

week in review

OUTCOMES

Roth 401(k) can tax people's understanding

A new workplace retirement plan — the Roth 401(k)— is now available for employers to offer their workers. As with the regular 401(k), the Roth version invests a percentage of your paycheck in a retirement savings plan. But the Roth is funded with after-tax money. That means you don't save on taxes today, but you won't pay taxes when you withdraw the money in retirement.

Get it? Employers are concerned that you don't, which is just one reason that only 13 percent of companies surveyed recently by Hewitt Associates said they are very likely to add a Roth 401(k) in 2006. Other concerns: administrative complexity, vague guidelines, and concerns about lack of use by employees.

Susan Bjork, human resources director for Lancet Software in Burnsville, began the Roth 401(k) Feb. 1 for the firm's 26 employees.

Q In October, you still were on the fence about the Roth 401(k). Why did you say yes?

A It's basically allowing your employees the freedom to maximize their financial goals in every way possible. It's going to work better for some employees than it will for others.

If you're young and just starting, it's a good thing to do because you can have some funds going into the pretax option and some going into the Roth and it will give you a good balance [of taxable and tax-free assets] at retirement.

For older folks it takes a little more research. The bottom line is that offering the plan makes sense to us to give employees the option.

Q How many people have signed up?

A We just started Feb. 1, so they had to have information in for the Feb. 15 pay-

check. That's only one paycheck ago.

So far, one person has signed up. She is a younger employee, recently married, early in her career. Four other people sought me out to talk about it. In an office of 26 people, that means 20 percent of our workforce is showing some interest.

Q Were the other four interested in the Roth 401(k) in the same age group?

A Three or the four considering the plan are younger employees — 20s to mid-30s — early in their work years.

Q Did you expect more interest?

A I expected our employees to want to review their financial situations because we have a well-educated staff in tune to their financial states. I knew they were going to want to look into it. We're still so soon in the process; I imagine more people will sign up.

Q How did you educate your employees?

A I had financial representative come to a quarterly meeting to discuss the Roth 401(k) features and to answer questions. He also provided a calculator for our employees to use to determine what the difference would be in either regular 401(k) and Roth 401(k).

Q Was it hard to set up the Roth 401(k) for the company?

A I just had to initiate the plan-document changes and set it up with our payroll provider to make sure they were set up to take out the Roth 401(k) after tax and make sure that they're tying it into their annual maximum allowable contribution.

Q Have you signed up for the Roth 401(k) for yourself?

A I've been so busy I haven't taken the time. I've got to take care of my employees before I take care of myself. But I plan on taking advantage of the Roth 401(k).

KARA MCGUIRE



Susan Bjork, human resources director for Lancet Software.