THE MODERN 401(k) PLAN

It is not very often, especially when planning for retirement, when you get to have your cake and eat it too. Does the idea of tax free retirement money appeal to your clients? Does the idea of current tax deductions also appeal to your clients? There is a plan design where you can have BOTH! We are talking about the Roth 401(k) Plan. It is a relatively new concept starting to catch on with larger employers but it can definitely be as beneficial to small business owners.

The decline in the number of corporate pension plans and the uncertainty of social security benefits has many small business owners looking for ways to secure their future and that of their employees in a cost-effective manner but at the same time, retain needed tax deductions.

How does a Roth 401(k) Plan work and what makes it so attractive? The first and greatest advantage of a qualified employer retirement plan is that contributions made by the employer are a tax deduction for the business. That doesn't change with the Roth 401(k) plan so the employer still enjoys instant deductions on their allowable plan contributions that they make for themselves and their eligible employees. Whether a match or a non-elective contribution (like profit sharing), these contributions remain deductible. The added benefits of Roth are on the deferral side of the plan, where the owners and their employees can defer dollars from their own paycheck to the plan. Those dollars can go in as traditional deferrals where tax is not withheld (reducing taxes on current wages) or they can go in after income taxes are paid as Roth (after tax) deferrals. Traditional deferrals give you current tax savings but you pay tax on the entire withdrawal at retirement. With Roth deferrals, similar to Roth IRA contributions, you pay tax on the original dollars going into the plan but your withdrawals—including earnings—are TAX-FREE![1]

But wait, there's more! Roth contributions inside a 401(k) have a higher limit than Roth IRA contributions. The dollar limit to a Roth IRA is $5,500 ($6,500 if age 50 or older). The dollar limit for deferrals to a 401(k) plan (including Roth) is $18,000 ($24,000 if age 50 or older).

But wait, there's even more! Roth (401k) contributions are not troubled by the adjusted gross income limitations of the Roth IRA. They are subject to the same deferral ability rules as normal 401(k) plan contributions. This feature levels the playing field for everyone, even owners and key employees, who want to take advantage of the power of Roth contributions.

You should be talking to your clients, now, today, about their future and what their retirement looks like. You should be addressing their ever present questions of how to pay less tax now and less tax at retirement, not to mention solving the social security dilemma. Times are changing and the Modern 401(k) plan, with features like Roth deferrals, is one of our best tools for achieving a more comfortable retirement. Being able to offer our business owner clients the tax deductions of a qualified plan with the added power of Roth contributions make it a great time to be in this market…where you can actually have your cake and eat it, too!

[1] Generally, a distribution from a designated Roth account is not included in gross income if:

- The distribution is made after 5 years of plan participation and is either:
  - made on or after the date the participant attains age 59½
  - made after the participant's death, or
  - attributable to the participant being disabled.