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Retirement Fundamentals

If you're new to saving for retirement, all the unfamiliar jargon can be off-putting. We've compiled some of the most common retirement terms, outlining what they mean and why they're important. This is a great place to start building your retirement planning confidence.

Auto Enrollment:

The practice of enrolling all eligible employees in a plan and beginning participant deferrals without requiring the employees to submit a request to participate. Plan design specifies how these automatic deferrals will be invested and how much will be withheld. Employees who do not want to make deferrals must actively file a request to be excluded from the plan. Participants can generally change the amount of pay that is deferred and how it is invested.

Beneficiary:

The person or persons who a participant chooses to receive the assets in a plan account if he or she dies. If a participant is married, the spouse is automatically the beneficiary unless the participant designates a different beneficiary (and both participant and spouse sign a written waiver). If the participant is not married, the account will be paid to his or her estate if no beneficiary is on file.

Contingent Beneficiary:

This beneficiary stands second-in-line, behind the primary beneficiary, to inherit the assets of a retirement plan.

Employee Contributions:

Employee contributions are where an employee can make contributions from his or her paycheck either before or after tax, depending on the options offered in the plan.

Employer Matching/Contributions:

If a retirement plan has an employer match, that means the employer will contribute to an employee's retirement account based on how much that employee defers. The more the employee contributes, the more the employer does, up to a maximum cap determined by the employer. Employer contributions are tax-deductible for employers up to applicable deduction limits, making them a popular way for companies to reward their employees. For example, an employer may match 100% of your contributions, up to 3% of your salary. If you earned \$50,000 per year and you contribute 3% of your own pay to the plan, your employer would match up to \$1,500 of your retirement contributions. There is no set formula for employer contributions, so be sure to check with your company on your plan's provisions.

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Hardship Withdrawal:

Employee contributions are where an employee can make contributions from his or her paycheck either before or after tax, depending on the options offered in the plan.

In-Service Withdrawal:

A withdrawal from a retirement savings plan by a participant who remains employed. In-service withdrawals are severely restricted by law and most plans.

- In-service withdrawals of elective deferrals (employee salary reduction contributions) are prohibited by law prior to age 59 1/2. While allowed by law after that age, most plans do not allow it.
- In-service withdrawals of employer contributions are allowed under some circumstances prior to age 59 1/2, but most plans prohibit it.

Roth Contributions:

This source of employee deferral offers special tax advantages. Unlike traditional pre-tax employee deferrals, Roth contributions are made with money you've already paid taxes on. Because there is no upfront tax deduction, your earnings and withdrawals are tax free once you reach 59 1/2. Both pre-tax and Roth deferrals go into your employer sponsored retirement plan and will show, in aggregate, as your total account balance. Check with your employer to see if Roth contributions are available in your plan.

Target-date funds:

Often found in qualified retirement plans, target-date funds are designed to serve as an all-in-one portfolio that is tailored to your expected retirement date. If you have about 30 years until retirement, you might invest in a 2050 or 2055 target-date fund based off the year being 2024. In the beginning, your investments will be riskier and more heavily weighted toward stocks, then as you get closer to your target retirement year, the investments will become increasingly more conservative and will shift to include more bonds.

Vesting:

Another word for ownership. Participants are always fully vested in the contributions they make. Employer contributions, however, may be subject to a vesting schedule in which participant ownership builds gradually over several years. Check with your employer to see if a vesting schedule applies.

For more information, Contact MCF today!

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