# "Rotherization": The Federal Government's Plan to Fill Its Coffers

During a recent visit to Capitol Hill to discuss the implementation of the Department of Labor fiduciary rule with Sen. Ben Cardin (D-Md.), I learned of a new "Rotherization" plan being floated in Congress. Essentially, it eliminates pre-tax retirement savings contributions, thus depriving investors of one of the key benefits of SEPs, 401(k) plans, 403(b) plans, and IRA accounts. Contributions to all these accounts would have to be made after federal taxes are withheld.

What's the purpose of this plan? To fill government coffers now, versus years or decades down the road when millions more retire. Frankly, this proposal is really just a budgeting gimmick. One way or another, the federal government will collect tax revenues from retirement savings. The question is, as this new surge of tax dollars flows into Washington, will "Rotherization" end up costing too much?

I believe the answer is yes, both for individual investors and for society at large.

**Fewer Choices for Investors**

The freedom to choose how we save for retirement is a cherished right. It's also important for people who want to maximize their retirement income and pass along as much as they can to their children and grandchildren. Individuals who expect to be in a higher tax bracket when they retire might decide to contribute or convert to a Roth type plan so they can pay taxes as they go.

The median household income in the U.S. is $53,000, and six in 10 Americans have less than $500 in emergency savings.


On the other side of the coin, if individuals expect their tax bracket to be lower during retirement, they can choose to make retirement plan contributions using pre-tax dollars and (hopefully) pay lower income taxes once they retire.

In fact, many families – especially those who experience big income fluctuations from year to year or must transition from two household

*Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has over 30 years of experience in investment management and wealth management. He provides independent financial direction to middle class millionaires in greater Washington, D.C. www.kendallcapital.com* incomes to one – use both pre-tax and after-tax accounts to save as much as they can. If the government limits all individuals to only after-tax retirement plan contributions, I believe it will discourage people from saving for retirement in the first place, and that will harm the people who need incentives the most.

**A Wider Gap between the Haves and Have Nots**

Right now, the median household income in the U.S. is $53,000, and six in 10 Americans have less than $500 in emergency savings. Millions of working-class families are living paycheck to paycheck. For many of these families, employer-sponsored 401(k)s and other pre-tax vehicles have been a godsend, allowing them to save what they can for retirement out of their pre-tax dollars and write off those extra contributions made before the April 15 tax filing deadline.

My greatest concern about "Rotherization" is that it will widen the gap between the wealthy (those who stand to benefit the most from after-tax retirement savings accounts) and everyone else. The immediate tax burden will force many lower-income families to limit their contributions to retirement savings accounts; in some cases, it might become too costly to save for retirement at all.

Meanwhile, high-income earners who are destined to enter a higher tax bracket upon retirement will continue to take advantage of after-tax savings accounts to maximize and protect their wealth.

There's nothing wrong with taking advantage of retirement planning strategies that minimize one's tax liability in order to ensure a financially secure future and share a lifetime of savings with loved ones. But if the government allows only one option – one that actually discourages saving among certain classes of Americans – it will not only increase the risk of insolvency for millions of future retirees, but also create more of a divergence between the haves and have nots in our society.

I strongly believe government laws and regulations should be written to incentivize individuals to act in the best interest of our community. "Rotherization," in my view, fails to meet that standard. MM