



401(k) Plans

Saving for Retirement



Types of 401(k) Accounts

- Traditional 401(k)
 - *Before-tax contributions*
- Roth 401(k)
 - *After-tax contributions*

What is a 401 (k) Plan?

A 401(k) plan is a qualified plan that includes a feature allowing an employee to elect to have their employer contribute a portion of the employee's wages to an individual retirement account.

401(k) plans are permitted to allow employees to designate some or all of their elective deferrals as "Roth elective deferrals" that are generally subject to taxation under the rules applicable to Roth IRAs.

Both plans are great ways to build towards retirement!

How much can I contribute?

For Workers *under* age 50...

- The 2023 limit is \$22,500 per year

For Workers *over* age 50...

- The 2023 limit is \$30,000 per year

When can I begin to withdraw?

Typically, you can withdraw fund from your account without penalty once you reach age 59 ½.

With ROTH 401(k)s, you must be 59 ½ *and* wait 5 years following your *first* contribution.

Withdrawal Penalties

The penalty for early withdrawal from your 401(k) account is 10% on the withdrawn funds.

Penalty exceptions exist for unreimbursed medical expenses that exceed 7.5% of your AGI.

Unless its an emergency, leave your money alone!

Traditional vs. Roth

Traditional: You *owe less taxes now* since your 401(k) contributions are removed from the taxable portion of your paycheck.

When you retire and begin to withdraw from your 401 (k) account, *you will pay ordinary taxes on these funds.*

This is beneficial if you think you will make substantially less money when you begin to withdraw from your account. For example, if your income is lower in the future, then you will pay a lower tax rate on your contributions.

Roth: You *owe more taxes now*. Roth contributions are withheld from your paycheck, similar to a traditional 401(k). However, the withholdings are after-tax, meaning you pay taxes on these withholdings prior to contributing them to your retirement plan.

Because you've already paid taxes on these contributions, when you begin to withdraw from your Roth 401(k), *you will not owe any additional taxes* on these funds or the interest it has earned.