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INTOUCH INDEPTH INVOLVED

GM, Delphi offer yet another choice to workers: Roth 401(k)

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If choices are good, General Motors and Delphi Corp. employees must be feeling just ducky right about now.

Already faced with huge financial and emotional questions on a slew of buyout deals and looming cuts, salaried and hourly workers still at the struggling automaker and bankrupt parts supplier soon will have another decision to make:

Whether to put money into a Roth 401(k).

But this one just might be a no-brainer.

As of July 1, both companies are poised to offer the new retirement account option to their employees, alongside a "regular" 401(k). (In GM and Delphi terms, the accounts are actually called SSPP Roth and PSP Roth plans.)

"It's probably something that won't be on a lot of people's front burner because of everything that is going on," said David Kudla, of Mainstay Capital Management in Grand Blanc.

"But as employees continue to plan for retirement (a Roth is a good option.)"

Kudla's firm, a fee-only independent financial adviser, helps manage more than $400 million in 401(k) accounts for GM, Delphi, Ford, Chrysler and Visteon Corp. employees, among others. Mainstay also helps with overall financial planning for its clients.

First, a quick primer:

Any 401(k), regular or Roth, essentially invests today's wages for tomorrow's retirement money.

But there is a big difference. With a "regular" 401(k), the worker gets the tax break when making contributions to the fund, but pays income taxes later when the money is pulled from the account.

In a Roth 401(k), the worker doesn't get a tax break today - but never pays income taxes on the money, or its earnings, down the road.

That's right. Ever.

The two plans largely parallel rules for Individual Retirement Accounts, which also come in the "regular" and "Roth" flavors, with some minor caveats, Kudla said.

But a Roth plan gives workers a critical edge for the future: tax diversification. That's because most workers don't really know what tax bracket they will be in during retirement, or even what the U.S. tax code will look like decades from now.

Having two pots of money from which to draw from in retirement - one taxed, one not - might just give those future retirees a critical financial advantage, Kudla said, no matter what tax bracket they land in.

QUICK TAKE

Roth rules, tools

A Roth 401(k) offers some significant advantages over a regular 401(k) or even a Roth IRA. Here are some:

- **No future taxes.** All money invested, and earned, in a Roth 401(k) will be tax-free when withdrawn in the future, under current rules.
- **Higher contribution limits**: Unlike a Roth IRA, workers can stash a lot more money in a Roth 401(k). And more workers are eligible for a Roth 401(k) than a Roth IRA.
- **Tax diversification:** After retirement, having two pots of money - one taxed, one not - can give a retiree critical financial flexibility.
- **Rollovers**: Currently, a Roth 401(k) can be rolled into a Roth IRA upon retirement, which loosens some withdrawal rules in place for Roth 401(k)s.
- **Running the clock:** Starting a Roth 401(k) today gets a five-year clock ticking. After five years, workers can pull money from a Roth account for various uses, without penalty, unlike a regular 401(k).
- **Buyer beware:** Like any investment, Roth 401(k)s also have their share of "gotchas." Study the rules carefully, or consult a pro, or both.
- **Go deep:** http://www.mainstaycapital.com/, offers a highly detailed, eight-page mailing covering almost every Roth 401(k) angle.

Request one at their Web site, or at (866) 444-6246.

Sources: http://www.mainstaycapital.com/, www.fool.com, Journal files

Kudla's firm offers a free primer on the Roth 401(k) at www.mainstaycapital.com, or (866) 444-6246. The Web site also contains a list of frequently asked questions about Roth 401(k)s.

"It's available to anyone, free of charge," Kudla said of the report. "It's applicable to any worker considering a Roth 401(k), at any company."

Kudla stresses that there is no one simple answer on a Roth 401(k). It has benefits for both high seniority, high-worth workers, and for young employees just starting out.

"Most people have considerable assets in the traditional IRA or 401(k), (so) it might make sense to fully fund the Roth 401(k)," he said, referring to older workers who might be nearing retirement. That's because of the flexibility that a Roth offers, and the tax diversification issue.

"For younger workers who are far away from their peak earning years," it can also make sense, he said. That's because a younger worker has decades for that pot of money to grow tax free.

In any case, every worker with a Roth choice needs to carefully study all of the options and potential outcomes, Kudla said. That might mean sitting down with a financial planner, or a trusted colleague or family member to talk things out.

Unfortunately - and Kudla is much too diplomatic to say this - some people don't understand or won't research the many benefits of a regular 401(k), let alone a Roth 401(k).

Their eyes glaze over when you start talking financial moves, let alone financial moves today that might not bear fruit for decades.

Don't be one of those folks. Do a little homework. Ask a few questions. Read up on Roths. Then make a decision.

Because at the start of the retirement rainbow, it could be nice to have a pot of gold there for you.

Tax-free gold, that is.