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ASK THE BIZ BRAIN

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Q. How does one decide between contributions to a 401(k) versus a Roth 401(k), and what are the tax considerations?

-- HR

A. Great question. More companies are offering Roth 401(k) plans, but it's up to employees to decide which plan to choose.

A traditional 401(k) is an employer-sponsored retirement plan where employees elect payroll deductions to fund their retirement. Contributions lower your taxable income dollar-for-dollar, up to the max. Those contributions grow tax-free until withdrawal.

Now some employers have added Roth

401(k)s to the mix. Contributions to a Roth 401(k) do not lower your income in the year you make the contributions -- they're post-tax dollars -- but no tax is owed when you take out your money in retirement.

Both the traditional 401(k) and the Roth 401(k) are subject to the age 70½ Required Minimum Distribution rules, although Roth 401(k) distributions may be rolled into a Roth IRA to avoid the distribution rules, said Robert Bacino of Insight Financial Services in Flemington.

"Generally speaking, the choice between funding a 401(k) or a Roth 401(k) or both is based on similar considerations to funding a traditional IRA versus a Roth IRA," Bacino said.

You need to ask yourself the following: Is there a need to reduce current taxable income? What does the future tax picture for the employee look like in retirement? What other retirement resources does the individual have?

There is no one right way to allocate savings for retirement, Bacino said, and with the addition of a Roth 401(k) option there is more flexibility.

Generally, the Roth 401(k) has some distinct advantages to consider if you roll it to a Roth IRA after retirement, said Marnie [Aznar](#), a certified financial planner with [Aznar](#) Financial Advisors in Morris Plains.

"There are no Required Minimum Distributions like there are with a traditional pre-tax 401(k) plan, so if you do not need these funds to live on

they can be left to grow tax-free for your entire lifetime which can in turn become a wonderful estate planning vehicle," she said.

Also, if tax rates rise over time, you'll be protected from the future tax bite, she said.

"Unfortunately, the government is constantly playing with provisions in the tax code, so we do not know what kind of changes, if any, will be made to the Roth IRA vehicle," [Aznar](#) said. "I personally believe that if changes are made in the future, there would be some sort of grandfathering provision made to ensure that any contributions made up until the point of that change would remain tax-free."

E-mail your questions to askbiz@starledger.com.