403b CONSULTANTS
AN AFFILIATE OF RETIREMENT PLAN CONSULTANTS LLC

403b NEWS
A quarterly newsletter for Retirement Plan Participants

Make the Most of Your 401(k)

As more Americans shoulder the responsibility of funding their own retirement, many rely increasingly on their 401(k) retirement plans to provide the means to pursue their investment goals. That's because 401(k) plans offer a variety of attractive features that make investing for the future easy and potentially profitable.

What Is a 401(k) Plan?

A 401(k) plan is an employee-funded savings plan for retirement. For 2019, you may contribute up to $19,000 of your salary to a special account set up by your company, although individual plans may have lower limits on the amount you can contribute. Individuals aged 50 and older can contribute an additional $6,000 in 2019, so-called "catch-up" contributions.

How Are 401(k) Plans Taxed?

401(k) plan accounts come in two varieties: traditional and Roth. With a traditional 401(k) plan account, you may defer taxes on the portion of your salary contributed to the plan until the funds are withdrawn in retirement, at which point contributions and earnings are taxed as ordinary income. In addition, because the amount of your pretax contribution is deducted directly from your paycheck, your taxable income is reduced, which in turn lowers your current tax burden.
A Roth 401(k) plan account features after-tax contributions but tax-free withdrawals in retirement. Under a Roth plan, there is no immediate tax benefit. However, plan balances have the potential to grow tax free; you pay no taxes on qualified distributions.

Matching Contributions

One of the biggest advantages of a 401(k) plan is that employers may match part or all of the contributions you make to your plan. Typically, an employer will match a portion of your contributions, for example, 50% of your first 6%. Matching contributions are maintained in a separate tax-deferred account, which is taxable when withdrawn. Total contributions, including employee and employer portions, cannot exceed $56,000 in 2019. Note that employer contributions may require a "vesting" period before you have full claim to the money and their investment earnings.

Distributions

Qualified distributions from traditional plan accounts and from the earnings portion of Roth accounts are permitted after age 59½ (or age 55 if you are separating from service with the employer from whose plan the distributions are withdrawn), although there are certain exceptions for hardship withdrawals. Distributions from employee contributions to a Roth account may be taken penalty-free at any time. If a distribution is not qualified, a 10% additional federal tax will apply in addition to ordinary income taxes on all pretax contributions and earnings.

When You Change Jobs

When you change jobs or retire, you generally have four different options for your plan balance:

1. Keep your account in your former employer's plan, if permitted;
2. Transfer balances to your new employer's plan;
3. Roll over the balance into an IRA;
4. Take a cash distribution.

The first three options generally entail no immediate tax consequences; however, taking a cash distribution will usually trigger 20% withholding, a 10% additional federal tax if taken before age 59½, and ordinary income tax on pretax contributions and earnings.

Borrowing From Your Plan

One potential advantage of many 401(k) plans is that you may borrow as much as 50% of your vested account balance, up to $50,000. In most cases, if you systematically pay back the loan with interest within five years, there are no penalties assessed to you. If you leave the company, however, you may have to pay back the loan in full, depending on your plan's rules. In addition, loans not repaid to the plan by the due date of your federal tax return are considered withdrawals and will be taxed and penalized accordingly.

Most plans provide you with several options in which to invest your contributions. Such options may include stocks for growth, bonds for income, or cash equivalents for protection of principal. This flexibility allows you to spread out your contributions, or diversify, among different types of investments, which can help keep your retirement portfolio from being overly susceptible to different events that could affect the markets.

401(k) Advantages

- Pretax contributions and tax-deferred earnings on traditional plans
- Tax-free withdrawals for qualified distributions from Roth-style plans
- Choice among different asset classes and investment vehicles
- Potential for employer matching contributions
- Ability to borrow from your plan under certain circumstances

A 401(k) plan can become the cornerstone of your personal retirement savings program, providing the foundation for your financial future. Consult with your plan administrator or financial advisor to help you determine how your employer's 401(k) plan could help make your financial future more confident.

Make Saving More Your New Year's Plan

As you begin the new year, what do you see when you look back? Is it the heap of forgotten new year's resolutions from years past? This year, think about making a resolution that's easy to keep: increasing your contributions to your retirement plan.

What makes it easy?

When you participate in your retirement plan, your contributions are automatically deducted from your paycheck and put into the investments you've selected. So even if you never change your original contribution amount, you're still saving money for your retirement. But consider how much more you could potentially accumulate if you periodically increase the amount you contribute. It's as simple as changing the percentage of your pay that goes into your plan account.

Where will I find the money?

The new year is a good time to review your budget to look for places to trim. Cutting spending is an effective way to come up with money you can use to increase your contribution amount. And adding part of any raise you receive to your retirement account can also give your savings a boost.

Why can't I wait?

The sooner you start saving more for your retirement, the more years your savings will have to potentially grow and compound. Increasing your contribution amount whenever you can may mean a larger account balance at retirement.

Still not convinced?

Remember that you'll probably need to save more for retirement than for any other goal that you have.

Saving More May Make a Difference

	If you increase your contribution by $8 per week	If you increase your contribution by $16 per week
After 40 years you could add:	$69,038	$138,077
After 20 years you could add:	$16,017	$32,035
After 10 years you could add:	$5,681	$11,362
After 5 years you could add:	$2,419	$4,837

This is a hypothetical example used for illustrative purposes only. It assumes amounts are invested monthly, an average annual total return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Amounts are rounded to the nearest dollar. Tax-deferred amounts accumulated in the plan are taxable on withdrawal, unless they represent qualified Roth distributions. Source: DST Systems, Inc.