

## Comparison Chart: Pre-tax Deferral, Roth Deferral

**Caution:** Please note that some of the items included on this grid are the result of Lincoln's interpretation of applicable statutes, regulations and other government guidance and others may reasonably have a different interpretation of that material. In addition, this area of the law has been and continues to be subject to significant change. Where the situation warrants, you should always ensure that the information on this grid is still current.

Question	<u>Pre-tax Deferral Account</u>	<u>Roth Deferral Account</u>		
<b>Who is eligible to establish account?</b>	401(k) – Any employee who is not part of an excluded classification and who satisfies the age & services requirements and elects to defer income.	Plan must permit Roth feature. Roth feature is <u>not</u> available in 457(b), traditional profit sharing or money purchase plan. 401(k) – Any employee who is not part of an excluded classification and who satisfies the age & services requirements and elects to defer income.		
<b>Who may benefit from contribution?</b>	<ul style="list-style-type: none"> <li>· Employees who expect to be in a lower tax bracket at retirement</li> <li>· Employees who want to avoid current taxation on deferrals and earnings</li> </ul>	<ul style="list-style-type: none"> <li>· Younger employees in lower tax brackets with long time horizon until retirement</li> <li>· Employees (single filers w/\$95,000+ income or married/joint filers w/\$150,000+ income) who are unable to contribute to Roth IRAs due to income constraints</li> <li>· Employees who expect tax rates to increase by their retirement</li> <li>· Employees interested in estate planning opportunities</li> </ul>		
<b>How much may be contributed?</b>	Contributions are made on a pre-tax basis.  Lesser of dollar limit stated below or 100% of compensation (subject to ADP testing – 401(k) plans only). Pre-tax deferral and Roth deferral combined may not exceed this limit.	Contributions are made on an after-tax basis.  Lesser of dollar limit stated below or 100% of compensation (subject to ADP testing – 401(k) plans only). Pre-tax deferral and Roth deferral combined may not exceed this limit.  Roth deferrals become available plan years beginning January 1, 2006.		
	<b><u>Tax Year</u></b>	<b><u>Deferral Limit</u></b>	<b><u>Tax Year</u></b>	<b><u>Deferral Limit</u></b>
	2005	\$14,000	2005	Not permitted
	2006	\$15,000	2006	\$15,000
	2007-2008	\$15,500	2007-2008	\$15,500
	Then, indexed each year for inflation in \$500 increments.		Then, indexed each year for inflation in \$500 increments.	
<b>Are age 50 catch-up contributions permitted?</b>	Available to participant who attains age 50 by the end of the taxable year.  Lesser of dollar limit stated below or compensation reduced by other elective deferrals. Pre-tax catch-up deferral and Roth catch-up deferral combined may not exceed this limit.	Available to participant who attains age 50 by the end of the taxable year.  Lesser of dollar limit stated below or compensation reduced by other elective deferrals. Pre-tax catch-up deferral and Roth catch-up deferral combined may not exceed this limit.  Roth deferrals become available plan years beginning January 1, 2006.		
	<b><u>Tax Year</u></b>	<b><u>Catch-up Amount</u></b>	<b><u>Tax Year</u></b>	<b><u>Catch-up Amount</u></b>
	2005	\$4,000	2005	Not permitted
	2006 – 2008	\$5,000	2006 - 2008	\$5,000
<b>What income restrictions apply?</b>	None. Participant may contribute regardless of income level.	None. Participant may contribute regardless of income level.		
<b>How is payroll &amp; withholding handled?</b>	Pre-tax deferrals are <u>not</u> subject to federal income tax withholding. However, FICA/Medicare withholding is based on Social Security wages which includes pre-tax deferrals. Note: Pre-tax deferrals are <b>not</b> subject to state withholding with few exceptions.	Roth deferrals are subject to federal income tax withholding. FICA/Medicare withholding is based on Social Security wages which includes Roth deferrals. Note: Roth deferrals are typically subject to state withholding.		
<b>What are distributable events?</b>	<ul style="list-style-type: none"> <li>• Death</li> <li>• Disability</li> <li>• Severance from Employment</li> <li>• Retirement</li> <li>• Plan termination (401(k) only)</li> </ul> Subject to the terms of plan document.	<ul style="list-style-type: none"> <li>• Death</li> <li>• Disability</li> <li>• Severance from Employment</li> <li>• Retirement</li> <li>• Plan termination (401(k) only)</li> </ul> Subject to the terms of plan document.		

Question	Pre-tax Deferral Account	Roth Deferral Account
<b>What is a “qualified distribution”?</b>	N/A. The term “qualified distribution” is used in context of Roth account only.	Two requirements must be met so distribution can be qualified: <ul style="list-style-type: none"> <li>• Roth Account has been in place for five taxable years (from date of first contribution)</li> <li>• One of the following events has occurred: <ul style="list-style-type: none"> <li>• Attainment of age 59 ½</li> <li>• Disability</li> <li>• Death</li> </ul> </li> </ul>
<b>What tax rules apply at distribution?</b>	Following a distributable event, the entire pre-tax account – deferrals and earnings are subject to federal and state taxation.	Taxation of earnings is determined based on whether distribution is “ <b>qualified</b> ” or “ <b>non-qualified</b> ”. Note: Roth deferrals are never subject to taxation upon distribution. <p><b>Qualified distribution</b> – Both Roth deferrals and earnings are tax-free.</p> <p><b>Non-qualified distribution</b> – Earnings are subject to federal and state taxation.</p>
<b>Does the premature 10% distribution penalty apply?</b>	The premature 10% distribution penalty <u>may</u> apply to entire distribution taken prior to age 59 ½. Exceptions apply such as – age 55 and severance from employment, death, disability, substantially equal periodic payments, QDRO payment to alternate payee, IRS levy, and deductible medical expenses.	The premature 10% distribution penalty (on Roth earnings only) <u>may</u> apply to non-qualified distributions taken prior to age 59 ½. Exceptions apply such as – age 55 and severance from employment, death, disability, substantially equal periodic payments, QDRO payment to alternate payee, IRS levy and deductible medical expense.
<b>What are the mandatory income tax withholding requirements?</b>	Payor is required to withhold 20% (on taxable amount – entire withdrawal) for income tax on distribution that is eligible for direct rollover but not directly rolled over. Mandatory state tax withholding may also apply.	Payor is required to withhold 20% (on taxable portion of account only) for income tax on distribution that is eligible for direct rollover but not directly rolled over. <p><b>Qualified distribution</b> – no mandatory withholding</p> <p><b>Non-qualified distribution</b> – mandatory withholding on earnings would apply. Mandatory state tax withholding may also apply.</p>
<b>How are distributions reported?</b>	Form 1099-R	Form 1099-R
<b>What direct rollover opportunities exist?</b>	Participant may roll over* to another eligible retirement plan – 401(k)/401(a), 403(b), 457(b) governmental if receiving plan permits or to a traditional IRA. Amounts distributed and rolled over within 60 days are not subject to premature 10% distribution penalty. <p>* Participant must have distributable event in order for rollover to occur. RMDs, hardship distributions and payments spread over 10 years or more are not eligible for rollover.</p>	Participant may roll over* to another eligible retirement plan – 401(k)/401(a) or 403(b) if receiving plan permits rollover of Roth Account or to a Roth IRA. Rollover of a Roth Account to a 457(b) plan is <b>not</b> permitted. Amounts distributed and rolled over within 60 days are not subject to premature 10% distribution penalty. <p>* Participant must have distributable event in order for rollover to occur. RMDs, hardship distributions and payments spread over 10 years or more are not eligible for rollover.</p>

The information included in this chart is presented solely for the purpose of educating the user about pre-tax and Roth deferral feature in employer-sponsored plans and Roth IRAs. The Roth deferral information is based on Proposed Rules published by the IRS on March 2, 2005. The Lincoln National Life Insurance Company (“Lincoln”) makes no representation that any or all of the material is appropriate or applicable to all employers or participants. Those who choose to use this information do so on their own initiative and are responsible for compliance with all laws, if and to the extent such laws are applicable. Lincoln strongly encourages you to consult your legal or tax advisors for additional information.

For further information regarding Roth IRAs, please consult Publication 590 – Individual Retirement Arrangements (IRAs). This publication is available at [www.irs.gov](http://www.irs.gov).

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