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New Options Available in the GM Roth 401(k) Account

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General Motors (GM) is one of the few companies that have offered Roth 401(k) accounts for SSPP and PSP participants since becoming available by lawmakers in early 2006. GM is now taking advantage of a feature in the recently passed Small Business Jobs Act (SBJA) of 2010 intended to give participants a greater number of options for their retirement savings.

This provision of the new law authorizes 401(k), 403(b), and 457 plans to allow participants to convert qualified distributions, including in-service distributions, into the Roth account within their plans. Any amounts converted to the in-plan Roth are taxable, with the exception of after-tax contributions. In addition, the SBJA allows participants with plans equipped with Roth accounts, like the GM 401(k) plans, to receive distributions directly from the in-plan Roth account without having to first pull from other traditional savings plan sources.

GM has quickly taken the necessary steps to allow their SSPP and PSP 401(k) participants access to both the distribution feature effective November 1st, and the conversion capability effective December 1st. General Motors is giving participants the important option of deferring tax liability over the next two tax years if they process the conversion before December 23, 2010.

In 2010, GM employees can make after-tax contributions to the Roth 401(k) up to $16,500 if they choose to contribute 100% of their traditional 401(k) limit to the Roth 401(k). For those individuals age 50 and above, that maximum amount is $22,000. These amounts are far higher than the $5,000 limit to a Roth IRA, and $6,000 for those individuals age 50 and older. With the new provision from the SBJA, much larger lump sums can be eligible through the attainment of age 59½, separation from service, or other eligible in-service amounts, for a conversion to the Roth 401(k). In addition, unlike a Roth IRA, a Roth 401(k) has no income restrictions to limit contributions.

Still, there are downsides to consider when converting your traditional 401(k) retirement savings to a Roth 401(k). A major hurdle is finding the cash to pay the income tax due on the pre-tax amounts converted. One way to cover this immediately is to pay the tax directly from the distribution, however, in doing so the tax deferral advantage on the dollars used to pay the tax liability is lost forever. Another consideration to keep in mind is that if a participant were to roll the Roth 401(k) out to a new Roth IRA, a 5-year clock begins again, prohibiting withdrawals from what would otherwise be penalty-free and unrestricted assets. And finally, another issue to be wary of is the inability to re-characterize amounts converted to the Roth 401(k) back to traditional 401(k) assets. The participant is prohibited from reversing the conversion if, for example, they could not come up with the taxes owed.

The topic of whether to utilize the Roth 401(k) conversion feature or the new distribution option is a complicated one and best left to include the advice of a financial professional. Contact Mainstay Capital Management toll–free at **1-866-444-6246** for a review of your personal situation and individualized guidance on whether to utilize the new Roth 401(k) account options. You can also click here for our free information kit to learn more about how Mainstay Capital Management can manage your 401(k), IRAs, and other non-retirement accounts.