Retirement Plan

Update

Issue 2, 2019

Because the time is now...

Avoid the default investment trap

Investors should consider whether their retirement plan's default investment is compatible with their investing goals.

Have you heard of 401(k) Day? It's a time for promoting the popular 401(k) retirement plan and the importance of setting money aside for the future while you are working.

If your employer offers a 401(k) plan, participating can be an important step toward having the retirement you want. To be successful, you must understand your retirement plan's investment options and choose those that are right for you.

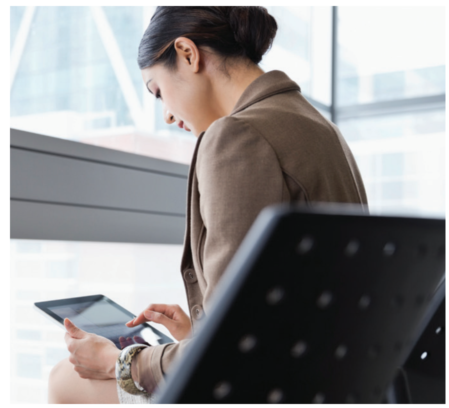
Default investments

Many retirement plans have a default investment (sometimes referred to as a "qualified default investment alternative," or QDIA). Basically, if you don't specify where you want your retirement plan contributions invested, the retirement plan invests your contributions in the default investment. Your retirement plan's default investment may be a balanced fund or target-date fund that includes a mix of stock and bond investments. Consider all your options.

Keep in mind that your retirement plan's default investment may or may not suit your personal needs and goals. You shouldn't assume the default investment is right for you just because your employer provided it. Sticking with an investment that isn't a good fit could impact your retirement readiness. Instead, carefully review all your investment options and choose the ones that fit your goals, risk tolerance and investment time frame. Your financial professional can provide guidance in choosing suitable investment options.

Permission to change your mind

If you initially decide to go with your retirement plan's default investment, you can opt later to have your contributions put into different investments offered by your retirement plan. Take the time to review the investment information your retirement plan provides, your current situation, and your long-term goals. You also may want to consider contributing to an individual retirement account (IRA) to help you further prepare for the future. Consider asking your financial professional about the different kinds of IRAs and how they work.



FA Name

Title

Address

City, State, Zip

email

Phone 1

Phone 2

Website

Borrowing from yourself—not always the best plan

Before taking a loan or hardship withdrawal from your 401(k) plan account, review the rules and potential risks.

Where can you turn if you need cash in an emergency? Some people turn to their 401(k) plans. After all, you're borrowing your own money and paying it back to yourself with interest.

But taking a loan from your 401(k) plan may put you at risk of not reaching your retirement goals. Before you take any money from your retirement account, take time to review its impact and the rules associated with 401(k) plan loans.

On the plus side

If your plan permits loans (and not all plans do), you'll generally be able to borrow up to half of your vested plan balance, capped at $50,000. Taking a loan from your plan may be easier and faster than getting a loan from a traditional financial institution. And you'll usually repay the principal and interest to your plan account through automatic payroll deduction.

On the minus side

The money you borrow will no longer be in your account benefiting from tax-deferred growth. Plus, you'll be repaying the loan with after-tax dollars. That means the money used for repayment will be taxed twice, since you'll pay tax on it again when you withdraw it at retirement. If you have trouble contributing to your plan account while you're making loan payments, you might end up with less saved for retirement than you need. And the really bad news? If you leave your employer for any reason, you'll have to repay the entire loan balance before the next tax filing deadline or it will be considered a taxable distribution, requiring you to pay income tax on the amount of the loan. Furthermore, you may potentially owe a 10% early withdrawal penalty on the amount in addition to taxes.

Hardship withdrawals: a last resort

If you're faced with a financial emergency and you've already borrowed all you can, you may be able to take a hardship withdrawal from your 401(k) plan account. You must have an immediate and heavy financial need, such as medical expenses that aren't covered by insurance.

You usually can withdraw the money you've contributed, but not employer contributions or earnings. You'll owe income tax and, possibly, an early withdrawal penalty. You won't be permitted to make contributions to your plan for six months after the hardship withdrawal is made. And, unlike a plan loan, withdrawals cannot be repaid to the plan.