Benefits Corner

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Your Employer's 401(k)—by the Numbers

Here is a list of ten things to know about your employer's 40l(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 most states' taxes on your contributions and earnings are deferred until you receive a distribution from the plan—typically at retirement.

2. Why they call it that. The 401(k) plan was born a little more than twenty years ago, under Section 401(k) in the Internal Revenue Code, hence the name.

3. You call the shots. You decide how much to contribute and how to allocate those contributions. This gives you the advantages of easy diversification—a well-balanced mix of investment choices—and dollar-cost averaging by making regular investment options over time.

4. It's an easier way to save. 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. It just got easier. You can now save more as a result of the Economic Growth and Tax Reconciliation Act (EGTRRA) of 2001. Maximum annual salary deferral contributions are $15,500 in 2007 (plus up $5,000 "catch-up" contributions if you are over age 50).

6. Matching Contributions. Many employers will match some of your contributions—for example, 50 cents on the dollar up to 6 percent for a total of 3 percent of your salary or wages.

7. "Vesting." This refers to the percent of your employer contribution that you have the right to if you change employers. As a result of EGTRRA, you may earn a right to the employer's matching contributions more quickly. For matching contributions after January 1, 2002, employers must choose at maximum:

- 100 percent vested upon completing three years of service, or
- 10 percent vested upon completing two years of service, plus 20 percent each subsequent year (so 100 percent after completing six years of service).

8. Borrowing. Some plans allow you to borrow a percentage of the account value. Keep in mind, though, that you have to pay regular payments plus interest on the loan.

9. Early withdrawals. You may be able to take a lump-sum distribution before you retire, generally used for emergencies only. You'll pay a 10 percent tax penalty and federal and state income taxes. While this is good to have if you have no other options, try to keep in mind that your employer's 401(k) plan is for your retirement—not a rainy day fund.

10. You can take it with you. 401(k) plan rollovers to an Individual Retirement Account (IRA) can later be rolled over to a new employer's 401(k) plan.

Saving for your retirement is a critical step toward having a comfortable retirement. If you are not currently participating in your employer's plan, please consider doing so as soon as you can. If you are currently contributing to a plan, consider increasing your contribution. I encourage my clients to increase their contribution level every time they receive a pay raise; if they get a 4 percent raise, put an additional one-percent in their retirement plan and give themselves the remainder!

If you would like assistance in setting up a 401(k) plan for your company, please contact us. We can also assist you with setting up a comparable plan better suited for employers with only a handful of employees known as a SIMPLE-IRA. We would also enjoy the opportunity to assist you with a rollover from your former employer's 401(k) to your own IRA.

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