TAKEAWAY

It's Time for the Roth Discussion

BY ELLIE LOWDER

> 16.9% of younger participants (those under age 30, according to the study) now choose to contribute to the Roth option.

Have your employer clients added a 403(b) Roth option? If not, you should suggest the addition of that option, highlighting the relative simplicity of doing so.

A recent report from Wells Fargo based upon an analysis of 2 million eligible retirement plan participants provides strong motivation for financial advisors to discuss the need for a Roth 403(b) option to offer employees. Advisors can point out that 16.9% of younger participants (those under age 30, according to the study) now choose to contribute to the Roth option, up from 15.2% last year. Across all age groups, 10% of participants chose the Roth option.

Have your employer clients added the 403(b) Roth option? If not, advisors should suggest the addition of that option, pointing out the relative simplicity of doing so. An advisor should first discuss the Roth 403(b) option with their product provider to determine their processes and procedures – *and* become familiar with the tools the provider makes available for the advisor's use.

Then the employer should take the following actions:

- The employer should add the option to the plan document. Generally, that simply means amending the adoption agreement and checking the plan document language to make sure Roth language is in the document.
- The employer should review all Service Provider Agreements to be sure the providers have agreed to segregate the Roth contributions and properly report them for tax purposes.
- The employer will want to use a salary reduction agreement on which both pre-tax contributions and after-tax Roth contributions are permitted (the advisor's product provider may be able to supply the agreement).
- The employer will need to communicate the addition of the option to employees, and be sure to make the Roth option available to all eligible employees as required under the universal availability requirements.
- Finally, the payroll or HR department will need to be alerted to the fact that contributions to the Roth are after-tax contributions to be treated just as they currently treat deductions to such things as a credit union or union dues where federal and (if applicable) state taxes are withheld. The limit for elective deferrals ($17,500 in 2013, plus applicable catch-ups) applies to both pre-tax and Roth contributions. The financial advisor should offer to meet with payroll personnel to help them understand the Roth option.

Advisors should assure the employer of their assistance every step of the way, and should also assure the employer that they will provide comparative information (pre-tax versus after-tax contributions to the Roth) to each and every employee. Employers are often concerned about this aspect of the addition of the Roth option, asking: "Who will help our employees understand which option may be better for them?"

Reaping the Rewards

There should be increased production for the advisor since studies reveal that some employees will be more motivated to participate in the 403(b) plan with that option. Interested employees will include:

- Younger lower-income employees, who are more motivated by the concept of tax-free distributions than they are by current income tax deferral.
- Employees who have already accumulated substantial amounts in pre-tax savings where distributions are taxable and now wish to balance their retirement savings with tax-free distributions.
- Employees who believe that income taxes will increase in the future.
- Employees who have not been eligible for the Roth IRA because of the AGI limitation. There is no such limitation for the Roth 403(b) option.

And of course, employers will benefit with increase participation and satisfaction with their 403(b) plan! b

Ellie Lowder, TGPC, writes frequently for 403(b) Advisor. She is is a consultant with TSA Training and Consulting Services in Tucson, AZ.