401(k) Retirement Plans

Frequently asked questions

What is a 401(k) retirement plan?

A 401(k) is an employer-sponsored qualified retirement savings plan. It allows you to save for retirement and have the savings invested while deferring current income taxes on the saved money and earnings until withdrawal. The Roth 401(k) requires post-tax contributions, but allows for tax free growth and distribution.

Who can establish a 401(k) plan?

A 401(k) plan may be established by a sole proprietor, partnership, corporation and by certain non-profit organizations. Currently, state and local governments are prohibited from adopting a 401(k) plan.

How does a 401(k) plan work?

You decide, based upon applicable plan provisions, how much money you want to have deducted from your paycheck and invested during each pay period, up to the legal maximum, established annually by the Internal Revenue Service (IRS) a lesser amount if limited by your plan. With a participant directed account you decide how to invest that money, choosing from your plan's different investment options. The money you contribute to your 401(k) account is deducted from your pay either before income taxes are taken out (Pre-tax contributions) or after income taxes are taken out (Roth contribution).

What are pre-tax contributions?

Pre-tax contributions are the amounts invested into your company retirement plan that are deducted from your paycheck before income taxes are calculated. By contributing to a 401(k), you can actually reduce the amount you pay in taxes each pay period. Making pre-tax contributions helps you lower your taxable income. Because of these tax advantages, the IRS puts certain restrictions on withdrawing this money before you reach retirement age. For example, if you earn $1,000 each paycheck, and you contribute 5 percent ($50), you are only taxed on $950. You don't owe income taxes on the money until you withdraw it from the plan.

What are Roth Contributions?

Roth contributions are the amounts invested into your company retirement plan that are deducted from your paycheck after income taxes are calculated. The Roth contributions and earnings can be distributed tax free if you have had your money in the Roth account for 5 years and have reached age 59½, died or become disabled (known as Qualified Roth Distribution).

How much can I contribute per year?

Under current tax law, you may contribute a maximum of $19,000 (limit for 2019, subject to certain requirements). Thereafter, the limit will increase in increments of $500 for cost-of-living increases. Any previous contributions and your participation in other retirement plans may also affect your contribution limit. Of course, you must satisfy the plan's eligibility requirements before you can defer.

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Can I make catch-up contributions?

Current IRS guidelines allow an individual who will attain age 50 within the calendar year to make an additional pre-tax catch-up contribution if allowed by your plan provisions. For 2019, the additional catch-up amount is $6,000.

How are my contributions made?

Your contributions are automatically deducted directly from your paycheck. To enjoy the convenience of payroll deduction, once you have met the plan's age and service requirements, simply submit an enrollment form indicating a deferral percentage to your employer and your contributions will be deducted and added directly to your 401(k) retirement plan. Your plan may limit the frequency in which you may begin, or adjust, your deferral election.

When must my company invest my contributions?

Department of Labor regulations require plan sponsors to submit employee contributions into the plan in a "timely manner" after they are deducted from the employee's pay. The regulations provide that participant contributions to retirement plans become plan assets and must be deposited on the earliest day they can reasonably be segregated from the employer's general assets, but in no event later than the 15th business day of the month following the month in which the participant contributions are withheld by the employer. For smaller plans (with less than 100 participants) a 7-day rule applies. Failure to submit contributions in a timely manner may result in fines and other penalties.

What is a company match?

Some companies offer a "match" or "matching contribution" as an incentive to participate in the company retirement plan. It means that the company will contribute a certain amount to your account (usually between 25% and 100%) for every percent that you contribute, up to a certain limit. The match formula can vary. To receive the matching contribution, the plan may require that you meet separate eligibility requirements. It makes good sense to take advantage of a company match by setting aside the maximum amount required to qualify for a matching contribution. If your employer offers a matching contribution, your savings can grow that much faster.

Can I change or stop my contributions?

Yes, you can change the amount of your contributions as often as your plan permits. You can also stop your contributions at any time and start again on a date determined by the plan.

Can I access my money in an emergency?

Depending on your plan, you may be eligible for a "hardship withdrawal." According to IRS regulations, your "hardship" must represent an "immediate and heavy financial need" and there must not be "any other resource reasonably available to you to handle that financial need" (e.g., Insurance, liquidation of assets, etc). The IRS recognizes six reasons for a hardship withdrawal: (1) certain unreimbursable medical expenses, (2) purchase of a primary residence, (3) payments of post-secondary tuition for the next year, and (4) to prevent eviction from or foreclosure on your home. Some plans also allow hardship withdrawals for other reasons, (5) payments needed to repair damage to your principal residence that would qualify as a deductible casualty expense, (6) payment of funeral expenses for your deceased parent, spouse, children or dependents.

Can I borrow money from my 401(k) retirement plan?

Loans may be available subject to IRS restrictions and plan rules. Check with your human resources department or plan administrator for details.

How does taking a loan affect the value of my account?

Your account will be reduced by the amount of the loan. Over time you may miss out on the potential earnings that may have occurred as a result of a loss of your principal in your account. Even though you repay a loan to your account and continue to make contributions, you still lose the earnings potential for the amount of the loan while you are repaying it.

How will I know the value of my 401(k) retirement plan?

You will receive quarterly statements detailing your plan activity. You can also access your account information via our website. Online access allows you to monitor and make certain changes to your account, provides quick access to historical investment performance for your plan and summarizes your plan provisions.

Will my Social Security benefits be affected by my 401(k) plan distributions?

Not necessarily. Having a 401(k) will not reduce your Social Security benefits, but distributions from your 401(k) taken during retirement may make your Social Security benefits subject to federal income tax, especially if you have significant other income.

Can I contribute to an IRA and to my company 401(k) plan?

Yes, you may contribute to an IRA and your company 401(k) plan, however the deduction may be limited. Please contact your tax advisor for more specific information.

What happens to my 401(k) plan money if I leave my current employer?

Generally, if you change jobs, you have four options available: You can roll your money directly into an Individual Retirement Account (IRA). If allowed by your new employer, you may be able to roll your money into your new plan. If you have more than $5,000 invested in your account, you may be able to leave money in your current 401(k) plan. You can take a full or partial withdrawal with the check payable to you and receive the funds directly, depending on the terms of your plan. You will owe income taxes on the withdrawal and you may also owe an additional 10% IRS early withdrawal penalty if the funds are withdrawn before you turn age 59½ (or age 55 if you have separated from service). In addition, other penalties may apply. All options are subject to your specific plan rules.

When do I have to start taking money from my 401(k) plan?

You must begin to take distributions no later than April 1 of the year following either the year in which you turn age 70½ or the year in which you retire, whichever is later. If you are a five percent owner of the company that established the plan, you must begin to take distributions no later than April 1 of the calendar year following the calendar year in which you attain age 70½.

What happens to my 401(k) retirement plan if I die?

Your beneficiary will receive the value of your retirement plan. This death benefit may be subject to income taxes.

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