

Powering up Your 401(k)

00:06 Megan

Financial wellness includes the ability to manage money in a way that gives you peace of mind and empowerment to make your own choices. At Golden 1, we're here to help with unbiased financial guidance. As a not-for-profit member owned credit union, our main goal is to help you reach financial well-being. Join us as we discuss why financial knowledge matters and how to apply it to your financial journey. Together, we can be golden!

00:34 Megan

Hello! I'm Megan with the Golden 1's Financial Education team and I would like to welcome you to our Golden 1 Financial Wellness Podcast where we will be diving deep into the world of 401(k) retirement plans.

Joining us today to help simplify the complexities of 401(k)s, provide us with insights, tips, and strategies that aim to build a strong financial foundation we have Matthew Perkins a registered representative with LPL Financial and a Financial Advisor with Golden 1 Investment Services. Thank you so much for joining us today, Matthew.

01:08 Matthew

Thank you for having me. I am happy to be here!

01:10 Megan

Now, it's never too early to start planning for our golden years. One of the most powerful tools at our disposal is the 401(k)-retirement savings plan. Retirement planning is not a luxury; it's a necessity. We live in a world where traditional pension plans are becoming rarer, and social security benefits alone are often insufficient to support the retirement lifestyle we desire. That's where the 401(k) comes in. Matthew, for those that may not know, what is a 401k?

01:44 Matthew

Well Megan, a 401(k) is a tax-advantaged savings and investment vehicle offered by many employers, allowing employees to contribute a portion of their salary towards retirement. One of its primary advantages is the tax benefits it offers. Contributions to a traditional 401(k) are made with pre-tax dollars, reducing your taxable income for the year.

Once you contribute to your 401(k), the funds are invested in various financial instruments, such as stocks, bonds, and mutual funds, based on your chosen investment options within the plan. The money invested grows tax-deferred, enabling your earnings to compound without annual tax deductions, potentially leading to greater overall growth compared to taxable accounts.

The taxation of investment gains is deferred until you make withdrawals during retirement. At that time, the withdrawn amount is treated as regular income and subject to your current income tax rates.

02:42 Megan

Now, this is a traditional 401(k), and there is also a Roth 401(k). Can you explain to us the difference between these plans?

02:52 Matthew

Certainly! Since January 1, 2006, employers have had the option to offer Roth 401(k) plans alongside traditional 401(k) plans. A Roth 401(k) is a retirement savings plan that differs in terms of taxation. Contributions to a Roth 401(k) are made using after-tax dollars, meaning the money has already been taxed at the employee's current income tax rate.

The primary advantage of a 401(k) Roth is tax-free withdrawals during retirement age. When you take money out of your 401(k) Roth in retirement, you are not required to pay income taxes on those withdrawals. This can be especially valuable if you expect to be in a higher tax bracket during retirement or desire tax-free income sources in your later years.

Furthermore, a Roth 401(k) offers the benefit of tax-free treatment for any capital appreciation or investment gains within the account. This means that the earnings and growth of your investments within the Roth 401(k) remain untaxed, potentially fostering even greater savings growth over time.

03:56 Megan

And growing our traditional 401(k) or our Roth 401(k) is one of the keys to help us work towards reaching our retirement goals and often employers are willing to contribute or match a certain portion of our salary.

04:10 Matthew

That's right! Employer matching is one of the most significant benefits of a 401(k) plan. Many employers offer a matching contribution based on the employee's contributions, up to a certain percentage of their salary.

So, let's say we work for a company that offers a 401(k) matching program where they match 50% of our contributions, up to a maximum of 6% of our salary. If our salary is \$50,000 a year and we decide to contribute that 6% then we would contribute \$3,000 a year. Since our employer matches 50% of our contributions, they would contribute 50% of our \$3,000 contribution, which is \$1,500. With our own contributions and the employer match, our total annual contribution to our 401(k) account would be \$3,000 from us, \$1,500 from our employer, which equals \$4,500 total!

05:03 Megan

It's like free money! That's why employees should aim to contribute at least enough to maximize their employer's matching contributions.

05:11 Matthew

Absolutely. If employees contribute less than the maximum amount eligible for matching, they are essentially leaving free money on the table. It's important to take full advantage of employer matching to accelerate the growth of their retirement savings.

When planning for retirement, it's important to consider the tax implications of our savings strategy. With a Roth 401(k), we'll have a bucket of non-taxable retirement income, thanks to the tax-free withdrawals during retirement age. This can be a valuable asset, especially if we anticipate being in a higher tax bracket during retirement or wish to have tax-free income sources in your later years. On the other hand, the matching funds received from our employer will accumulate in a separate account, typically a traditional 401(k). When we withdraw from this account during retirement, those funds will be taxed as ordinary income at the prevailing tax rates. Understanding this distinction can help us plan effectively to balance our retirement income between non-taxable and taxable sources, ensuring a financially secure future.

06:14 Megan

Now, let's address some common concerns people may have about 401(k) plans. One concern is eligibility. Can you talk a little bit about the requirements?

06:26 Matthew

Of course. Generally, 401(k) plans are offered by employers to their employees as part of their benefits package. However, eligibility requirements can vary. Some employers may require a minimum length of service, or a specific number of hours worked per week. It's important for individuals to check with their employer to determine their eligibility for the 401(k) plan.

06:48 Megan

It's also important to understand the vesting rules of our 401(k). Vesting refers to the ownership of the contributions made by our employer to our retirement account. While we always have full control over the funds we contributed to our 401(k), the vesting rules determine how much of the employer's contributions we can take with us if we leave the company. Many employers have a vesting schedule, which specifies the period of service required before we are entitled to keep the employer's contributions. The schedule is determined by the employer and can vary. It typically ranges from immediate vesting, where we are fully vested from the start, to graded or cliff vesting, where our ownership of the employer's contributions increases gradually over time.

For example, let's say our employer has a graded vesting schedule that spans five years, where we are vested at 50% by year 3 and 100% vested by year 5. If we leave the company before completing one year of service, we may not be entitled to any of the employer's contributions. However, if we leave after three years, we are vested 50% so we would receive half of our employer's contributions. Once we are fully vested, we have 100% ownership of the employer's contributions, and they can't be taken away.

08:12 Matthew

But, the vesting schedule only applies to the contributions made by your employer. Your own contributions, along with any earnings or gains from those investments, are always yours, regardless of your employment status. Understanding the vesting schedule of your 401(k) plan is important, especially if you anticipate changing jobs or leaving your current employer.

08:35 Megan

Another concern that often comes up is the fees associated with 401(k) plans. Can you shed some light on that?

08:43 Matthew

Fees are an important aspect to consider when evaluating 401(k) plans. Every plan has associated costs, but the specific fees can vary significantly. For example, 401(k) plans often have administrative fees that cover the costs of managing the plan. These fees can include recordkeeping, legal compliance, and other administrative services. Also, when investing in a 401(k), we have a range of investment options available, such as mutual funds or index funds. Each investment option typically has an expense ratio, which represents the cost of managing the fund. The expense ratio is expressed as a percentage of the invested assets and covers various expenses like management fees and operating costs. Lower expense ratios generally indicate lower costs for investors. It's also advisable to conduct research on the investment options available. Look for information on their expense ratios and compare them to similar investment options. This research can help us identify investment options with lower costs that align with our investment strategy.

To find out what fees are associated with your 401(k) plan and understand the investment expense ratios, start by reviewing the plan documents provided by your employer. If you have any questions or need further clarification, reach out to the plan administrator or the HR department at your company. They can provide specific details about the fees and help you understand the investment expense ratios for different options within the plan.

10:14 Megan

Let's circle back to the investment choices within a 401(k) plan. Are employees limited to a specific set of options?

10:24 Matthew

An Employer's 401(k) plan typically offers a variety of investment options. For example, mutual funds with different risk levels and asset classes. It's important for employees to carefully review the available options and choose investments that align with their risk tolerance, investment objectives, and long-term goals.

Popular investment options within 401(k) plans are lifecycle funds, also known as target-date funds. These funds are designed to automatically adjust the asset allocation mix based on the investor's target retirement date. They typically provide a diversified portfolio of stocks, bonds, and other assets. Lifecycle funds are convenient for investors who prefer a hands-off approach, as they automatically rebalance and become more conservative as the target retirement date approaches.

11:12 Megan

There are a lot of investment options to choose from, but we are typically limited to the options offered by our employers. That's why it is so important to carefully assess the available choices and select investments that align with our risk tolerance and long-term goals. Determine your risk tolerance by considering factors such as your time horizon, financial goals, and comfort level with market fluctuations. Look at the historical performance of the investment options available within your 401(k) plan and consider the associated fees that can impact your overall returns over time. Aim for a balance between performance and costs.

Matthew, can you share with us some strategies we can employ to make the most of our 401(k) plans?

11:59 Matthew

Absolutely! One effective strategy to maximize the benefits of a 401(k) plan is to contribute as much as possible, up to the annual contribution limit set by the IRS. To ensure you have the latest updates on these limits, visit the official IRS website at [irs.gov](https://www.irs.gov). By contributing the maximum amount to your 401(k) plan, you unlock the potential of compounding, which can lead to substantial growth in your retirement savings over time.

Another often overlooked strategy is to increase your contributions whenever you receive a pay raise or bonus. Instead of immediately increasing your lifestyle expenses, consider allocating a portion of those extra earnings to your 401(k) plan. It's a simple yet effective way to accelerate your retirement savings without feeling a significant impact on your current budget.

It's also important to carefully consider the implications of withdrawing or taking loans from your 401(k) account. Premature withdrawals can significantly impact our long-term financial security, as we miss out on the potential growth and compounding of those funds over time. Withdrawals from a 401(k) are typically subject to income taxes and

penalties, leading to a reduced amount after taxes. If we withdraw funds before the age of 59 ½, we may also face an additional 10% early withdrawal penalty imposed by the IRS.

Taking a loan from our 401(k) also has its drawbacks, as it diminishes the funds available for our retirement savings. Payments for the loan are directly withdrawn from our paycheck, resulting in a reduction of our take-home pay. If we change jobs before repaying the loan, it may become due in full. Employers may have different rules and policies regarding actions against our 401(k). To make informed decisions, familiarize yourself with your employer's specific guidelines and regulations.

13:52 Megan

If you find yourself needing to make a withdrawal or take a loan from your 401(k) please consult a financial advisor or a tax professional to gain better understanding of the potential tax implications and penalties.

It's also advisable to regularly review and rebalance your investment portfolio within the 401(k) plan. Rebalancing allows you to adjust the allocation of your investments to maintain a diversified and balanced portfolio. Market conditions and personal circumstances change over time, so it's important to ensure our investments align with our risk tolerance and long-term goals.

As we prioritize the management of our 401(k) and its investment portfolio, it's also important to address any changes in our retirement accounts over time. We may find ourselves with multiple retirement accounts, including a 401(k) from a previous employer. How should we manage those accounts?

14:52 Matthew

While consolidating retirement accounts can be a wise move. By rolling over your old 401(k) accounts into an individual retirement account (IRA) or your current employer's 401(k) plan, you can simplify your financial accounts and have more control over your investments. It's important to review the options and consider factors such as investment choices, fees, and flexibility before making a decision.

15:17 Megan

Excellent advice! Reach out to your current or past 401(k) administrator to initiate the rollover process. Additionally, consider seeking assistance from financial advisors, like Matthew from Golden 1, who can educate you on all of your options and review the suitability of those options.

Thank you for sharing all of this knowledge with us today. Do you have any final tips or insights for our listeners?

15:43 Matthew

I do. My final tip is to start early and be consistent. Time is a powerful ally when it comes to building retirement savings. The sooner you begin contributing to your 401(k) plan, the more time your investments have to grow. Consistency is also key. Make it a habit to contribute regularly and resist the temptation of withdrawing funds prematurely. Remember, your future self will likely thank you for the discipline and dedication you demonstrate today.

16:12 Megan

Wise words, Matthew. Once again, thank you for sharing your knowledge and insights with us today. Your guidance on 401(k) plans will undoubtedly benefit our listeners.

16:22 Matthew

It's been my pleasure, Megan. I'm glad to have had the opportunity to discuss such an important topic.

16:27 Megan

We hope you've gained valuable knowledge about the importance of planning for retirement with 401(k) plans. Remember, it's never too early to start planning for your future. To keep yourself informed and get more financial tips and insights, subscribe to the Golden 1 Financial Wellness podcast on Apple, Google and Spotify. Plus, go to the Financial Wellness tab at **golden 1.com** to find a ton of other resources like videos, webcasts, and our interactive learning lab.

16:57 Megan

Once again, thank you for joining us today. This has been Megan

17:00 Matthew

And Matthew

17:02 Megan

Wishing you financial health and happiness — and, as always, reminding you to ...

17:07 Matthew and Megan

stay golden!

17:09 Matthew

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18:26 Megan

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