

## What is a 401(k)?

**If you make pretax contributions, your taxable income is reduced by the amount that you contribute to the plan each year, up to certain limits.**



The contributed amount and any investment earnings are taxed to you when withdrawn or distributed. If your plan allows after-tax Roth contributions, there is no immediate tax benefit, but qualified distributions are tax-free. Most 401(k) plans offer an assortment of investment options, ranging from conservative to aggressive.

### **401(k) Plans Key strengths**

- You receive "free" money if your employer matches your contributions
- You decide how much to save (within federal limits) and how to invest your 401(k) money
- Your regular 401(k) contributions are made with pretax dollars
- Earnings accrue tax deferred until you start making withdrawals, usually after retirement
- Your Roth 401(k) contributions (if your plan allows them) are made with after-tax dollars; there's no upfront tax benefit, but distributions of your contributions are always tax free and, if you satisfy a five-year waiting period, distributions of earnings after age 59½, or upon your disability or death, are also tax free
- You may qualify for a partial income tax credit

- Plan loans may be available to you
- Hardship withdrawals may be available to you, though income tax and perhaps an early withdrawal penalty will apply, and you may be suspended from contributing for up to six months
- Your employer may provide full-service investment management
- Savings in a 401(k) are generally exempt from creditor claims (but not from IRS claims)

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#### **Bear in mind...**

- 401(k)s do not promise future benefits; if your plan investments perform badly, you could suffer a financial loss
- If you withdraw the funds prior to age 59½ (age 55 in certain circumstances) you may have to pay a 10 percent early withdrawal penalty (in addition to ordinary income tax)
- The IRS limits the amount of money you can contribute to your 401(k)
- Unless the plan is a SIMPLE 401(k) plan, a safe harbor 401(k) plan, or the plan contains a qualified automatic contribution arrangement, you may have to work for your employer up to six years to fully own employer matching contributions

**For more information, contact your financial professional or call Security Benefit at 800.888.2461.**

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