2015 Winter RetireOnTarget® Newsletter

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8 misperceptions about 401(k) plans.

Everyone has opinions about 401(k) retirement plans. Here are some of the more common misperceptions that could impact your retirement:

1. **"I only need to contribute up to the maximum company match."** Many plan participants believe they only need to make contributions up to the maximum percentage that their company matches because that's how the plan is set up. In most plans that works out to be only 5% or less. Contributing to the match is a good starting point, but it's usually not enough to fund a secure retirement. Try to shoot for at least 10% to 15% in total contributions to your account.

2. **"Rolling a 401(k) balance into an IRA is a good idea."** Sometimes it is and sometimes it isn't. Pay attention to the type of IRA (and fees) that you're considering. However, higher fees, lack of free investment advice, use of higher cost investment options, and many other factors can make this a poor choice.

3. **"Actively trading my 401(k) account makes sense."** Trying to time the market, following newsletters, or using "hot tips" is usually a fool's game. It's better to develop a long-term, sound investment strategy and then stick to it.

4. **"It is OK to take a loan or withdrawal.** After all, if it's such a bad thing, then why would my company let me do it?" Be careful with loans and withdrawals because they are a major reason many participants never save enough for retirement. Try your best to keep your funds invested for your retirement unless you absolutely do not have another option.

Thoughtful ideas for planning your retirement.

Read previous issues.

5. **"I can't afford to save for retirement."** Although this may be true for some people, it's certainly not true for everyone making this claim. It's a matter of priorities. It's often about taking a long term view of your money and growing wealth, not about buying things now (stuff you often don't need anyway).

6. **"Target date funds are not good investments."** We think they are. Especially now that they have come down in cost. Target date funds offer proper age-based diversification. They help you take a less emotional, longer-term view and are a great choice for most people. If you don't want to put all of your money in one, that's OK. Target date funds can serve as a good core investment for your plan.

7. **"Putting money into the stock market is like going to a casino."** No doubt that there are days where it seems like this. Here's the big difference. The longer you're in a casino, the more money you'll lose to the house. As far as the stock market, history has shown that the longer you're in the stock market, the greater the chance that you'll come out ahead versus other investment alternatives. But, nothing is guaranteed and you should approach it with a strategy.

8. **"My 401(k) account is a good way to save for college, a first home, etc."** For the same reasons as taking a loan or withdrawal, a retirement plan is not a good place to save for college, a first home, or anything other than retirement. It's not selfish to save for your own retirement first. Your children will thank you when you're older.

Use your 401(k) plan wisely. It's a great way to save for your retirement.

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Crazy math.

*Source: "It's Time to Save for Retirement", Insured Retirement Institute, 2014

How can 10% equal 16.5% which equals 26%?

Does this sound like math gone crazy? Is it the new way they teach math these days? Well, it's neither of these, but this gives a really good insight into retirement saving.

Let's assume a worker that starts to contribute to their 401(k) plan age 30 and puts in 10% of their pay per year. If they would wait just 5 years to start saving at age 35, they would need to save 16.5% of their pay per year to equal the same amount of savings as the 30 year old when they retire at age 65. Now let's wait another 5 years until age 40 to start saving. This same person would need to save a whopping 26% of their pay each year to equal the same amount of retirement income at age 65 as a worker who had started saving 10% at age 30*.

It's amazing how time works in your favor when you start saving early in your career. Unfortunately, time can be your enemy if you've started late in saving for retirement. Bottom line -- if you haven't started saving, start now. If you're a bit behind, crank up your saving rate. For even more clarity, go to benefitsforyou.com and use RetireOnTarget® to get a more accurate picture of your retirement savings.

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7 Warren Buffet quotes to help you invest.

At age 84, Warren Buffet is the second richest person in the world, trailing only Bill Gates according to the 2014 annual Forbes magazine survey. Warren Buffett is a true genius as he is able to simplify complex ideas into quotes that will stand the test of time. He spent his life giving advice to all who would listen, earning him the nickname of the Oracle of Omaha.

Here are a few of his famous quotes and our interpretation of how you can apply them to your retirement accounts.

1. **"The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."** As an investor, set aside your emotions and stick to your plan. Turn off those financial shows on TV that are more often selling entertainment instead of education and knowledge.

2. **"I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over."** Make sure your portfolio is mostly high-quality stocks you can count on. Don't load up on risky investments and hope they turn out.

3. **"If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes."** Think long-term regarding the performance of your stock fund investments. Don't go into it with short-term thinking; that's speculation, not investing.

4. **"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."** Buffet buys high quality companies. Make sure you also have a portfolio with a higher proportion invested in funds that choose high quality companies.

5. **"Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant."** A bit risqué for a Buffet quote, but it conveys a great message. You need to let time work in your favor when investing for retirement. Don't change your approach because of short-term price movements.

6. **"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."** It is a gross oversimplification to say that the key to investing is to buy low and sell high. This quote from Warren Buffett has been the basis of his most successful investments over time and the basis of how you could have avoided the last few market bubbles.

And one of our favorites …

7. **"Well, I think the biggest mistake is not learning the habits of saving properly early. Because saving is a habit. And then, trying to get rich quick. It's pretty easy to get well-to-do slowly. But it's not easy to get rich quick."** Putting aside enough money consistently over many years is a proven method to build wealth. And that's what your 401(k) plan can help you do.

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Ketchup or "Catch-up"?

Although it sounds like a condiment, "catch-up" contributions are much better in your retirement plan than on your French fries. If you're 50 or older and think your retirement fund needs a boost, there's an IRS rule that could help you. You can make "catch-up contributions" into your retirement plan – deferral contributions above the annual limit set for plan participants younger than age 50.

For 2015, most retirement plan participants can contribute up to $18,000 to their 401(k) or 403(b) retirement account. Those age 50 and over can contribute an additional $6,000. These catch-up contributions allow older employees to boost their savings as retirement becomes closer.

- To qualify, you need to be age 50 or older by the end of the calendar year, and be a participant in a 401(k) or 403(b) retirement plan.
- You'll need to make your contributions by elective payroll deferrals before the end of your plan's year.
- If you are not able to change your contribution amount online, just contact your benefits department.

Read about catch-up contributions in a variety of saving plans directly from the IRS.

You can also make catch-up contributions to your traditional or Roth IRA.

Above and beyond your 401(k) or 403(b) retirement account, you may also make catch-up contributions to your traditional or Roth IRA. You'll need to be age 50 or older in the tax year for which you're contributing. In 2014 and 2015, you can contribute up to $1,000 by the due date of your tax return (not including extensions).

Extra contributions may also be available for employees in 403(b) plans.

And employees with at least 15 years of service in a 403(b) plan may be eligible to make additional contributions in addition to the regular catch-up for participants who are age 50 or over. See more details on 403(b) Contribution Limits.

Learn more at www.irs.gov.

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