

Why your 401k should offer a Roth option

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Does your company's 401k plan only allow participants to make traditional/pre-tax contributions? Here are some reasons to consider a plan amendment to allow for Roth contributions in your plan:

1. As a **recruiting tool**: If you have a 401k as part of your benefits package in order to attract and retain valuable employees, then your 401k plan *needs* to offer a Roth option. Here's why: those key candidates who have a 401k plan at their current employer who does allow them to make Roth contributions will not be able to roll over their Roth balance into your plan. Instead, they'll need to open a Roth IRA for themselves in order to move their money out of that previous employer's plan. For some candidates, this may simply be a mild annoyance. For others, especially if your plan has a robust matching contribution, this could be a significant frustration. If you can remove roadblocks for attractive candidates, why not take that step?
2. For those who want to **build a non-taxable bucket**: There are many people, including those closer to retirement age, who would like to make Roth contributions or do an *in-plan Roth conversion** in order to be able to draw from a non-taxable account when they retire. This will enable them to put themselves into a lower tax bracket for the monies that will be taxed, it reduces their Medicare premiums (which are based on your taxable income), and helps them to plan more effectively for what they'll actually receive in retirement (if you have \$500k in a taxable account, how much will you *actually* receive? If you have \$500k in a Roth account, you know you'll receive \$500k!).
3. For the employees **earning more than \$122k/year**: You may have team members who earn more than what is allowed for Roth IRA contributions. With the Roth feature in your 401k plan, there are no income restrictions! This means that your team member who wishes they could do Roth savings for their retirement but cannot do it on their own would be able to make that happen inside the 401k plan – and with much higher contribution limits to boot!
4. For the **younger employees**: This is the most obvious reason to offer a Roth feature – for the benefit of those employees who have decades until retirement to take advantage of the tax-free investment growth. Anyone in their 20s or 30s who can contribute to their plan using a Roth feature will have a significant advantage at the end of the rainbow! Plus, your younger team members may also be at the beginning of their careers, at the lower end of their earning capabilities, and therefore in a lower tax bracket than they'll be in later in their working life. Why not give them the opportunity to pay the lower tax on those contributions going in?

Once upon a time, Roth options were thought to only be for the benefit of those who had many years until retirement, but it's become clear that the Roth feature is valuable across the generations! Make sure your plan offers all the features your team would want to use to give them the retirement outcomes they're working hard to achieve. Talk to your 401k advisor to discuss these potentially outcome-changing benefits of the Roth feature. And, if you do a plan amendment to add the Roth feature, make sure your 401k advisor comes out to educate your team on how the Roth feature works – there can be confusion as to the difference between a Roth IRA and the Roth option in your 401k plan. A great education campaign may be exactly what you need!

*An in-plan Roth conversion is a method of converting traditional/taxable monies into Roth/non-taxable monies inside your 401k plan. Though you are accountable for the taxes in the year you do the conversion, there is flexibility in that you can convert small amounts every year rather than doing it all at once. Note that this is a separate detail in the Roth feature, talk to your TPA to ensure that this is also allowed in your plan, along with regular Roth payroll contributions.

Angela D. Mansfield, AIF® is an advisor with nearly 15 years of experience in the 401k field, both on the recordkeeper and advisor sides of the business. Angela provides education to participants, HR Directors, and business owners to help them articulate their priorities and ensure they are getting the most out of their 401k plan. She believes that everyone can utilize their 401k plan to have the future they dream about for themselves. Please see her bio on www.pensionmark.com for more information.