



# THE WHITE PAPER

## Strategies for Managing Your Assets

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## How Well Do You Know Your 401(k)?

The old saying "knowledge is power" applies to many situations in life, including retirement planning. The more you know about the benefits your plan offers, the more likely you'll be to make the most of them and come out ahead financially when it's time to retire. Here are some questions to test your knowledge about your plan.

### How much can I contribute?

The maximum contribution permitted by the IRS for 2015 is \$18,000, although your plan may impose lower limits. Further, if you are age 50 or older, you may be able to make an additional \$6,000 "catch-up" contribution as long as you first contribute the annual maximum. Check with your benefits representative to find out how much you can save.

### What investments are available to me?

Recent research indicated that a third of retirement plan participants were "not at all familiar" or "not that familiar" with the investment options offered by their employer's plan.<sup>1</sup> The study went on to reveal that individuals who were familiar with their retirement plan investments were nearly twice as likely to save 10% or more of their annual income, compared with those who report having little-to-no knowledge about such investments.<sup>1</sup>

Understanding your investment options is essential when building a portfolio that matches your risk tolerance and time horizon. Generally speaking, the shorter your time horizon, the more conservative you may want your investments to be, while a longer time horizon may enable you to take on slightly more risk.

### What are the tax benefits?

Contributing to your employer's retirement plan offers two significant tax benefits. First, since your contributions are taken out of your paycheck before taxes are withheld, you get the up-front benefit of lowering your current taxable income. Plus, since you don't pay taxes on the money you contribute or on any investment earnings until you make withdrawals, more goes toward building your retirement nest egg.<sup>2</sup>

### Will my employer make contributions to my account on my behalf?

Many companies try to encourage participation in their retirement plans by matching workers' contributions up to a certain percentage of each worker's salary. Defined contribution benchmarking studies indicate that the average company contribution in 401(k) plans is now 2.7% of pay.<sup>3</sup> The most common type of fixed match reported by 40% of plan sponsors is \$.50 per \$1.00 up to a specified percentage of pay (commonly 6%).<sup>3</sup> For their part, employees interviewed recently cited "taking advantage of the company match" as the top reason for participating in their company's retirement plan.<sup>4</sup>

### How long before the money in the plan is mine?

Any money you contribute to your retirement account is yours, period. However, any matching contributions made by your employer may be on a "vesting schedule," where your percentage of ownership increases based on years of service. Current research indicates that 40.6% of employers now offer immediate vesting of matching contributions.<sup>3</sup> Because vesting schedules vary from plan to plan, be sure you know the specifics of yours.

Your benefits representative can help you answer these and other questions about your employer-sponsored plan. Being "in the know" may help you avoid missteps and make as much progress as possible on the road to retirement.

<sup>1</sup>*Pensions & Investments, "TIAA-CREF: Participants with knowledge of investment options more likely to save," February 26, 2014.*

<sup>2</sup>Withdrawals from tax-deferred retirement accounts will be taxed at then-current rates. Withdrawals made prior to age 59½ may be subject to a 10% additional federal tax.

<sup>3</sup>401(k) Help Center.com, "Benchmark Your 401(k) Plan, 2015."

<sup>4</sup>Deloitte Development LLC, "Annual Defined Contribution Benchmarking Survey," 2013-2014 Edition.

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