A Rothified Retirement?

A recent study looked at how 401(k) assets, taxes and Social Security claims could be affected under a 401(k) plan based on after-tax contributions, compared with the long-established pre-tax contribution system.

Average 401(k)/plan assets

<table>
<thead>
<tr>
<th>Type</th>
<th>Male 10%</th>
<th>Male 30%</th>
<th>Male 50%</th>
<th>Female 10%</th>
<th>Female 30%</th>
<th>Female 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax contribution</td>
<td>64.1</td>
<td>49.4</td>
<td>40.7</td>
<td>46.1</td>
<td>35.9</td>
<td>28.8</td>
</tr>
<tr>
<td>After-tax contribution</td>
<td>64.5</td>
<td>48.9</td>
<td>40.2</td>
<td>46.5</td>
<td>36.4</td>
<td>28.8</td>
</tr>
</tbody>
</table>

The Impact of ‘Rothifying’ 401(k)s

It would boost tax returns in the short term, but leave retirees worse off.

By Geneva S. Mishur and Ann Roman Marcus

There’s a lot of talk these days about overhauling the retirement-savings system. In Washington, much of the discussion centers on ways to give an immediate boost to government revenues by limiting retirement tax breaks.

One idea that gets discussed is to repeal the current structure of pretax contributions to retirement accounts in favor of a system where contributions would come only from after-tax income—as contributions to Roth IRAs do now. It’s an idea called Rothification, that has been championed at times in the past. But it could be given new life by the government’s current economic need for revenue to plug budget gaps and rein in the nation’s debt.

Given that possibility, we wanted to ask the question: How would such a system affect workers saving for retirement? The short answer: worse.

To explain, let’s be clearer about what the change would entail. Right now, most U.S. savers contribute to retirement accounts with money that’s deducted from their taxable income, and pay taxes on those accounts only when the money is paid out in retirement. The rationale for this approach is to allow in 401(k), 403(b) and individual retirement accounts is that the tax protection those accounts provide employees an incentive to save money for their golden years. The assets in deferral- contribution plans and IRAs will $1.2 trillion as of the third quarter of 2019, according to the Investment Company Institute.

So why does this system need an overhaul?

For one thing, the federal deficit has ballooned to more than $1 trillion in the current fiscal year, while the nation’s debt has hit $23 trillion, according to the U.S. Treasury. And so has an additional $45 trillion in federal security underwriting, according to the 2018 report of the Social Security and Medicare trustees.

Among this tsunami of government debt that only a portion of Social Security benefits be taxable. Workers who die before reaching age 62, the Social Security Administration estimates, must pay taxes on $2.4 trillion in tax revenue annually, over the value of the house. If their $400,000 home didn’t appreciate, that’s $115,000 anacrate.

There are lots of chart, however, explaining that homeowners can forestall a home in married couples, a $200,000 reverse mortgage.

In the Roth world, people’s life-takes out a $200,000 reverse mortgage. They can be reached out a home if they don’t want to pay their taxes. Benjamin Harris executive director of the Kellogg School of Management’s Public Affairs Institute and former chief economist to Vice President Joe Biden.

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