Plootus: a personalized way to your 401k

Complete Guide: 401(k) from Dummies to Nerd

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What is 401(k)?

401(k) plan is an employer-sponsored retirement plan that eligible employees can make contributions to on pretax/ post-tax basis or in a simple way you can say its the financial planning for their retirement. Businesses offering a 401(k) plan may make a matching contribution to the plan on behalf of the employees. Income in a this plan accumulates on a tax-deferred basis. This essentially means that an employee can contribute a sum annually in his/her 401(k) account which would accumulate on a tax-deferred basis and help in reducing the burden in the current year. Let's assume your salary is $50,000 and your tax bracket is 20 percent. When you contribute 3 percent of your salary into a tax-deferred account, $1,500—your taxable income reduces $48,500. The income tax on $48,500 is $300 (20% of 1,500) less than the tax on your full salary of $50,000. This means that you not only save for retirement, but you also save income taxes in the current year. Employee 401(k) contribution is deducted from their paycheck at each payroll interval. This cash is taken out before the employee's paycheck is taxed. The amount is invested in the fund chosen by the employee. 401(k) plans hold $5.3 trillion in assets as of March 31, 2018, for the benefit of around 55 million members and retirees. Research has shown that American usually spare more through defined contribution plans when planning for their retirement That is the reason it's astounding to discover that the normal American does not have this retirement planning - particularly given the number of workers who have the choice to take part in one.

Types of 401(k):

There are essentially two types of 401(k)'s: Traditional and ROTH.

Traditional 401(k)s are tax-deferred. It means that your contributions are made from your pre-tax income**.** However, it will be taxable during withdrawal from your account, including any returns in the account. A traditional 401(k) is a better option if you believe you will be taxed in a lower bracket when you retire. For example, when you contribute $1,500 annually, you do not pay taxes on it and your income for the year reduces by $1,500. You will only pay taxes when you withdraw from your 401(k) account at the tax rate applicable at that time.

Income on contribution and employer match is also not taxed till retirement and it grows tax-free and user pays taxes when he retires.

A ROTH 401(k) is a post-tax contribution account. It means that the contributions will be made from your after-tax income. The biggest advantage is that you don't pay taxes at the time of withdrawal, so your investments truly grow. This is a better option if you think you'll be taxed at a higher rate in the future. Let's assume you earn $50,000, and your tax bracket is 20%, $10,000 is the tax you have to pay to the IRS. Which leaves you with only $40,000. You can now contribute $1,500 to Roth 401(k) post-tax. The return on the amount contributed will be tax-free during the time of withdrawal.

Benefits of 401(k) Plan

Taxation:

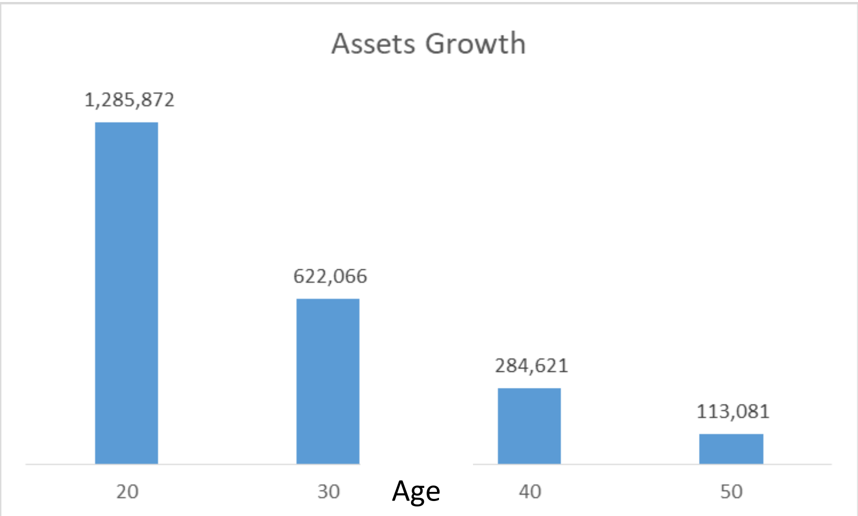
It is one of the prominent reasons for people to invest in 401(k). One can contribute a certain percentage of income on a pre-tax basis which means one can lower his income as the amount you contribute is exempt from Federal taxes. In addition to this, the earning in the 401(k) account accumulates on a tax-deferred basis which means that the gain is not taxable until you withdraw from the plan. You might not be withdrawing the amount until you retire, this. would reduce your tax liability as the earning then might be lower than when you are working.

Matching contributions from the employer: Many employers offer matching contributions to your 401(k) plan. It is essentially free money. Many companies offer 50% of the first 6% you contribute to a 401(k). So let's say you earn a $50,000 salary. If you contribute 6% of your pay ($3,000), your employer would contribute 50% of that amount to your 401(k). That's $1,500 of free money. Some employers even offer a dollar-for-dollar match for the first 6%. In this scenario, your employer would match your contribution of $3,000. On top of it, employer contributions do not count toward your annual contribution limit.

Credit protection: These retirement plans offer creditor protection. As a 401(k) is considered an ERISA-qualified retirement account, it means that it was set up under the Employee Retirement Income Security Act (ERISA) which are generally protected from judgment creditors. This essentially means that in case of bankruptcy, the creditors cannot claim any amount present in your 401(k) account.

Amount you should invest:

If you start at a younger age, you will be able to accumulate a significantly higher amount than what you will be able to if you start later in life. There's no rule of thumb regarding the proportion of your income, you should put aside for your retirement. The amount varies based on the age at which you start saving and also other factors such as retirement goals, risk profile, etc. Suppose if you're 30 years old, earning $50,000 a year, and saving 6 percent of your income i.e. $4,500 per year into a retirement account, and your employer matches 3%. (50% match)



Assumptions	
Annual Contribution	$4500
Investment Return	7%
Retirement Age	65 Years
No Growth in salary	

How do you grow your assets quickly?

Taking an extra risk for the lost time also doesn't make any sense. Risk has two sides: either you win big, or you might lose more. And at a later age, you won't have enough time to recover from a loss. The best way to compensate for lost time is by saving more and planning efficiently.

It is better to utilize the full amount available ($19,000 in 2019).

You should take full advantage of the employer match (What's an employer match? Let's say it is that your employer will chip in 50 cents for every dollar you contribute, up to a certain amount. This gives you a 50 percent "return," so to speak, every $1 invested automatically becomes $1.50.). Saving for retirement should be one of your top priority along with paying off student loan, credit card loan or saving for your children's college tuition.

Can you take a loan on your 401(k)

Yes, you can take a loan on your 401(k), the maximum amount that you may take as a 401(k) loan is generally 50% of your vested account balance, or $50,000, whichever is less. If 50% of your vested account balance is less than $10,000, you may borrow up to $10,000 if your plan allows it.

You have to indicate the account from which you want to borrow money from. You have five years to pay back your loan. There is no penalty for early repayment. Most plans will allow you to repay the loan through payroll deductions, the similar way you invested the money earlier in your account.

When can you withdraw funds from your 401(k)?

Withdrawal from 401(k) Before Age 59½

Firstly, it is important to know that any withdrawal made from 401(k) will be treated as taxable income and will be subject to tax in the year you make such withdrawal. But, in addition to the taxable withdrawal, you will also be levied a 10% penalty for early withdrawal.

When you change jobs, your employer changes and you will have to transfer your 401(k) account. This doesn't mean that you will be paying a penalty on it. You can avoid the penalty if you are looking to transfer or rollover to another qualified account in the form of trustee-to-trustee transfer.

Lastly, there are certain circumstances under which you can make penalty-free withdrawal from your 401(k) account:

1) The account balance is withdrawn for your beneficiary after you pass away.
2) You become disabled
3) You are at least 55 years old and have terminated employment.
4) If you begin "substantially equal periodic" withdrawals

Withdrawal from 401(k) After Age 59½

Generally, At the age of 59½, one can make penalty-free withdrawals from his 401(k) assets. But, in case one is working, the rules are slightly different. It is possible that the plan may offer an "in-service" withdrawal which allows one to access his 401(k) assets penalty-free, but a lot of plans do not offer this option. It is important to remember that even if the withdrawal is not penalized, they will be subject to income taxes.

After reaching the age of 70½, you are generally required to withdraw a minimum amount from your retirement plan yearly as per the federal tax laws. These annual withdrawals are called as required minimum distributions (RMDs).

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You must withdraw your RMD amount from your plans by Dec. 31 of each year. Let assume, you turned 70½ in November 2018, your 1st RMD must be taken by April 1, 2019 (Extension for the 1st year only) and you will have to take 2nd RMD by Dec. 31, 2019.

Thank you

Please reach out to us if you have any questions at support@plootus.com

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