Issue 2, 2023 Because the time is now ...

Questions to ask about your retirement plan

Participating in your employer's retirement plan can help you save for your retirement years. But to make the most of the plan, you'll want to have a good understanding of how it works. Here are some questions you should ask.

What type of plan is it?

The first thing you should find out is whether your employer offers a defined benefit plan or a defined contribution plan. A defined benefit plan is employer funded and provides a specific monthly pension benefit to you when you retire. A defined contribution plan, such as a 401(k) plan, does not promise you a specific retirement benefit. Instead, the amount you receive depends on the balance in your plan account when you retire (or receive an earlier distribution). Both employer and employee contributions may be allowed, and employees may be responsible for choosing their account investments from the plan's list of options.

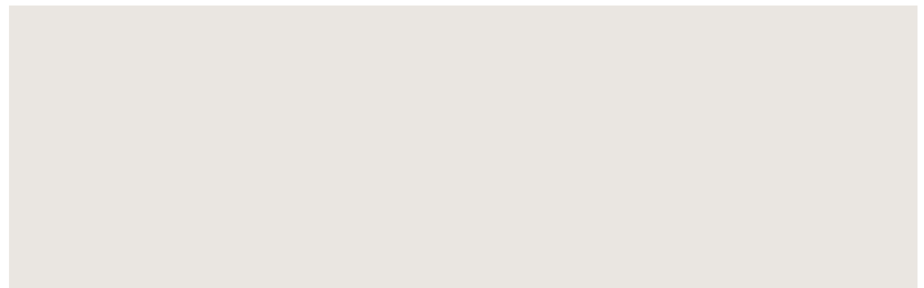
Who is eligible to participate and when?

Federal law allows employers to include and exclude certain groups from a retirement plan. For example, there may be one plan for salaried employees and another for union employees, or a plan may not cover some part-time employees at all. Eligibility is generally based on age and years of service to the company.

How do I contribute?

Some plans have auto-enrollment, which means employees are automatically enrolled in the plan unless they choose to opt out. These plans also have a predetermined contribution amount that is automatically taken from the employee's paycheck and put into a predetermined investment in the plan. Employees should receive information on how to

Continued on page 2



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Continued from page 1

change their contribution amounts and investments or how to opt out altogether. If your plan doesn't have auto-enrollment, you'll be able to choose your contribution amount and investments upon eligibility to join the plan.

Contributions taken from your paycheck are typically made pretax. If your plan has a Roth option, you can make after-tax contributions to your plan. Your employer may contribute to your account as well, through matching contributions—where the amount you contribute is matched up to a certain percentage—or profit sharing contributions, or both.

Would I forfeit the amount in my plan account if I leave my employer?

Your plan's vesting schedule will tell you how much time you have to be with your employer before you can keep your employer's contributions to your plan account and any investment earnings on them. For example, your plan may have a four-year vesting schedule, where you may be 25% vested after your first year of service and 25% for each year after until you reach 100%. You are always 100% vested in your own contributions to the plan and in any earnings from those contributions.

When can I take money out of the plan?

That depends on the terms of the plan. But generally, you'll want to wait until you retire to start withdrawing your retirement savings. You may have to pay a 10% early distribution penalty (in addition to regular income taxes) if you take money from the plan before age 59½. At age 73, you'll generally have to begin taking a minimum amount from your retirement account each year. You may be able to take a loan from your plan. Your plan also may allow you to take a hardship withdrawal in a financial emergency.

How do I find out all of this information about my plan?

A formal, written plan document is a requirement for any retirement plan. Your employer should also provide you with a less formal summary plan description, which should include the plan's rules and other information you may need to understand the plan.

Your financial and tax professionals are another resource you can turn to for assistance with retirement planning and assessing your workplace retirement plan.

Five mistakes plan participants make

Avoid five common mistakes that retirement plan participants make and stay on track to a more secure retirement future.

If you recently joined your employer's retirement plan and don't feel all that confident about saving and investing for such an important long-term goal, don't worry. Your plan offers educational materials that can help you understand the plan's features and your investment options.

However, even long-time plan participants can make rookie errors. Read on to find out more about five of the most common mistakes that retirement plan participants make. Avoiding these mistakes can help put you on the road to a more secure retirement future.

One: Not contributing enough to get the employer match

Some employers offer to "match" a percentage of employees' contributions to their retirement plan. For example, an employer might match 50% of the employee's plan contribution up to 6% of the employee's total annual compensation. Employees who do not contribute at least enough money to their plan accounts to get the full employer match are leaving what is essentially "free" money on the table.

Two: Taking plan loans

Many retirement plans offer participants the ability to borrow from their plan accounts once they meet certain conditions. Although it can be reassuring to know that you can access your savings early if you need to, the fact that loans are available does not mean that it's smart to take loans from your plan.

When you borrow money from your plan account, you'll have less invested. Until the loan is repaid, you could miss out on growth opportunities. And if you leave your current employer while you have an outstanding plan loan, you may have only a limited window of time to repay your loan balance. Otherwise, the unpaid amount will be regarded as a "deemed distribution" that's taxable to you. You may owe an additional 10% early withdrawal penalty on it as well.

Continued on page 3

Continued from page 2

Three: Reducing or stopping contributions

Your regular, uninterrupted contributions to the plan have the potential to compound over time. Investing them in an appropriate mix of stock, bond, and cash equivalent investments can help you build up your retirement savings. However, when you reduce the amount you contribute or you stop contributing altogether—even for a year or two—you are disrupting the growth of your savings.

Finding the money to set aside for retirement can be tough, especially when you face so many other financial demands. But it's important to prioritize saving for your retirement. Otherwise, you might need to push back your retirement date or reduce your expectations as to what you will have available for spending in retirement.

Four: Not understanding your tolerance for risk

Risk is a fact of life for every investor. Some investments, such as stocks, carry a higher risk of principal loss than others. The risk of loss is essentially the price you have to pay for the possibility of higher returns. As a retirement plan investor, you have to figure out how much investment risk you can comfortably handle. Once you have identified your ability to handle the possibility of investing losses, you will be better able to allocate your plan investments in a way that's appropriate for your risk tolerance.*

Five: Trying to outguess the stock market

Some investors believe that they can successfully time the stock market. They think that they can invest their money in the market at the moment it begins to move upward and get out of the market just as it is about to start falling. Of course, it is impossible to identify the exact moments when the stock market is about to climb or start to decline. All too often, investors end up sitting on the sidelines when the stock market makes one of its sudden bull runs. As a result, the long-term growth of their retirement savings is negatively impacted.

The reality is that time in the market works for retirement plan investors, not timing. By steadily investing in your retirement plan every payday, you are building up your account balance. Moreover, you can also benefit from compounding. The longer your money is invested, the greater potential benefit there is from compounding.

For assistance in reviewing your retirement plan portfolio and your investing strategy, consult a financial professional.

* Asset allocation does not guarantee a profit or protect against losses.

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