SUPERSIZE WITH ROTHS

If your employer's 401(k) or 403(b) plan permits employees to contribute "after-tax" to a "Roth" account, you should seriously consider contributing part or all of your "elective deferrals" to your Roth account. Here's why:

- **Your Roth contributions and all earnings accumulated in your Roth account grow 100% tax-free to you.** Earnings on your "regular" 401(k) pre-tax funding will be taxed to you at whatever tax bracket you are in when you draw out 401(k) funds. So the Roth investment earnings compound tax-free whereas the regular 401(k) earnings are deferred from income tax until you take 401(k) plan distributions;

- If you contribute to your 401(k) or 403(b) plan on a pre-tax basis, are you going to save and invest your annual tax savings for retirement, or instead spend it each and every year? If you contribute $5,000 pre-tax to your employer's 401(k) plan, and you are in the 15% Federal tax bracket, will you save and invest the $750 in annual tax savings? **Most people will spend their tax savings every year, and later be taxed on their regular 401(k) plan distributions. A Roth 401(k) provides discipline needed to accumulate tax-free funds for your retirement; and**

- **Distributions from a regular 401(k) plan often dramatically increase the taxes on retirees' social security benefits - not so with Roth distributions.**

<u>WHO IS THE BEST MATCH FOR A ROTH?</u>

- A person in the 15% or lower bracket (the majority of US taxpayers) does not save substantial taxes each year from pre-tax funding of regular 401(k) accounts. **Funding a Roth 401(k) is almost always the best choice for taxpayers in lower tax brackets;**

- **Pastors/ministers** who have "opted out" of the social security system are often excellent Roth candidates;

- **Younger employees with 20-30 years until retirement** are also excellent candidates for the compounding of totally tax-free earnings in a Roth; and

- **Employees who envision they will fund their personal retirement years based on income from social security and their 401(k) plan distributions are excellent Roth candidates.** As previously stated, Roth distributions do not create taxes on social security benefits, as regular 401(k) and IRA distributions do. The receipt of non-taxable Roth distributions plus non-taxable social security benefits may enable a person to retire with a reasonable tax-free cash flow.

EMPLOYER PLAN ADMINISTRATION

Every employer can include a Roth provision in their 401(k) or 403(b) plan document (not available for SIMPLE-IRA plans). However, the Roth provision require separate plan accounting for the Roth funds and the regular pre-tax plan contributions. Employer "matches" can not be added to the Roth funds. **Separate accounting for regular and Roth contributions, as well as allocating investment earnings on these separate accounts, adds to the complexity and the cost of plan administration.**

IN CONCLUSION

We are big fans of Roth funding for the majority of taxpayers. Consistent and regular payroll-deduction funding of a Roth investment will accumulate to a sizeable account balance after several years. Your tax-free Roth 401(k)/403(b) distributions coupled with minimally taxed social security benefits can provide millions of Americans with a comfortable cash flow in retirement years.

AccuPay can recommend local retirement plan consultants/administrators who can assist employers with Roth provisions in 401(k) and 403(b) plans. Call an AccuPay CPP/CPA services team at 885-7600 for local experts we recommend to clients.