More Firms Roll Out Roths

By KELLY GREENE

Many employers are planning to add a Roth 401(k) option to their offerings of corporate benefits in the next 12 months, a new survey suggests, making it easier for workers to save money that can be withdrawn tax-free in retirement.

A provision in the tax law enacted in early January gives workers a chance to stockpile more tax-free earnings—but only if their employers' 401(k) plans include a Roth option, along with the ability to move assets workers already have saved in tax-deferred 401(k) accounts.

Aon AON +0.29% Hewitt conducted a survey to determine the prevalence of Roth accounts and employers' likely actions in the next year. Overall, the survey concluded that many employer-sponsored retirement plans are expected to add Roth features, along with the ability for workers to convert the savings they already have.

"It's exciting, because the new law is going to open up these options," says Patti Balthazor Björk, Aon Hewitt's director of retirement research.

Roth 401(k)s were first added to employer plans in 2006 under a provision in the 2001 tax law. They were expanded in 2010 so that workers investing through defined-contribution plans such as 401(k)s could roll pretax savings and employer contributions into Roth accounts within their plans.

The attraction: While workers converting tax-deferred savings would have to count the assets converted as ordinary income, and pay an upfront tax bill, future earnings and retirement withdrawals generally would be tax-free. And even though Roth 401(k)s generally require mandatory retirement distributions starting at age 70½, retirees could roll the assets into Roth individual retirement accounts to avoid them.

The Aon survey found that while almost half (49%) of the plans surveyed don't offer any Roth provisions, 29% of those are very or somewhat likely to add the Roth option in the next 12 months. And of those new adopters, 76% plan to add both the ability for workers to make contributions to a Roth 401(k) account and move assets they already have saved in tax-deferred accounts into Roth accounts.

The survey, which included more than 300 large employer plans in January, also found that 52% of the employers who already have a Roth contribution option but don't offer in-plan conversions are very or somewhat likely to do so in the next 12 months.

Under the old rules, assets that could be moved to a Roth account were limited to amounts that workers were allowed to withdraw—typically when they left their job, retired or reached age 59½. Now, under the new law, workers of any age or employment status can move pretax savings to a Roth account within their employer's plan—as long as the plan allows it.

Financial planners already are advising clients on how to best handle the tax problem such conversions could cause. If you are worried about the size of the tax bill involved, or about potentially bumping yourself into a higher bracket, you could convert smaller amounts for a number of years, says Jeffrey Cutter, a certified public accountant in Mansfield, Mass.

Also, keep in mind that Roth 401(k) conversions can't be unwound, or "recharacterized," if the assets fall in value or the account owner no longer can pay the tax bill, says Jeffrey Levine, a certified public accountant at Ed Slott & Co. in Rockville Centre, N.Y.

In contrast, retirement savers who convert traditional IRAs to Roth IRAs can undo the move, as long as they do so by Oct. 15 of the year following the year in which they converted the assets, he says.

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