TOP 10

Basics of Retirement Planning

1 **What it is:** Your employer's retirement 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 30 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 2024 you can save up to $23,000 of your pre-tax dollars. If you are age 50 or older, you can save an additional $7,500.

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 percent penalty and federal and state income taxes. While this is good for emergency situations, your retirement plan is a retirement savings fund, not a rainy day fund!

10 **Leaving the company:** When you leave your job, you can rollover your retirement plan savings to an Individual Retirement Account, which can later be rolled over to a new employer's retirement plan. This way, you stay on track for your retirement savings goals, without having to start over each time you change jobs.