COMMON QUESTIONS ABOUT YOUR RETIREMENT PLAN, ANSWERED

Q: What will I need to be able to retire comfortably?

A: You will probably need 70-85% of your current income in retirement to maintain your current standard of living.[1] Social Security provides the average worker 44% of pre-retirement income.[2] Your retirement plan can help you close that gap by making automatic payroll deductions. It's a simple method of disciplined saving!

Q: How do I know if I am saving enough to meet my goals?

A: Your retirement plan website provides a retirement calculator that can help you determine what your income will be in retirement based on your current rate of savings, including Social Security benefits. You may also be able to include other savings or income in your retirement projection to get a complete picture of your financial future.

Q: How much can I save each year?

A: Your plan may limit the percentage of each paycheck that you can save. Each year, the IRS will set a limit on the total amount of contributions you can make. In 2022, you may contribute up to $20,500. People who are age 50 or older may save an additional $6,500 in catch-up contributions, for a total of $27,000.

Q: Does my retirement plan provide any tax advantages?

A: Yes! Your retirement plan allows you to save *pretax* dollars, which lowers your current taxable income. These assets can then grow tax-deferred until withdrawn. Withdrawals are taxed as regular income in the year they are taken.[3] Because people often have a lower income in retirement, you may find yourself in a lower tax bracket at that time.

Your plan may also allow *Roth* savings. *Roth* contributions are taxed now, but have the potential to grow tax-free. Qualified Roth withdrawals can be made entirely tax-free.[4]

Q: How do I choose my investments?

A: You will want to select a *diversified* portfolio (i.e., many different types of investments, like bonds and stocks) that provides an appropriate level of risk for you.

If you have a long time until retirement, you may wish to select an *aggressive* portfolio with a high allocation of stocks. An aggressive portfolio has a higher potential for return but is also more volatile. If you have a long time until retirement, you have time to ride out the ups and downs of the stock market.

As you approach retirement, you may wish to choose a more *conservative* portfolio with a high allocation of bonds and cash, trading potential return in the future for more stability in the present.[5]

Q: What if I need help managing my investments?

A: Your plan probably provides a set of *asset allocation* options that adjust your level of investment risk as you approach your target retirement date. For investment advice, please reach out to a BerganKDV advisor for a retirement plan consultation at no additional cost to you.

Q: Does my plan offer an employer contribution?

A: Your employer may help you save for retirement by offering an employer contribution. These can take the form of *matching contributions,* which match a portion of your contributions to your account, or *nonelective contributions,* which are made to your account regardless of your personal savings rate.

Not sure if your plan offers an employer contribution? Consult an HR representative or reach out to BerganKDV for more information.

Q: What does "vesting" mean?

A: Should your employer make a contribution, vesting refers to the percent of your employer contributions that you have the right to take with you when you leave the company. Once you are 100% vested, you have full ownership of all employer contributions you have received and will have full ownership of all employer contributions you will receive in the future. The contributions you make through payroll deduction are always 100% vested.

Q: Can I access my retirement savings before I retire?

A: Some plans allow you to borrow a percentage of your account value. Please keep in mind that you will have to make regular payments plus interest on the loan.

You may also be able to take a distribution in the event of a financial hardship. Understand that early withdrawals may incur a 10% Federal tax penalty. While this may be good for emergency situations, your retirement plan is a retirement savings fund, not a rainy-day fund. Set up an emergency fund with enough savings to cover at least 3-to-6 months of expenses to avoid needing to tap your retirement account during an emergency.

Once you reach age 59½, your retirement plan may allow you to withdraw assets at any time, even while working. Withdrawals made after age 59½ are not subject to the 10% early withdrawal tax penalty.

Q: What happens to my retirement plan account if I leave my employer?

A: When you leave your job, you can roll over your retirement plan savings to an individual retirement account or a new employer's retirement plan.[6] This way, you stay on track for your retirement savings goals, without having to start over each time you change jobs.

If you meet the retirement plan's minimum balance (usually $5,000), you can also keep your savings in this plan for as long as you would like, though you will need to begin taking required minimum distributions when you reach age 72.

WE'RE HERE TO HELP

Have questions? You can reach a BerganKDV advisor at no additional cost to you.

1 Scholz, John Karl, and Ananth Seshadri. 2009. "What Replacement Rates Should Households Use?"
2 Munnell, Alicia H. and Soto, Mauricio. 2005. "How Much Pre-Retirement Income Does Social Security Replace?
3 FICA and FUTA taxes still apply. Withdrawals taken before age 59½ may incur a 10% income tax penalty.
4 Roth contribution withdrawals are qualified after age 59½ and five years after first Roth contribution.
5 Investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money. Using diversification or asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions.
6 Prior to rolling over, consider your other options. You may also be able to leave money in your current plan, withdraw cash or roll over the assets to your new employer's plan if one is available and rollovers are permitted. Compare the differences in investment options, services, fees and expenses, withdrawal options, required minimum distributions, other plan features, and tax treatment. Speak with your advisor regarding your situation.
This is intended for educational purposes only, and should not be construed as specific investment, tax or legal advice. Please see your summary plan description for more details about the retirement plan offered by your employer.