

## Thinking about a Roth 401(k) now might just save a lot later

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The last thing you want to think about right now, with April 17 looming, might be your future tax bracket.

But paying a little attention now might save big later.

Here's what to think about: Roth 401(k)s. Here's why: Tax diversification.

David Kudla of Mainstay Capital Management in Grand Blanc is expecting interest in Roth 401(k)s to start gaining steam. Kudla independently advises General Motors and Delphi Corp. workers about their 401(k) balances and other investment issues.

He thinks more companies might soon be adding the Roth 401(k) option to their benefits packages.

And yes, he thinks that will include GM and Delphi. A GM spokesman said the company will roll out a Roth 401(k) option sometime this year. Delphi isn't saying.

If they do, there are a number of reasons for hourly or salaried workers to consider adding a Roth 401(k) to their array of retirement assets, Kudla says.

"It allows employees to what we call 'tax diversify' their income sources for retirement," Kudla said.

"What we mean by that is, employees have the flexibility to go into both types of accounts."

Tax diversification through a Roth vehicle - IRA or 401(k) - is important for a couple of reasons, Kudla said.

While a regular 401(k) saves on taxes now, a Roth 401(k) saves taxes later.

In a regular 401(k), an employee puts money in before taxes. That helps cut their taxes today, and the balance grows tax-free. But people pay later, when they start to withdraw that principal and any earnings, which are treated as income.

By contrast, a Roth vehicle, IRA or 401(k), is funded after taxes now. The principal and earnings grow tax free, and can be withdrawn tax-free in the future.

"Because we are not sure where tax rates will be when you retire, this gives you a way to hedge your risks," Kudla said.

For example, if income tax rates skyrocket, or you come across a financial windfall, you could wind up in a higher tax bracket in retirement.

In that scenario, having a tax-free pot of money to tap could be very welcome.

And even if you are in a lower tax bracket



**David Kudla**

in retirement, having a Roth 401(k) could give you more financial flexibility, compared to having all your retirement eggs in one taxable basket.

There's another reason to love Roth 401(k)s.

High income earners, salaried or hourly, pinched by the income limits on Roth IRAs can contribute to Roth 401(k)s.

Is there a problem? Yes. Kudla said there is no one-size-fits-all rule on whether a Roth 401(k) is for you.

"It's not a good idea to even try to give general advice on this," Kudla said. "It's just something that really comes down to the person's individual situation."

So, what to do?

Of course, Kudla says with a laugh, you should call Mainstay Capital Management, his company.

But the best thing to do, he said, is educate yourself now about Roth 401(k)s.

A flexible financial future might depend on it.