SEGMENTS

Take the Fear Out of Finance

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**Retirement savings are critical for financial security.
In this handout, you will learn:**

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WHAT IS A RETIREMENT ACCOUNT?

A retirement account is an investment account on which the IRS has special rules that allow the investment to grow tax-free. The tax-free growth makes a retirement account different from other savings accounts.

Can anyone establish a retirement account?

No –you must have "earned income" from W-2 employment or self-employment to establish a retirement account. Interest, Dividends, and Social Security Income are NOT considered earned income. Rental income from real estate is usually not considered earned income.

Can you open a retirement account at any age?

You can open and contribute to an account at any age, provided you have earned income.

Should you open or contribute to a retirement account when you are nearly retired?

Yes, establishing or contributing to a retirement account when you are older, provided you have earned income, remains smart as it allows investments to grow tax-free.

WHAT ARE THE TYPES OF PLANS?

Are there different types of retirement plans?

Yes, the IRS uses different names for retirement plans depending on who establishes them. For example,

- Plans established by individuals are called IRAs (Individual Retirement Plans).
- Plans established by self-employed individuals may be called SIMPLE IRA, SEP, or Solo-401K.
- Plans established by larger employers are called 401K, 403b, 457b, 457f.

Can you put as much money as you want into a retirement account?

No, because the IRS allows these accounts to grow tax-free, they limit the amount of money a person can deposit annually.

The contribution amount changes yearly, so it is essential to know the limit for each year. Also, the law usually allows those over 50 to put in more than those under 50. The term for the extra amount a person over 50 can deposit is called "Catch Up."

For 2024:

- Individuals under 50 can contribute $7,000, and those over 50 $8,000, up to their earned income, whichever is LESS.

Those enrolled in an employer-sponsored plan, including self-employed individuals, may be able to contribute significantly more. (see chart below)
see https://www.fidelity.com/retirement-ira/contribution-limits-deadlines

Can a person have both an individual plan and an employer-sponsored plan?

Yes, Individuals covered by an employer plan can ALSO contribute to an IRA, but the amount they can contribute might be limited. It is based on their marital status and their Modified Adjusted Gross Income (MAGI) – see article
https://www.investopedia.com/ask/answers/111015/can-you-have-both-401k-and-ira.asp

Can a married couple have a joint retirement plan?

No retirement plans are set up for individuals. However, the account's value is generally considered a “Marital Asset” in the event of divorce; the value is often shared. (See below on divorce.)

TRADITIONAL vs. ROTH

What is the difference between a Traditional Plan and a ROTH plan?

Whether a person establishes an individual retirement plan (IRA) or participates in an employer-sponsored plan, they must elect whether they want it treated for tax purposes as a Traditional Plan or a Roth Plan.

- A Traditional plan allows you to deduct the amount you contribute from your current year’s tax return. Thus, it lowers your current income and saves you money on taxes. However, in 20 years, when you withdraw, the withdrawals will be taxed as ordinary income.

- A ROTH plan does NOT allow a current-year tax deduction for the amount you contribute, but withdrawals will NOT be taxed when you withdraw.

Which is better – a Traditional Plan or a ROTH Plan?

People often have psychological reasons for wanting to establish a ROTH; they like to know that the money in their retirement account will come to them tax-free when they withdraw, but that is not the financially astute way to make the decision.

The best way to look at it is to consider the tax bracket you are in now and compare it to the tax bracket you will be in when you withdraw.

- It is better to elect a Traditional Plan if you believe you are in a higher bracket now (because you are working) than the tax bracket you will be in during retirement when you take withdrawals.

- It is better to elect a ROTH Plan if you believe you are in a lower tax bracket now (perhaps because you are only working part-time or are at an entry-level position) than the tax bracket you will be in during retirement when you take withdrawals.

MONEY 101 handout 7.02 illustrates the growth of an investment in both a Traditional and a ROTH at different tax brackets.

Are there other things besides tax brackets to consider when choosing between a Traditional and a Roth plan?

Yes, a Roth plan has the additional restriction that you must leave your money in the account for at least five years, or there will be a withdrawal penalty – and the penalty applies even if you are over 59 ½. Therefore, if you are older and want to begin withdrawals in less than five years, do not elect a Roth Plan.

Can you have both a Traditional and a Roth plan?

Yes, you can have both a Traditional and a Roth and contribute to both in the same year – however, the total amount of contributions cannot exceed the limit set by the IRS.

Can I consolidate A Traditional and a Roth into one account?

No, regardless of how the plan was set up – either by you as an individual or through an employer, contributions made to a traditional account can never be mingled with contributions to a Roth account. The accounts must always be kept separate. This is because they have different tax treatments upon withdrawal.

UNIQUE BENEFITS OF EMPLOYER-SPONSORED PLANS

Are there benefits to having an employer-sponsored plan as opposed to an IRA?

Yes, there are a few benefits to employer-sponsored plans:

- You generally can contribute more than the amount allowed for an individual.
- Your contributions are taken from your paycheck, making retirement savings automatic and less painful.
- You can purchase funds without having to meet a minimum purchase. However, you are limited to the funds selected by the employer. However, most employer-sponsored plans offer funds that are appropriate for retirement.
- Sometimes, the employer will offer a "match," meaning they will contribute to the employee's retirement account. The amount of the match and how it is calculated is voluntary and up to the employer, but an employer must use the exact match criteria for all employees. They cannot give one group of employees a higher percentage.

What is an example of a match?

If an employer states, "We will match 50% of your contribution up to 6% of your salary", it is essential to understand how that is calculated.

Here are some scenarios for an employee whose total compensation is $100,000 annually and the employer is making the above offer.

Employee W-2 compensation	If Employee elects to contribute	Employee Contribution equals	Employer Contribution equals	Total Contribution
$100,000	4%	$4,000	$2,000	$6,000
$100,000	6%	$6,000	$3,000	$9,000
$100,000	8%	$8,000	$3,000	$11,000

Can employees take all the money in their retirement account if they terminate their employment?

A person is always entitled to take the amounts they contributed but may not be entitled to keep the employer contribution. The amount they can keep that the employer contributed depends on how much they are vested.

What does vesting mean?

Vesting is a term used to describe the percentage of the employer's contribution that the employee owns outright. If a person is 20% vested, they only own 20% of the amount the employer contributed, and if they were to leave the firm, they would forfeit 80% of the employer's contribution.

The Internal Revenue Code (IRC) allows two acceptable vesting schedules for 401(k) plans: three-year cliff and two- to six-year graded.

- **Cliff vesting**

  Employees are 0% vested for a set number of years, usually up to three, and then become 100% vested. For example, with a three-year cliff vesting schedule, employees are 100% vested after three years of service but 0% vested before that.

- **Graded vesting**

  Employees gradually earn ownership of the company's contributions over a set period, usually up to six years. For example, with a five-year graded vesting schedule, employees own 20% of the company's contributions after the first year, 40% after the second year, and so on until they reach 100% after the fifth year.

What should I think about before I quit my job?

Suppose you are not fully vested in an employer-sponsored retirement plan. In that case, you should be aware that you will forfeit the unvested portion of your employer's contribution when you leave the company. You NEVER forfeit the amount you contributed. For example.

- If your employer contributed $2,000 to your plan,
- has a five-year vesting schedule whereby you were vested 20% per year
- you worked two full years and quit when you were only 40% vested
- THEN you would forfeit 60% of the $2,000 or $1200

What should I do with my retirement plan if I leave my employer?

When your employment terminates, open an Individual Retirement plan (IRA) with a Financial Custodian to get an account number. You must tell them if you want to open a Traditional IRA, a Roth IRA, or both.

Then contact your former employer and request they send the money directly to the financial custodian. Give the former employer the new account number. Sometimes, the Financial Custodian can help with this process. This is called a "ROLL OVER".

What is a rollover, and why is it important?

A rollover transfers funds from one eligible retirement plan to another within 60 days. This can involve withdrawing cash or other assets from one plan, contributing them to another, or transferring the funds between plans. Rollovers are usually arranged between financial institutions that act as custodians for retirement accounts.

Are there any other special requirements regarding the Rollover?

If you are legally married and rolling over a 401K to an individual IRA, your spouse must sign a consent form agreeing to the rollover.

What if my former employer sends me a check for the plan balance, and I wait to roll it over, going past the 60 days?

If you do not roll over the funds within sixty days,

- By January 31st of the following year, you will receive a 1099 reporting the withdrawal, and income taxes will be due on the amount withdrawn.
- If you are under 59 ½, a 10 % penalty in addition to the income tax will be due.
- If you have withdrawn these funds from a ROTH account established for less than five years, a 10% penalty will be due in addition to the income tax.

WITHDRAWALS

What is “Enough” for Retirement?

When you retire, most financial advisors suggest your annual withdrawal not exceed 4% of your account balance; this is the same as 1/25.

For example, if you have one million dollars in the account, you should be able to remove $40,000 annually.

Financial advisors assume that if the remaining balance of the retirement fund is invested with 50-60% in stocks and the balance in bonds, they will never “run out of money” because the growth will keep up with the withdrawals.

Are there restrictions on withdrawals?

If you are under age 59 ½, there is a 10% penalty for withdrawing from your retirement account regardless of whether it is an IRA or an employer-sponsored plan and irrespective of whether it is a Traditional or a ROTH plan.

Is there a way to avoid the early withdrawal penalty?

You can avoid the penalty if you use your withdrawal for specific purposes, such as:

- First-time home purchase: You can use funds for some home purchases within 120 days, up to a lifetime limit of $10,000.
- Educational expenses: You can use funds for qualified higher education expenses for yourself, your spouse, or your child, such as tuition, books, or supplies.
- Disability or death: If you're disabled, you can withdraw funds without penalty. If you pass away, your beneficiaries won't face withdrawal penalties.
- Roth IRA: If you've had your Roth IRA for at least five years and you're withdrawing money you contributed, you can take it out without penalty.

Another way to avoid the penalty is to use the 72(t) rule, the Substantially Equal Periodic Payment (SEPP). In that case, you can withdraw before age 59 1/2 without penalty if you agree to take out "substantially equal periodic payments" for five years or until you turn 59 1/2, whichever is longer.

Can you leave the money in the plan forever?

No, if you have a Traditional retirement plan, you must take a Required Minimum Distribution (RMD) when you reach a certain age. The age at which you must take an RMD has changed recently.

Before 2023:	The age to begin RMDs was 72.
2023 and after:	For those who turn 72 after December 31, 2022 the age to begin RMDs is 73.

After 2032:	For those who turn 74 after December 31, 2032 the age to begin RMDs will increase to 75.

Your first RMD must be taken by April 1st of the year following when you reach the "RMD age." The amount of your RMD is calculated by taking your balance in the fund on December 31st and dividing it by a life expectancy factor. The life expectancy factor changes every year. Generally, your Financial Custodian will help you calculate your RMD, or you can use online calculators.

Effective 2024, you are not required to take an RMD if you have a ROTH retirement account.

For more information on RMDs, see: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

Is there a method to avoid or reduce paying taxes when you take an RMD?

Yes. One of the most popular RMD strategies for reducing taxes involves donating to charity. The IRS allows you to donate up to $100,000 annually from an IRA without paying taxes. The money you withdraw will still count toward your RMD, so you don't have to worry about a 50% tax penalty for failing to take distributions.

There are a few rules for this strategy:

- You can only donate up to $100,000 to a qualified charity
- Your IRA custodian must arrange for the transfer of funds to an eligible charity
- You're not allowed to claim the donation as a charitable deduction to your taxes

This technique became significantly more advantageous in 2017 when the tax laws changed, and the standard deduction was nearly doubled.

Before that date, most individuals making charitable contributions itemized deductions on Schedule A to get the tax deduction for the charitable contribution amount.

However, in 2017, the standard deduction increased substantially; subsequently, many individuals, especially those making smaller charitable contributions, determined they were better off taking the standard deduction and not itemizing. Therefore, they lost any tax benefit from their charitable contribution.

By making the charitable contribution directly from a Traditional Retirement Plan (not a ROTH), they get to reduce their taxable income AND still take the standard deductions – a double win.

https://www.irs.gov/newsroom/qualified-charitable-distributions-allow-eligible-ira-owners-up-to-100000-in-tax-free-gifts-to-charity

STEPS TO ESTABLISH AN INDIVIDUAL RETIREMENT ACCOUNT

1	Confirm how much you can contribute annually to an IRA based on current IRS regulations	The amount will be based on your age and if you are participating in an employer sponsored plan.
2	Choose a Financial Custodian Read: Handout 12.33 Selecting a Financial Custodian	Think of a Financial Custodian like a vault that will HOLD your assets. In choosing a Financial Custodian, seek a firm with a stellar reputation, good customer support, clear statements, and availability to access your account online and through an app. *In an employer-sponsored plan, the employer will have chosen the Financial Custodian.*
3	Contact the Financial Custodian and open a “Self-Directed” retirement account.	A Self-Directed account has NO maintenance fees – although you may pay transaction fees if you buy funds outside of the Financial Custodian’s house funds. However prudent investors either stick with the house funds or do minimal trading. As an alternative, Financial Custodians offer “Managed Accounts” in which they charge an ongoing fee based on how much is in your account. Fees range from .25% to 1% of the balance in the account. While Managed Accounts offer handholding, it comes at a high cost.
4	Inform the Financial Custodian if you want a Traditional or a Roth retirement account or if you want to open both.	Based on your current tax rate and projected tax rate at withdrawal. Since no one knows the future, this is at best a guess, but it is important to understand the basis for making the decision.
5	Complete the Financial Custodian’s Beneficiary form	The Beneficiary form is what the Financial Custodian will follow to distribute your assets in the event of your death. The Beneficiary form is followed regardless of your Will. Therefore, it is important to periodically review the Beneficiary Form and make certain it reflects your wishes. **NOTE –** *if you are legally married and participating in a 401K plan, your spouse must sign a waiver if you do not make them your beneficiary.*

6	Decide the method to fund the account.	This can be an electronic transfer from your checking account, or you can mail the Financial Custodian a check. Anticipate that it will take a few days to get the funds into the account and clear. Check back in a few days to see if the funds are available for trading/investment.
7	Decide in which fund(s) you want to invest, based on an appropriate asset allocation for your age and purchase the investment	Putting cash into the account is only the first step. After that you must decide how to invest those funds. It is impossible to give an entire investment course in this handout, but most retirement professionals will tell you to invest in a TARGET DATE fund. READ below Once you decide in which fund to invest, purchase it online . Most Financial Custodians have methods for you to put in an order 24 hours a day, and have it executed on the next business day. When purchasing the fund, make certain to indicate that dividends and interest should be "reinvested". That means whenever the fund issues a dividend or interest, the money will be used to buy more shares of the fund.
8	Decide how to automate future transfers to your investment account	In an employer sponsored retirement plan, the employer is responsible for taking money from your earnings and depositing it in the retirement account. Unfortunately, for an account you establish you must do the funding. Sending a small amount weekly is better than waiting until you have a larger amount to transfer because if the transfer is not set up as automatic, it often does not happen. Talk to both the Financial Custodian and your local bank – determine the best way to get money into your Retirement Account on an automatic basis.

TARGET DATE FUNDS

What is a Target Date Fund?

A Target Date fund is a mixture of stocks and bonds, but the ratio between them changes over time. A target date fund is managed so that the investments GLIDE and become more conservative as individuals age. Target Date funds were specifically created to make retirement investing easy. They have been around since the 1990s

The general principle is that while stocks have a higher rate of return, they are riskier and likely to take deep upswings and downswings in value (volatility). On the other hand, bonds offer lower returns but are less volatile. So,

- Individuals in their 20s or 30s with a long way to go to retirement can accept volatility. Their retirement accounts usually invest 90-100% in stocks for higher returns.

- Individuals in their 40s and 50s have less time until they retire and begin shifting toward a more conservative approach. They are willing to take a slightly lower return in exchange for lower volatility. Therefore, their retirement accounts usually have 70-80% invested in stocks and the balance in bonds.

- Individuals in their 60s and already retired are most concerned with risk; they want to minimize volatility. Therefore, their retirement accounts usually have 50-60% invested in stocks and the balance in bonds.

See: https://www.investopedia.com/terms/t/target-date_fund.asp
See: https://www.morningstar.com/funds/are-target-date-funds-good-investments

How do I know which Target Date Fund is appropriate for me?

Target dates funds are set up for every five years – i.e., 2040, 2045, 2050, 2055, etc.

Most people pick the TARGET DATE fund year close to when they anticipate retirement, thus when they will turn 65-70. To determine the appropriate target date fund, a person should take their birth year, add 68, and see where that lands.

As an example:

Born	Will Turn 68 in	Consider as Choice	Consider as Choice
1980	2048	Target Date Fund 2045	Target Date Fund 2050
1993	2061	Target Date Fund 2060	Target Date Fund 2065

Do most Financial Custodians offer Target Date funds?

Yes, for the past 30 years, all primary financial custodians (i.e., Fidelity, Schwab, Vanguard, Blackrock, etc.) have offered Target Date funds.

If you buy the fund from the Financial Custodian's "FUND FAMILY," there is no commission. However, you can buy a fund outside the Custodian's fund family, where you will probably pay a small commission. Thus, if you have an account with Schwab, you can buy a Vanguard Target Date fund and hold it in your Schwab account.

How can I quickly research funds to make a comparison?

Morningstar is a research and reporting firm recognized in the industry as providing unbiased information. It provides most of its information for free, although it prefers when individuals sign up for their service. (www.morningstar.com)

Anyone can access Morningstar and see how a fund has performed compared to its competitors (Category) by googling "Morningstar Performance and the fund symbol." To find a fund symbol – google "Target Date Fund 2050 (enter the name of the Custodian)"

Below are the three 2045 target date funds from different Financial Custodians and the Morningstar link. If you click the link, you can see how the fund has performed (blue line) compared to the category (yellow line).

FIDELITY – Target Date 2045 fund	FFFGX	https://www.morningstar.com/funds/xnas/fffgx/performance
SCHWAB – Target Date 2045 fund	SWYHX	https://www.morningstar.com/funds/xnas/swyhx/performance
VANGUARD – Target Date 2045 fund	VTIVX	https://www.morningstar.com/funds/xnas/vtivx/performance

Is there a Minimum purchase for a Target Date Fund?

There is typically a one-time minimum purchase of $1,000 for an individual retirement account, but if you buy the Financial Custodian's **Target** Date Fund, they may waive the minimum.

For employer-sponsored plans, there is no minimum purchase. The employee designates what percentage of their salary they want to be put into a retirement fund, and the plans are set up to buy that amount of the fund each pay period.

Should I invest in more than one Target Date fund?

No, the key to investing successfully is to keep things simple. Target Date funds of similar years do not differ significantly in their composition. The risk in investing comes primarily

from the stock/bond ratio. If you want a more conservative portfolio, pick an earlier target date year – for example, select 2040 instead of 2050. That will give you a less bumpy ride.

In addition to the Target Date fund, should I invest in other funds?

No. Remember, a Target Date fund includes thousands of stocks and bonds; buying other funds will duplicate what you already have and potentially leave you with an inappropriate diversification of stocks and bonds for your age. Target Date funds were meant to be a one-fund solution for retirement.

How can I determine what stocks or bonds are in a fund?

To see what is inside the fund, click the Morningstar tab "Portfolio."

Are there other things to consider?

Yes, even if you have the cash available, investing slowly and getting acclimatized to the fund going up and down is best. Investing is a roller coaster and can often be upsetting to first-time investors.

Assuming you have $7,000 in the account, consider investing $1,000 a month; this way, you do not take a giant leap at once. Take it slow and watch as your investments increase in value – this is normal. Sometimes, the plunge will be upsetting, so the best advice is to IGNORE the changes – over time, the net result will be growth.

What should I do when the fund goes down in value?

NOTHING, funds typically go up and down in value. When there is uncertainty in the world, funds become more volatile. During COVID, the stock market plunged 20%. This wasn't comforting to investors. However, historical data shows that over time, the gains in stocks and bonds outpace the gains an investor would get from holding cash. Therefore, it is critical to stay the course. I recommend that when the roller coaster goes down, you "close your eyes" but don't jump off!

What is meant by electing to "reinvest interest and dividends"?

Most stock funds pay dividends, and most bond funds pay interest. The dividends and interest are paid in cash; if you do nothing, it will sit in your retirement account. Therefore, after you have made your first purchase of a fund, you must inform the Financial Custodian to use all dividends and interest to buy more of the fund – called reinvesting,

Most Financial Custodians allow the election to be done online by accessing your account, finding the "holdings," and turning a toggle switch called "reinvest" to "on" – but others may not make it as obvious. So, if you have trouble finding how to make that election, call the Financial Custodian and ask for help.

The goal is never to have cash in your retirement account. Instead, you want to use dividend and interest payments to buy more of the fund.

Do I have to take the money and retire when I reach the Target Date?

No, just because you pick a Target Date Fund for a specific year does not mean you must retire and take your money on that date. You can leave your money in that fund forever.

The only significance of the target date is that it indicates how to structure the funds' stocks and bond ratio. Target Date fund managers know it is their responsibility to change the ratio so that it "GLIDES" to become more conservative and the investor ages.

CHANGING INVESTMENTS

Can I make changes to the investments in my account without penalties or taxes?

Yes – the beauty of a retirement account is you can sell and buy ANY asset as often as you want without income taxes or capital gains coming due, provided you do not withdraw funds from the account. Therefore, it can be done without tax consequences if you are unhappy with your investment and want to switch. This is one of the significant benefits of a retirement account.

INHERITED RETIREMENT ACCOUNTS

What happens when a person who has a retirement account dies?

When a person with a retirement account (including an individual plan or one sponsored by an employer) dies, the financial custodian will follow the terms of their beneficiary form. The beneficiary form always supersedes the individual's will, so it is essential to ensure that your beneficiary forms reflect your wishes.

If you are the beneficiary of an inherited IRA, the first thing to do is "roll it over" into a new account you control. This can be with the Financial Custodian where you have your IRA account. However, the inherited account cannot be combined with your existing IRA; it must be set up in a separate account. This is because there are special rules regarding REQUIRED distributions from inherited retirement accounts.

What is a Required Distribution from an Inherited IRA?

A required distribution means removing part of the account value each year. If the deceased person had a Traditional retirement plan, the Financial Custodian will issue a 1099 form at the end of the year, and income tax will be due on the amount withdrawn. If the deceased person had a ROTH retirement plan, the required distribution still needs to be followed, but there will be no income tax due on the amount withdrawn.

What factors determine the amount of the RMD from an inherited retirement account?

Factors that affect the distribution requirements for inherited retirement plan accounts and IRAs include:

- Whether the account owner died after 2019 (the SECURE Act changed the RMDs for beneficiaries if the account holder's death occurred after 2019).
- The beneficiary's relationship to the account owner and certain characteristics (spouse, minor child, disabled or chronically ill individual, entity other than an individual)
- Whether the original account owner died before or after their required beginning date (the first date the original account owner was required to begin taking RMDs).

The account owner's spouse has more options than non-spouse beneficiaries if they're the sole beneficiary. Calculating the amount due that needs to be withdrawn should be done after you consult with the Financial Custodian, as they are most familiar with the formulas

More information can be found on the IRS website:
//www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-beneficiary#

Can Inherited IRAs be combined?

Inherited IRAs can only be combined if they come from the same deceased person and are subject to the same distribution rules. For example, if you inherit multiple IRAs from your father, you can combine them into one account. However, if you inherit an IRA from both your mother and father, you must keep them separate.

SHOULD A PERSON HAVE MULTIPLE RETIREMENT ACCOUNTS?

It is common for an individual to have an Individual Retirement Account and an employer-sponsored account.

In addition, a person could have multiple Inherited Retirement accounts if they were named as a beneficiary for different people.

Finally – for each of the above, the account could be either a Traditional or Roth since these accounts cannot be combined. Therefore, one person could have multiple accounts.

Established by	Called	Tax Treatment
Employer	401K, 403b, 457b, 457f, Simple IRA or SEP IRA	Traditional
Employer	401k, 403b, 457b, 457f, Simple IRA or SEP IRA	Roth

Individual	IRA – Individual Retirement Account	Traditional
Individual	IRA – Individual Retirement Account	Roth
Individual	Inherited IRA	Traditional
Individual	Inherited IRA	Roth

However, simplicity is critical to managing investments, so a person should avoid having multiple accounts with the same characteristics.

As a rule:

- Once you leave an employer, rollover the balance to an IRA you control.
- Keep all IRAs and Inherited IRAs with the same Financial Custodian.

SPOUSAL APPROVAL & DIVORCE

Do I need my spouse to approve changes in my retirement account?

Whether a spouse needs to approve changes to a retirement account depends on the type of plan, the couple's state of residence, and the specific change being made. In general:

- Beneficiary changes - Spouses generally need to consent if a married participant in a company-qualified retirement plan wants to change the beneficiary to someone other than the spouse. This is because the spouse is usually the default beneficiary. For example, if participants wish to name their children from a previous marriage as the beneficiary, they'll need their spouse's consent.

- Distributions - IRA owners typically don't need spousal consent to withdraw, but they might if they live in a community property state.

- State law - State law may also set out rules about spousal consent. For example, in California, a spouse can revoke their consent in writing at any time before the participant's death.

What happens with a retirement account in a divorce?

Assuming contributions were made to a retirement plan. At the same time, the account holder was married, and the account would be considered a “Marital Asset” and subject to division.

Generally, the retirement account is valued at the time of the divorce, and both parties are entitled to half the value. There can be a trade-off with other assets depending on what other assets are available. If there are no other assets to trade off, the Court will issue an order directing the Financial Custodian to roll over half the account value into a new account for the other spouse. If the Court issues the order and the retirement account is rolled over, the withdrawal is not taxed, nor is an early penalty applied.

SUMMARY

What is the most important advice you would give regarding investing?

1. CONTINUOUS INVESTING - Set up an automatic transfer from your checking account into your retirement account and continue to invest. STEADY CONSISTENT INVESTING is the best way to build wealth.

#2. ASSET ALLOCATION - Ensure your asset allocation (stock and bond ratio) is appropriate based on when you anticipate withdrawals. A Target Date fund is your best bet to achieve the proper diversification, and it makes investing simple as you only need one fund, and there is no need to rebalance (buy and sell funds).

The chart below illustrates appropriate stock bond ratios for retirement funds based on the assumption funds will BEGIN to be withdrawn when an investor is in their late 60s.

EMPLOYER-SPONSORED RETIREMENT ACCOUNT CONTRIBUTION LIMITS

There are many different employer-sponsored plans. The names, administrative and reporting details, and the amount that can be contributed annually vary and are based on the employer's type of business and number of employees.

Do not be confused by the names. They all are a way to put aside money for retirement that can grow tax-free. Here are the most popular plans:

Called	Established BY	2024 Contribution Limits
SIMPLE IRA	For Profit employers with less than 100 employees. Both the employer and the employees can make contributions. SIMPLE IRAs are generally easier to set up and run than other retirement plans, with financial institutions handling most of the details. They also have lower start-up and annual costs,	$16,000, or 100% of their compensation, whichever is less. Employees 50 or older can contribute an additional $3,500, for a total of $19,500, but still no more than 100% of their compensation.
SEP	Simplified Employee Pension plan - established by an Employer with less than 100 employees. This plan only allows the Employer to contribute – the employees cannot contribute.	the lesser of 25% of compensation or $69,000.
KEOGH	A term not generally used anymore since regulations have changed, but if in existence it is like a SEP	the lesser of 25% of compensation or $69,000
401K	FOR PROFIT employer generally with over 100 employees established for their W-2 employees. Both the employer and the employee can contribute.	$23,000
403B	NOT-FOR PROFIT or GOVERNMENT employer for W-2 employees. Both the employer and the employee can contribute.	$23,000
457B 457F	457B - State and local government employers, for W-2 employee 457F - NON-PROFIT employers for their top-level W-2 paid executives. The 457B and 457F Differs from 403B - see: https://www.investopedia.com/articles/personal-finance/111615/457-plans-and-403b-plans-comparison.asp	$23,000

RECOMMENDED STOCK/BOND RATIO FOR RETIREMENT ACCOUNTS

Saver's Current Age	20	25	30	35	40	45	50	55	60	65	70
Years To Withdrawal	45	40	35	30	25	20	15	10	5	0	0

Conservative - less willing to take on risk - would accept a more modest return											
US Stock	60.0%	56.7%	53.3%	50.0%	46.7%	43.3%	40.0%	36.7%	33.3%	33.3%	33.3%
Non-US Stock	30.0%	28.3%	26.7%	25.0%	23.3%	21.7%	20.0%	18.3%	16.7%	16.7%	16.7%
TOTAL STOCKS	90%	85%	80%	75%	70%	65%	60%	55%	50%	50%	50%
TOTAL BONDS	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%	50.0%	50.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

More aggressive - more willing to take on risk - for a higher return											
US Stock	66.7%	66.7%	60.0%	56.7%	53.3%	50.0%	46.7%	43.3%	40.0%	40.0%	40.0%
Non-US Stock	33.3%	33.3%	30.0%	28.3%	26.7%	25.0%	23.3%	21.7%	20.0%	20.0%	20.0%
TOTAL STOCKS	100%	100%	90%	85%	80%	75%	70%	65%	60%	60%	60%
TOTAL BONDS	0.0%	0.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	40.0%	40.0%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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