

True or False: You Are a Retirement Savings Plan Expert

How much do you really know about your employer-sponsored retirement savings plan? If you're like many people, you have many ideas about how your plan works that may or may not be entirely accurate. To gauge your knowledge, take this brief quiz: Are the following statements true or false?

Even though I'm young, I should still make saving for retirement a priority.

True. Because of the power of compounding, your youth is actually one of the best reasons to start contributing now. Compounding is what happens when your plan contributions earn returns, and then those returns produce earnings themselves. Over time the effect can be dramatic. And the younger you are, the more time you have to let compounding work for you. So even if you're struggling to balance rent and food with car loans and school loans, try to contribute even a small amount to your retirement savings plan on a regular basis.

If I work two jobs, each with its own retirement savings plan, I can contribute twice the maximum limit on a pre-tax basis.

Once you're eligible to participate in a 401(k) plan, you can make Roth contributions regardless of your salary level. (This is in contrast to a Roth IRA where your ability to contribute may be limited or eliminated if your income exceeds certain amounts.)

How much can I contribute?

False. The maximum amount that you can contribute to 401(k), 403(b), and SARSEP plans in 2023 is \$22,500, plus any catch-up contributions if you're age 50 or older (up from \$20,500 in 2022). If you contribute to more than one plan, you're generally responsible for making sure you don't exceed these limits. If you do exceed the annual limits, you need to request a refund of the excess contribution amount or report the excess on your tax returns in both the year the contributions were made and the year they are withdrawn. If you're lucky enough to participate in a 457(b) plan as well as one of the plans listed above, you may be able to contribute a total of \$45,000 (\$22,500 to each plan) in 2023, plus catch-up contributions if you're eligible.

Once I join my plan, I can "set it and forget it."

False. Your plan decisions are not a one-and-done deal. Once you join your plan, determine your contribution amount, and choose investments, you can feel confident that you've taken some smart first steps. However, any successful retirement savings strategy depends on regular reviews and periodic changes to keep up with your changing lifestyle.

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All the money in my retirement savings plan is mine to keep, from day one.

Maybe true, maybe not. Your own contributions to the plan and any earnings on those contributions are always yours to keep. However, contributions made by your employer, as well as any associated earnings, may be subject to a “vesting schedule.” Some plans allow you to become fully vested in employer contributions immediately, while others require you to earn rights to the employer contributions over a period of time, up to a maximum of six years or until you reach the plan’s normal retirement age, whichever comes first.

You can find details about your plan’s vesting schedule in your Plan Highlights or Summary Plan Description.

Employer matches on my Roth contributions may go into my Roth account.

True. In 2023, a new law took effect that permits employer contributions to be invested in Roth accounts. However, it may take some time for employer plan documents to be updated to reflect the new rules. Until that time, employer matches will automatically be invested in pre-tax accounts.

In addition, you may be able to convert your employer’s matching contributions to Roth contributions, if your plan allows. If you do, they’ll be subject to income tax in the year of the conversion. But a benefit of the conversion is that future qualified withdrawals of those contributions and associated earnings will be tax-free at the federal, and possibly state, level.

Because I contribute to my employer-sponsored retirement plan, I cannot contribute to an IRA.

False. Your contributions to your employer-sponsored retirement savings plan have no effect on your ability to open or contribute to either a Roth or traditional individual retirement account (IRA). However, your (or your spouse’s) participation in an employer-sponsored plan may affect your ability to deduct traditional IRA contributions on your tax returns, depending on your filing status and income. (Roth IRA contributions are never tax deductible.)

A plan loan is always a good idea, because you pay yourself back with interest.

False. If your plan permits loans, they typically should be considered as a last resort. Although it is generally true that your loan repayments go back into your account, there are several negative consequences to consider:

1. The money you borrow won’t be working for your future. Any money you take out of your plan will diminish the compounding potential in your account.
2. You may not be able to save anything extra while paying back the loan. Because you will have a required loan payment, you may be tempted to decrease or suspend your contributions entirely until the loan is paid off.
3. The interest rate you pay could be lower than what you might be able to earn on the money if it remains invested. Therefore, even though you’re paying interest into your own account, you would be losing out on that additional earning potential.

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4. If you leave your job, the loan may need to be repaid in full by your tax return due date (including extensions). Alternatively, the loan could be considered a distribution and you would end up owing taxes and a possible 10% penalty on the outstanding taxable balance.

5. A loan defeats the whole purpose of your choice to participate in an employer-sponsored savings plan in the first place. That choice is one of the best financial decisions you can make. Why derail that smart move by taking money out of your account now?

When you're facing a financial need or even a crisis, a plan loan can seem tempting. However, after weighing the pros and cons carefully, you may conclude that a plan loan is not worth the long-term risk. This is one of the main reasons why financial professionals recommend having at least three to six months worth of living expenses set aside in an emergency savings account — so you can stay on track in other areas of your financial life when an unexpected need hits.

If I'm nearing retirement, I should move all of my money into conservative investments.

Generally, false. Although it typically makes sense to gradually shift your asset allocation away from more aggressive investments as you age, it's usually a good idea to keep a portion of your portfolio in stocks to help maintain some growth potential in your plan. One of the biggest risks retirees face is losing purchasing power due to the rising cost of living, or even running out of money altogether. Maintaining some stock investments even during retirement can help your portfolio stay ahead of inflation (although there are no guarantees). However, these are just general guidelines; your asset allocation depends on your unique circumstances.

Fortunately, I don't need to be an "expert."

True. Regardless of how you did on this pop quiz, you can take comfort knowing you don't need to be an expert to take maximum advantage of your retirement savings plan. You just need to familiarize yourself with your plan's features, review your plan contribution levels and investments every so often, and consult your plan materials and financial professional for any specific questions. In retirement plan investing, a little knowledge goes a long way.

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