401(k) Plans:

Defer More Than You Think– Beyond The Usual

Standard 401(k) plans are run by employers called “sponsors,” as a benefit to their employees, who have the option of *participating* or not.

Perhaps more popular now are “defined contribution” plans offered by employers known as a 401(k). This type of plan, is *defined* (by the IRS) by how much you may contribute. (There are two other kinds of defined contribution plans, profit-sharing plans and money purchase pension plans, but those are beyond this topic here. For more on this see my book “Under the Radar”.)

If you participate in a 401(k) plan, you postpone or *defer* a certain percent of your compensation and your taxation on that amount (through a payroll reduction), up to a maximum percent, determined by the government for retirement. You defer the tax owed. And you postpone the *tax calculation* until the time that you distribute this for retirement income. The government will then tell you when and how much money you must withdraw.

The money in a 401(k) is invested within the boundaries provided by the employer’s 401(k) plan. By deferring the money, two advantages occur: First, the compensation is not taxed until the money comes out at retirement (starting at age 59 1/2),. Second, the earnings on these investments also grow tax-deferred until they are withdrawn at retirement. These are advantageous to most, but not to all.

In addition, employers may encourage employees to join the 401(k) plan by matching your contributions. The match is typically 50 cents on the dollar up to 6% of pay, thereby capping any potential match at 3% of payroll.

The maximum payroll deduction for 2015 is about $18,500 with a $6,000 catch up provision for those ages 50 and older (these numbers are approximate and change every year).

But it may be possible for you to defer more, MUCH more than a traditional 401(k). While 401(k)s are among the most well-known of retirement savings plan, they may not be the best.

Since the Pension Protection Act of 2006 the Roth 401(k) was created. Like Roth IRAs, your money from after-tax earnings funds the Roth 401(k) and leaves, at retirement, tax-free — along with any earnings from that account!

All of these 401(k) topics are covered indepth in my book, “Under the Radar.” Why not check it out now?

Or if you want to explore strategies that may be more effective in growing your wealth and providing you with a wealthy retirement — why not call our office today at (866) 977-2252 for a free, no-obligation, consultation, or sign up for one and write in your questions, and we will get back to you soon with answers.