Raymond James Financial Services, Inc
Jim Zientara, MBA, CIMA®
Investment Consultant& Financial Planner
11009 Gatewood Drive
Suite 101
Lakewood Ranch, FL 34211
Tel 941-750-6818
Cell 941-224-1347
jim.zientara@raymondjames.com
www.jimzientara.com

ZIENTARA FINANCIAL
PLANNING • INVESTING

401(k) Plans

RAYMOND JAMES®

401(k) Plans

Retirement plans established under Section 401(k) of the Internal Revenue Code, commonly referred to as "401(k) plans," have become one of the most popular types of employer-sponsored retirement plans.

What is a 401(k) plan?

A 401(k) plan is an employer-sponsored retirement savings plan that offers significant tax benefits. You contribute to the plan via payroll deduction, which can make it easier for you to save for retirement. Perhaps the most important feature of a 401(k) plan is your ability to make pre-tax contributions to the plan. Pre-tax means that your contributions are deducted from your pay, and transferred to the 401(k) plan, before federal (and most state) income taxes are calculated. This reduces your current taxable income. You don't pay income taxes on the amount you contribute — or any investment gains on your contributions — until you receive payments from the plan.

For example, Melissa earns $50,000 annually. She contributes $5,000 of her pay to her employer's 401(k) plan on a pre-tax basis. As a result, Melissa's taxable income is now $45,000. She isn't taxed on her contributions ($5,000), or any investment earnings, until she receives a distribution from the plan.

You may also be able make Roth contributions to your 401(k) plan. Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. Unlike pre-tax contributions to a 401(k) plan, there's no up-front tax benefit — your contributions are deducted from your pay and transferred to the plan after taxes are calculated. But a distribution from your Roth 401(k) account is entirely free from federal income tax if the distribution is qualified, as discussed below.

Many 401(k) plans let you direct the investment of your 401(k) plan account. Your employer will provide a menu of investment options (for example, a family of mutual funds). But it's your responsibility to choose the investments most suitable for your retirement objectives.

Note : *Before investing in any mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing.*

Note: Special rules apply to SIMPLE 401(k) plans and "safe harbor" 401(k) plans.

When can I contribute?

You can contribute to your employer's 401(k) plan as soon as you're eligible to participate under the terms of the plan. In general, a 401(k) plan can make you wait up to a year before you're eligible to contribute. But many plans don't have a waiting period at all, allowing you to contribute via payroll deduction beginning with your first paycheck.

Some 401(k) plans provide for automatic enrollment once you've satisfied the plan's eligibility requirements. For example, the plan might provide that you'll be automatically enrolled at a 3% pre-tax contribution rate unless you elect a different deferral percentage, or choose not to participate in the plan. This is sometimes called a "negative enrollment" because you haven't affirmatively elected to participate — instead you must affirmatively act to change or stop contributions. If you've been automatically enrolled in your 401(k) plan, make sure to check that your assigned contribution rate and default investments are appropriate for your circumstances.

How much can I contribute?

There's an overall cap on your combined pre-tax and Roth 401(k) contributions. In 2018, you can contribute up to $18,500 ($24,500 if you're age 50 or older) to a 401(k) plan. If your plan allows Roth 401(k) contributions you can split your contribution between pre-tax and Roth contributions any way you wish. For example, you can make $10,000 of Roth contributions and $8,500 of pre-tax 401(k) contributions.

But keep in mind that if you also contribute to another employer's 401(k), 403(b), SIMPLE, or SAR-SEP plan, your total contributions to all of these plans — both pre-tax and Roth — can't exceed $18,500 in 2018 ($24,500 if you're age 50 or older). It's up to you to make sure you don't exceed these limits if you contribute to plans of more than one employer.

Can I also contribute to an IRA?

Yes. Your participation in a 401(k) plan has no impact on your ability to contribute to an IRA (Roth or traditional). You can contribute up to $5,500 to an IRA in 2018 ($6,500 if you're age 50 or older) if you qualify. But, depending on your salary level, your ability to make deductible contributions to a traditional IRA may be limited if you participate in a 401(k) plan.

What are the income tax consequences of contributing to a 401(k) plan?

When you make pre-tax 401(k) contributions, you don't pay current income taxes on those dollars (which means more take-home pay compared to an after-tax Roth contribution of the same amount). But your contributions and investment earnings are fully taxable when you receive a distribution from the plan. In contrast, Roth 401(k) contributions are subject to income taxes up front, but qualified distributions of your contributions and earnings are entirely free from federal income tax. In general, a distribution from your Roth 401(k) account is qualified only if it satisfies both of the following requirements:

- It's made after the end of a five-year waiting period
- The payment is made after you turn 59½, become disabled, or die

The five-year waiting period for qualified distributions starts on January 1 of the year you make your first Roth contribution to the 401(k) plan. For example, if you make your first Roth contribution to your employer's 401(k) plan in December 2018, your five-year waiting period begins January 1, 2018, and ends on December 31, 2022.

What about employer contributions?

Employers don't have to contribute to 401(k) plans, but many will match all or part of your contributions. Your employer can match your Roth contributions, your pre-tax contributions, or both. But your employer's contributions are always made on a pre-tax basis, even if they match your Roth contributions. That is, your employer's contributions, and investment earnings on those contributions, are always taxable to you when you receive a distribution from the plan.

Should I make pre-tax or Roth contributions?

Assuming your 401(k) plan allows you to make Roth 401(k) contributions, which option should you choose? It depends on your personal situation. If you think you'll be in a similar or higher tax bracket when you retire, Roth 401(k) contributions may be more appealing, since you'll effectively lock in today's lower tax rates. However, if you think you'll be in a lower tax bracket when you retire, pre-tax 401(k) contributions may be more appropriate. Your investment horizon and projected investment results are also important factors. A financial professional can help you determine which course is best for you.

Whichever you decide — Roth or pre-tax — make sure you contribute as much as necessary to get the maximum matching contribution from your employer. This is essentially free money that can help you reach your retirement goals that much sooner.

What happens when I terminate employment?

When you terminate employment you generally forfeit all contributions that haven't vested. Vesting means that you own the contributions. Your contributions, pre-tax and Roth, and the earnings on them are always 100% vested. But your 401(k) plan may require up to six years of service before you fully vest in employer matching contributions and associated earnings (although some plans have a much faster vesting schedule).

When you terminate employment you can generally leave your money in your 401(k) plan, although some plans require that you withdraw your funds once you reach the plan's normal retirement age (typically age 65). Your plan may also "cash you out" if your vested balance is $5,000 or less, but if your payment is more than $1,000, the plan must generally roll your funds into an IRA established on your behalf, unless you elect to receive your payment in cash. (This $1,000 limit is determined separately for your Roth 401(k) account and the rest of your funds in the 401(k) plan.)

You can also roll all or part of your Roth 401(k) dollars over to a Roth IRA, and your non-Roth dollars to a traditional IRA. You may also be able to roll your funds into another employer's plans that accepts rollovers.

What else do I need to know?

- Payroll deductions can make saving for retirement easier. The money is "out of sight, out of mind."
- You may be eligible to borrow up to one half of your vested 401(k) account (to a maximum of $50,000) if you need the money.
- You may also be able to make a hardship withdrawal if you have an immediate and heavy financial need. But this should be a last resort — hardship distributions are taxable to you (except for your Roth and any other after-tax contributions), and you may be suspended from plan participation for six months or more if the withdrawal takes place in 2018.
- If you receive a distribution from your 401(k) plan before you turn 59½ (55 in some cases), the taxable portion may be subject to a 10% early distribution penalty unless an exception applies.
- Depending on your income, you may be eligible for an income tax credit of up to $1,000 for amounts contributed to the 401(k) plan.
- Your assets are generally fully protected in the event of your, or your employer's, bankruptcy (some exceptions apply).

Raymond James Financial Services, Inc

Jim Zientara, MBA, CIMA®

Investment Consultant& Financial Planner

11009 Gatewood Drive

Suite 101

Lakewood Ranch, FL 34211

Tel 941-750-6818

Cell 941-224-1347

jim.zientara@raymondjames.com
www.jimzientara.com

ZF ZIENTARA FINANCIAL
PLANNING • INVESTING