Q2

403b CONSULTANTS
AN AFFILIATE OF RETIREMENT PLAN CONSULTANTS LLC

403b NEWS

A quarterly newsletter for Retirement Plan Participants

2020

Questions to Ask About Your Retirement Plan

Participating in your employer's retirement plan can help you save for your retirement years. But to make the most of the plan, you'll want to have a good understanding of how it works. Here are some questions you should ask.

What type of plan is it?

The first thing you should find out is whether your employer offers a defined benefit plan or a defined contribution plan. A defined benefit plan is employer funded and provides a specific monthly pension benefit to you when you retire. A defined contribution plan, such as a 401(k) plan, does not promise you a specific retirement benefit. Instead, the amount you receive depends on the balance in your plan account when you retire (or receive an earlier distribution). Both employer and employee contributions may be allowed, and employees may be responsible for choosing their account investments from the plan's list of options.

Who is eligible to participate... and when?

Federal law allows employers to include and exclude certain groups from a retirement plan. For example, there may be one plan for salaried employees and another for union employees, or a plan may not cover some part-time employees at all. Eligibility is generally based on age and years of service to the company.

How do I contribute?

Some plans have auto-enrollment, which means employees are automatically enrolled in the plan unless they choose to opt out. These plans also have a predetermined contribution amount that is automatically taken from the employee's paycheck and put into a predetermined investment in the plan. Employees should receive information on how to change their contribution amounts and investments or how to opt out altogether. If your plan doesn't have auto-enrollment, you'll be able to choose your contribution amount and investments upon eligibility to join the plan.

Contributions taken from your paycheck are typically made pretax. If your plan has a Roth option, you can make after-tax contributions to your plan. Your employer may contribute to your account as well, through matching contributions -- where the amount you contribute is matched up to a certain percentage -- or profit sharing contributions, or both.

Would I forfeit the amount in my plan account if I leave my employer?

Your plan's vesting schedule will tell you how much time you have to be with your employer before you can keep your employer's contributions to your plan account and any investment earnings on them. For example, your plan may have a four-year vesting schedule, where you may be 25% vested after your first year of service and 25% for each year after until you reach 100%. You are always 100% vested in your own contributions to the plan and in any earnings from those contributions.

When can I take money out of the plan?

That depends on the terms of the plan. But as a general rule, you'll want to wait until you retire to start withdrawing your retirement savings. You may have to pay a 10% early distribution penalty (in addition to regular income taxes) if you take money from the plan before age 59½. At age 72, you'll generally have to begin taking a minimum amount from your retirement account each year. You may be able to take a loan from your plan. Your plan also may allow you to take a hardship withdrawal in a financial emergency.

So how do I find out all of this information about my plan?

A formal, written plan document is a requirement for any retirement plan. Your employer should also provide you with a less formal summary plan description, which should include the plan's rules and other information you may need to understand the plan.

Your financial and tax professionals are another resource you can turn to for assistance with retirement planning and assessing your workplace retirement plan.

Required Attribution
Because of the possibility of human or mechanical error by DST Systems, Inc. or its sources, neither DST Systems, Inc. nor its sources guarantees the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. In no event shall DST Systems, Inc. be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of the content.
© 2020 DST Systems, Inc. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.

These Leaks Can Deflate Your Retirement Hopes

What's your vision of the ideal retirement? Endless days by the ocean? Spending time with family and friends? Pursuing a new interest or hobby? Whatever your retirement dreams, you know that it will be largely up to you to fund them.

You are already on the right track if you are maximizing contributions to an employer-provided retirement plan. However, you may stand a far better chance of securing a financially secure retirement if you avoid tapping into your retirement savings by taking loans or hardship withdrawals. These are known as plan leaks and they can impede the growth of the assets in your retirement plan and leave you with a smaller sum available for your retirement than you might anticipate.

Plan Loans Can Be Costly

There's little doubt that plan loans are a tempting way to handle a temporary need for cash. You'll repay yourself at a reasonable interest rate, without taxes or penalties. However, plan loans can be far more costly than they seem. Think about the following before you take a loan from your plan:

No tax advantage. Unlike pretax plan contributions, loan repayments are not tax deferred. You will have to repay the loan with money that's already been taxed. Then, when the money is distributed to you at retirement, you'll pay taxes on it again.

The loss of potential earnings. When you take money out of your plan for a loan, you reduce your plan account balance. Essentially, you will have less money working for you and will lose out on future potential earnings. That lost potential could be significant if you take a loan at a time when the markets are in a strong growth pattern.

The temptation to reduce contributions. Could you comfortably repay your plan loan and continue making your regular plan contributions? There is always the possibility that you could find it hard to do both and decide to reduce or stop making regular contributions to your plan. Reducing or stopping contributions while repaying your loan would further reduce your account's growth potential.

Repayment difficulty. If you leave your employer before the loan is repaid, you will either have to repay the entire outstanding amount or allow the loan to become a distribution. In plain English, a distribution means that you will be required to pay regular income taxes on the loan balance and quite possibly an additional 10% early withdrawal penalty if you are under age 59½.

Hardship Withdrawals Can Also Be Problematic

Some plans permit withdrawals from your retirement plan before you reach age 59½ for what's referred to as a "financial hardship." For example, you might be permitted to withdraw money to buy a principal residence, pay medical expenses, or pay college tuition and room and board expenses.

You will have to pay federal income taxes on the amount in the year you receive the money from the hardship withdrawal. And you may have to pay a 10% early withdrawal penalty as well. Most importantly, taking a hardship withdrawal means you will have less money invested for your future. You will lose the potential earnings that money could make over time.

Consider Alternatives

Having an emergency fund of three-to-six-months' worth of living expenses gives you a substantial cushion for those times when you might face a large, unexpected expense and could help you avoid the need to tap into your retirement plan. If you are considering applying for a plan loan or hardship withdrawal, however, make sure you first explore other options and talk to your financial and tax advisors about your situation.

Required Attribution
Because of the possibility of human or mechanical error by DST Systems, Inc. or its sources, neither DST Systems, Inc. nor its sources guarantees the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. In no event shall DST Systems, Inc. be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of the content.
© 2020 DST Systems, Inc. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.