



Frequently Asked Questions

WHAT IS A 401(k)?

A 401(k) plan is a retirement savings plan established by an employer for the benefit of its employees. Employees benefit from a 401(k) through pre-tax & tax-deferred savings. The result is that the deferred taxation allows for much greater compounding of contributions compared to a taxable savings account.

WHY SHOULD I SAVE IN A 401(k)?

There are many reasons why you should save in a 401(k) plan. One of the most important reasons is that the fastest way to build a retirement “nest egg” can be to save pre-tax. Pre-tax contributions reduce your taxable income, and allow you to make greater contributions than you could make to a taxable savings account. During the contribution/accumulation phase, your funds will grow faster because the taxes are deferred until you withdraw the funds. If your company offers a match on your contributions, you have even more motivation to save.

HOW DOES A 401(k) WORK?

Getting started is easy. You simply select a dollar amount or percentage to have deducted from each paycheck. Shortly after you submit your forms to your Human Resources department you will notice the 401(k) contributions being deducted from your paycheck and deposited into your 401(k) account. You can change your contribution amount at any time.

HOW MUCH SHOULD I SAVE?

While Social Security may provide some benefit in retirement, most experts agree that the payout from Social Security will not be enough to enjoy a well-rounded retirement. Each person’s amount needed to save will be different. The general rule of thumb is that you will need about 10X your current annual income at retirement. So, if you earn \$50,000 you may need a retirement account worth approximately \$500,000. If you would like a better idea of how much you will need, please take five minutes to complete the short Retirement Calculator to calculate your number. Need more help? You can always contact your Wellington representative for advice specific to your circumstances.

HOW SHOULD I INVEST MY MONEY IN THE 401(k) PLAN?

This 401(k) plan offers many different investment options. The plan has retained the services of an SEC-registered investment advisory firm, Wellington Consulting Services, Inc., to help you with managing your account. You can choose one of the three Pro Accounts, or you can choose from amongst the core investment options. Self-directed “Brokerage-Window” accounts may be available, as well. Please consult your Wellington Representative for details.

WHEN CAN I TAKE THE MONEY OUT?

With a tax-qualified retirement account, such as your 401(k) account, you are unable to access the funds while you are employed by the plan sponsor, although there are may be exceptions. Under certain circumstances, you may be able to borrow against your account, take a hardship distribution, or qualify for an in-service distribution. These are plan-specific provisions and may not be available in your company’s retirement plan.

WHEN DO I PAY TAXES?

You will pay taxes on the amount withdrawn from the account in the form of a direct distribution (cash payment of funds). Funds taken as a direct distribution will be considered taxable income for the year in which the withdrawal occurred. If you withdraw your funds prior to reaching age 59 ½ there is an additional 10% penalty unless an exemption applies.

WHAT HAPPENS TO MY MONEY IF I LEAVE THE COMPANY?

If you leave your employer you will no longer be able to contribute to the plan. You will have the opportunity to rollover your funds to your new employer’s plan, to an IRA, or take a direct distribution (cash payment). It is generally wiser to rollover your funds to another retirement account in order to avoid paying the early withdrawal penalties.

WHERE CAN I GO FOR MORE INFORMATION?

Your company has retained the services of the Wellington Consulting Services, Inc. to offer advice relating to your retirement account, such as how much you should save and your investment options. Below, you will find our contact information to speak with one of our representatives. You can also visit our website (www.perfect401k.com) for more information.