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Workers offered Roth 401(k)s

Retirement means tax-free withdrawals

By Kathy Chu
USA TODAY

General Motors, Delphi, Vanguard and A.G. Edwards are among the first major employers this year to begin rolling out Roth 401(k) plans, which let workers withdraw money tax-free in retirement.

Congress allowed employers to offer Roth 401(k) programs starting in January.

Companies so far are slow to adopt such plans, mostly out of fear of confusing employees with another retirement-savings option, says Michael Weddell of Watson Wyatt, a consulting firm.

But given GM's stature, its move could have a ripple effect. "Clearly, if any large, well-recognized firm offers a Roth 401(k), companies would take notice," says Robert Liberto of Segal Advisors.

In late 2005, 34% of 223 large employers surveyed said they were likely to add a Roth 401(k) feature to their retirement plan this year, according to Hewitt Associates. A much smaller percentage have actually done so, says Hewitt's Lori Lucas. For some employers, Lucas says, administrative costs are a concern, too.

Roth 401(k)s can be especially appealing to workers who expect to be in higher tax brackets in their golden years.

That's because their money — the contributions as well as the earnings — can be withdrawn tax-free after age 59 1/2.

But those who expect to be in lower tax

brackets might prefer to contribute to traditional tax-deferred 401(k)s, taking an upfront tax deduction and paying income taxes upon withdrawal.

GM and Delphi plan to roll out the Roth 401(k) to workers in July to fulfill the terms of a collective-bargaining agreement, says Paul Krell of the United Auto Workers union.

The Roth 401(k) will be available to about 141,000 U.S. workers at GM and to 37,000 at Delphi, the companies say.

The plan could be especially attractive to GM employees, some of whose pension benefits are shrinking. GM is among a growing number of employers shifting the burden of retirement funding to their employees by phasing out guaranteed retirement payouts.

GM spokesman Robert Herta says the Roth 401(k) offering is "not related" to GM's pension changes.

One challenge companies face is educating employees about why it's wise to invest in a Roth 401(k). A key reason is to diversify not only their investments but the tax treatment of those assets, says David Kudla of Mainstay Capital Management, which manages some auto industry workers' 401(k) plans.

Brokerage house A.G. Edwards is offering a Roth 401(k) to 15,500 U.S. workers; so far, 5.5% are participating. At Vanguard, 14% of 11,200 U.S. employees contribute to the Roth 401(k).