRS:

- Rollovers from a Roth IRA are not permitted.
- Direct rollovers are permitted from another 401(k) or 403(b) plan and only earnings may be rolled over indirectly. A Roth IRA can only be rolled over to another IRA. The recipient plan must allow for participants to make Roth contributions in order to accept Roth account rollovers.
- Plans must rely upon the information provided by the prior recordkeeper or the prior plan sponsor to properly manage direct rollovers of Roth accounts.
- In the case of an indirect rollover, a plan must rely on information furnished by the participant. The plan’s recordkeeper must report the amount of the indirect rollover to the IRS.
- Plan sponsors are not required to accept Roth account rollovers. Plan sponsors should take comfort in the fact that a participant is usually better off rolling his or her Roth distribution into a Roth IRA than into a new employer’s plan. A Roth IRA is not subject to required minimum distributions. Also, a Roth IRA owner may first take distributions from the nontaxable (basis) portion of the Roth IRA before tapping into earnings (which may be taxable).

- Catch-up contributions by participants 50 and older can also be made to Roth accounts. T. Rowe Price is able to accept Roth catch-up contributions whether you use the “spillover” method or the separate election or “flagged” method. However, you must employ the same method currently used with your before-tax contributions.
- IRS regulations define match as a rate of elective deferrals and include both before tax and Roth contributions in the definition of elective deferrals. The matching contribution calculation will need to take into account the aggregation of both the regular deferral and Roth contribution sources.

IN-PLAN ROTH ROLLOVERS

- Additional In-Plan Roth Rollover accounts will need to be established in the plan, which will have a ripple effect on plan design and administration. Creation of increased sources or source combinations may complicate reporting and participant communication. Depending on the plan complexity and/or future merger activity, plan sponsors may wish to limit the non-Roth accounts available for In-Plan Roth Rollovers.

During the setup, we will work with you to create additional sources, taking into consideration any limits imposed by the recordkeeping system. We will also work with you to update distribution hierarchies to ensure the protection of existing distribution options and to maintain any distribution restrictions.

PAYROLL

- Payroll will need to establish other deductions and must be able to monitor the 402(g) limit on the combination of both before-tax and Roth deductions. There is no requirement that a participant make only Roth contributions; a participant can make both types of contributions as long as the combined total does not exceed the 402(g) limit. Contributions must also be combined for ADP testing as well as the annual addition limits.
Due to the increased complexity Roth accounts bring to plan design and administration, T. Rowe Price offers the following list of best practices that plan sponsors can use to provide us with recordkeeping direction.

<table>
<thead>
<tr>
<th>PLAN FEATURES</th>
<th>T. ROWE PRICE BEST PRACTICE CONSIDERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
<td>All participants will be eligible to make Roth contributions to the extent that they can make regular before-tax contributions. All participants will be eligible to make In-Plan Roth Rollovers.</td>
</tr>
<tr>
<td>Deferral Limit</td>
<td>Same as regular before tax with an aggregate limit (for example, 1% to 25% regular before tax, 1% to 25% Roth contribution, combined limit 25%).</td>
</tr>
<tr>
<td>Catch-Up Contributions</td>
<td>If the plan has catch-up contributions today, it would have Roth catch-up contributions. The catch-up contributions would be elected as they are currently set up for plans (designated/flagged method or spillover method).</td>
</tr>
<tr>
<td>Match Contributions</td>
<td>Roth contributions and regular before-tax contributions would be aggregated for purposes of the match contribution.</td>
</tr>
<tr>
<td>Rollover Contributions</td>
<td>T. Rowe Price will accept direct rollovers into the plan at this time. However, indirect rollovers of Roth contributions, rollovers from partially vested sources or outstanding loan balances are not allowed.</td>
</tr>
<tr>
<td>Total Distributions</td>
<td>Participants with Roth contributions must be permitted to roll over Roth contributions to another qualified plan (if permitted by accepting plan) or to a Roth IRA.</td>
</tr>
<tr>
<td>In-Service Distribution at Age 59½</td>
<td>If the plan allows age 59½ withdrawals, generally, the withdrawal will be prorated across all available sources. Withdrawals from the Roth sources will be prorated across contributions and earnings in the Roth sources.</td>
</tr>
<tr>
<td>In-Service Distribution Upon Disability</td>
<td>If the plan allows participants to take an in-service distribution upon disability, the withdrawal will be prorated across all available sources—unless the plan sponsor requests a hierarchy for withdrawals. Withdrawals from the Roth sources will be prorated across contributions and earnings in the Roth sources.</td>
</tr>
<tr>
<td>Hardship Withdrawals</td>
<td>If the plan allows hardship withdrawals, do not include the Roth as an available source. (Hardship withdrawals from Roth sources are not considered a qualified distribution for tax purposes.)</td>
</tr>
<tr>
<td>Loan Withdrawals</td>
<td>Roth contributions will be included in the calculation of the available loan amount but not included in the withdrawal. (Upon loan default, Roth contributions will never be considered qualified distributions for tax purposes.) Participants should be aware that WHAT they can borrow could be impacted by the amount rolled over to the In-Plan Roth Rollover account.</td>
</tr>
<tr>
<td>Corrective Distributions</td>
<td>Corrective distributions will be taken pro rata across before-tax and Roth contributions. To the extent the amount rolled over as an In-Plan Roth Rollover is determined to be an excess amount, the excess amount (plus earnings) must be distributed from the In-Plan Roth Rollover sources that holds the rolled over funds.</td>
</tr>
<tr>
<td>Automatic Enrollment</td>
<td>Automatic enrollment will default to regular before-tax contributions.</td>
</tr>
<tr>
<td>Fees</td>
<td>Extracted fees will be taken pro rata across all sources (including Roth).</td>
</tr>
<tr>
<td>Required Minimum Distributions (RMDs)</td>
<td>RMDs will be taken pro rata across all sources (including Roth).</td>
</tr>
<tr>
<td>Mandatory Distributions</td>
<td>Roth contributions will be included in the account balance when processing mandatory distributions. The portion of mandatory IRA rollovers attributable to Roth contributions will be made to Roth IRAs.</td>
</tr>
<tr>
<td>Investment Allocation</td>
<td>The plan will maintain current rules for investment allocations (all sources versus by source mix).</td>
</tr>
</tbody>
</table>
T. ROWE PRICE RETIREMENT PLAN SERVICES, INC.

Please contact your T. Rowe Price representative if you have questions.

This material has been prepared by T. Rowe Price Retirement Plan Services, Inc., for general and educational purposes only. This material does not provide fiduciary recommendations concerning investments or investment management. T. Rowe Price Retirement Plan Services, Inc., its affiliates, and its associates do not provide legal or tax advice. Any tax-related discussion contained in this material including any attachments/links, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein. Please consult your independent legal counsel and/or professional tax advisor regarding any legal or tax issues raised in this material.