



January 2013 Memo

401(k) Basics

Ten things to know about your employer's 401(k) plan.

1. What it is: Your employer's 401(k) plan is a defined contribution plan designed to help you finance your retirement. Federal and sometimes state taxes on your contributions and investment earnings are deferred until you receive a distribution from the plan (typically at retirement).
2. Why they call it a 401(k): The 401(k) plan was born more than 20 years ago, under Section 401(k) of the Internal Revenue Code, hence, 401(k).
3. You decide: You decide how much to contribute and how to allocate your investments. This gives you the advantages of easy diversification – a well balanced mix of investment choices, and dollar-cost averaging by making regular investments over time.
4. It's easy: You contribute your pre-tax dollars and lower your taxable income by making automatic payroll deductions. It's a simple method of disciplined saving!
5. Know your limits: In 2013 you can save up to \$17,500 of your pre-tax dollars. If you are age 50 or older, you can save an additional \$5,500 thanks to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001.
6. "Free" money: Many employers will match some of your contributions. This is FREE money and a great incentive to contribute to the plan.
7. Vesting: Should your employer make a matching contribution, vesting refers to the percent of your employer contributions that you have the right to take with you when you leave the company.
8. Borrowing: Some plans allow you to borrow a percentage of your account value. Keep in mind that you have to make regular payments plus interest on the loan.
9. Early withdrawals: You may be able to take a lump-sum payment before you retire, generally for emergencies (hardships) only. You'll pay a 10% penalty and federal and state income taxes. While this is good for emergency situations, your 401(k) is a retirement savings fund, not a rainy day fund!
10. Leaving the company: When you leave your job, you can rollover your 401(k) savings to an Individual Retirement Account, which can later be rolled over to a new employer's 401(k) plan. This way, you stay on track for your retirement savings goals, without having to start over each time you change jobs.