

Providers see gold in Roth 401(k) market

Firms ready to offer variety of services to sponsors making plans available to employees

By Jenna Gottlieb

Many top 401(k) providers expect their Roth 401(k) education efforts to pay off with early and high adoption rates.

Plan sponsors will be able to offer the new plan — in which contributions are made on an after-tax basis, rather than being taxed when the money is withdrawn at retirement, as in a regular 401(k) — starting Jan. 1. said he expects many sponsors to adopt the new plan off the bat. “It will be something that sponsors will add and consultants will push. Roths are a good deal for different groups of people. It especially makes sense for those that already have sufficient savings and already have a Roth IRA,” he said.

Paul Dewey, senior vice president of corporate plans and services at Putnam Investments, Boston, said while Putnam is still in an education phase, many clients have already signed up, especially a subset of plans that have a significant number of younger and highly compensated employees. He declined to name interested plans.

Stephen Deschenes, executive vice president at Fidelity Institutional Retirement Savings Co., Boston, said the firm has signed up a number of plan sponsors for a Jan. 1 rollout and are in discussions with hundreds more. He declined to name plans.

Both Putnam and Fidelity hope to attract larger plans sponsors at first, then midsized pension plans.

Fidelity has spent the past four months educating plan sponsors and does not anticipate the new plan being tough to sell. “There has not been any real negative reaction to it. Some won’t include it because they have other things on their agenda. Others will take a wait-and-see attitude,” Mr. Deschenes said.

‘Fair amount of interest’

Principal Financial Group, Des Moines, Iowa, has notified all of its approximately 30,000 401(k) clients that they can offer a Roth 401(k) Jan. 1, and expect a significant number of sponsors to offer the option, said Chris Bowman, vice president. Initially, “we expect around half of employers to put a Roth(k) in place,” he

said. “We’ve seen a fair amount of interest — mainly from larger plans.”

Mr. Bowman said Principal is focusing on only educating plan sponsors at this point, not participants. “We want them to be aware that Roth(k) is coming Jan. 1. The secondary wave of education will come once employers start adding it,” he said. Principal has sent e-mail notices to clients, explaining how the plan works, how it differs from a traditional 401(k) and offering regulatory updates, he said.

Mike Francis, president and consultant at Francis Investment Counsel LLC, Hartland, Wis., said the Roth 401(k) is a compelling opportunity for 401(k) participants, especially younger employees. “I look at Roth as a good deal from a couple perspectives. It’s additional forced savings. With the Roth, you’re giving up the tax break up front. The thing that changes is the take-home pay. By and large, participants are not going to reduce the amount they’re saving, will accept a slightly lower take-home pay and benefit from tax-free withdrawals,” he said.

He added, “Every one of our clients that looked at it, wants to do it. When they sit down and do the math, they see how compelling it is,” he said.

Independent education providers have also jumped on the Roth 401(k) bandwagon.

PensionOnline Inc., San Francisco, released a web-based tool last month aimed at simplifying the complexities of comparing a Roth 401(k) and a traditional 401(k). The Roth 401(k) Analysis Tool allows plan participants and advisers to view “what-if” scenarios.

Newkirk Products, Inc. Albany, N.Y., a communications provider for defined contribution plan providers, launched a participant communication service that includes a letter for distribution to employees who are participants in plans that adopt the Roth option. The letter is personalized and uses specific examples to encourage review.