

# Roth 401(k) conversions likely to be approved

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By Darla Mercado

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Legislation allowing defined-contribution-plan participants to convert plan assets to an in-plan Roth account may be passed into law as soon as the end of next month.

Approved by the Senate last month, the American Workers, State and Business Relief Act of 2010 would allow rollover contributions to a designated Roth account inside a 401(k) or 403(b) plan. The bill's counterpart in the House, which was passed in December, doesn't include a Roth conversion provision.

House Ways and Means Committee Chairman Sander M. Levin, D-Mich., recently indicated that he would like a reconciliation bill to be wrapped up by the end of next month, according to Matthew Beck, a spokesman for the committee.

Advisers in the retirement plan market said that if the Roth provision is included in the final legislation, which is likely, it will allow high-income plan participants to convert assets to a Roth and give advisers a new way to retain plan assets.

Currently, only new money may be invested in a Roth 401(k) plan.

“The more options you can give, the more you can bring to the table to make decisions; it will help retain a client,” said Douglas K. Flynn of Flynn Zito Capital Management LLC, which manages \$250 million.

“It would provide another discussion point for advisers and a reason to adopt a Roth provision,” said Nick Della Vedova, president of 401(k) Advisors, a retirement plan consulting firm.

“If a plan doesn't already have a Roth option, someone who can do a conversion can approach the employer or plan administrator and ask if it's available,” said Judy A. Miller, chief of actuarial issues at the American Society of Pension Professionals and Actuaries.

Advisers who work with small-business owners note that there hasn't been a stampede of plan providers rushing to provide Roth 401(k) plans, but the plans can be very advantageous to certain business owners.

This year, a three-physician medical practice spoke to Mr. Flynn about adding a Roth feature to its 401(k) plan. The practice has six employees in total, and the doctors were maxing out on their retirement plan contributions.

Using the Roth feature allowed the doctors to put a portion of their savings into the account and diversify their tax situation, Mr. Flynn said.

If the new law is passed, plan participants who earn more than \$100,000 a year will be able to convert all or part of their 401(k) or 403(b) plan to a Roth IRA.

Because adding a Roth choice will increase the cost of administering a retirement plan, small-business plan sponsors will have to determine whether the long-term benefit of withdrawing Roth funds tax-free (after paying income taxes on the amount converted) is worth the additional administrative expense, Mr. Flynn said.

Mr. Della Vedova agrees.

“If they believe taxes will go up in the future, many participants with significant accounts would gain a tax benefit by converting,” he said. “An adviser will be able to bring up why it might be prudent or imprudent to offer a Roth opportunity in plan.”

Driving Congress to push through the change is the belief that the Roth provision will generate some \$500 million in tax revenue over the next 10 years, said James M. Delaplane Jr., a partner at Davis & Harman LLP. He also noted that opposition to the provision has softened since its chief opponent, Charles Rangel, D-N.Y., no longer heads the House Ways and Means Committee.

“Nobody's lobbying against it; nobody is saying, "Don't do it,"” Mr. Delaplane said.

“The odds are very good because the provision raises revenue,” he said.

How much revenue will be raised from Roth 401(k) conversions remains to be seen, especially in light of the tepid acceptance to date of offering a qualified Roth option.

Still, advisers are optimistic.

“For prospects, it shows you're at the top of your game and that you know what's going on; for clients, it's reinforcement that you're bringing value to the plan,” Mr. Della Vedova said. “You can't just be an investment geek; you have to be a retirement plan geek.”

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