



Retirement Plan Basics

Ten things to know about your employer's retirement plan

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 do they call it a 401(k)?**

The 401(k) plan was born over 40 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 2023 you can save up to \$22,500 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 as well as 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.