Frequently Asked Questions For Your Retirement Plan

Many people think they need to make a drastic change to have a substantial impact on their retirement savings. However, this is not always the case. The first step is to understand the benefit your employer is offering you so you can maximize it. Below are some frequently asked questions about retirement plans that can help you understand this great benefit.

What is a 401(k) or Retirement Plan?
A 401(k) or retirement plan is a way to save for retirement provided by your employer. From each paycheck a percentage of your payment will go into a special pre-tax savings account. You can decide how much money to put in your savings account up to the tax limits determined by the government. At any time you can add more or less money to it or stop completely. The decision is always yours.

I thought that the government is going to give me money when I retire, why do I need a Retirement Plan?
Social Security was not developed to provide all the money you will need for your retirement. People will have to rely on their savings for their retirement.

How is my salary affected if I enroll in a Retirement plan?
Contributing "pre-tax" money to your employer's qualified retirement plan reduces your current taxable income by the amount of salary you defer under the plan. Therefore, you may invest more than you normally would if you put your money into a comparable investment post-tax. For example, one hundred dollars ($100) invested pre-tax would cost you the same as $72 invested after-tax (assuming you are at the 28% tax bracket).

How will this affect my taxes in April?
It can lower your tax bill. The money you put into a retirement plan is "before-tax" money. When you go to file your taxes, the salary you report is your salary MINUS the amount of money you put into the Retirement Plan.

Am I returning the money to my company?
No, when you save money in a retirement plan account, the money is yours. You are not returning your money to the company. In addition, many companies contribute a certain amount of money to these accounts; this is like free money.

Why set my money aside? What if I need it?
Many plans have a loan program that allows money to be withdrawn from your account in an emergency. With hardship withdrawals, you can withdraw your money for specific financial needs like outstanding medical bills, buying a home, or paying for funeral expenses for members of your immediate family.

But I have family in my homeland and I have to send money to them every month. If I save in a Retirement Plan, how can I send that money?
Even if you put little money into a retirement plan, you can still send money home to your family. Since the retirement plan is tax-deferred, it won't affect how you're used to supporting your family. With just $10.00 each week, you can have an account that grows until you retire.

How much money can I put in my retirement account?
The legally established maximum for pre-tax contributions is adjusted annually for inflation. In 2025, the annual contribution limit is set at $23,500. Individuals aged 50 and above can make an additional contribution of $7,500 per year. For those aged 60-63, the catch-up contribution is $11,250.

What pre-tax percentage should I invest when I'm just starting out?
Any savings is better than none. The earlier you start, the better! It's in your best interest to maximize the company's matching contribution. For example, if your company matches 50 cents on the dollar up to 6%, you may want to contribute at least 6%. Defer as much as you can according to your budget.

What is employer match or matching contributions (employer match)?
A great advantage of your employer's retirement plan is that your employer can match a portion of the contributions you make to the plan. For example, your employer may make contributions equal to 50 cents for every dollar you contribute. If your employer offers matching contributions, take advantage of it and maximize the amount of money you save. The boost that matching contributions from your employer can provide could help you reach your retirement goals more quickly. Contributions made by your employer or matching contributions come under your control according to a vesting schedule.

What is "vesting"?
Vesting is an English term that refers to your right as a participant in a company-sponsored retirement plan to receive a present or future retirement benefit that is not contingent on your continued employment by the employer. You will always be entitled to 100% of the contributions you have made to the plan. However, contributions made by your employer often come into your control according to a vesting schedule, whereby your ownership percentage will increase based on your years of service with your employer. By law, you do not need to have more than six years of service to be entitled to 100% of the contributions made by your employer, including profits. Entitlement schedules vary by plan.

What is a mutual fund?
A mutual fund pools money from thousands of investors and the fund manager uses all the money to buy stocks, bonds, cash, or other investments. Normally a mutual fund focuses on a specific type of investment. For example, many mutual funds contain only stocks while other mutual funds contain bonds or other types of investments such as cash or alternative investments. When a person contributes money to a mutual fund, they own a portion of all the investments within the fund. Thus, a mutual fund gives investors the ability to invest in a portfolio containing hundreds of investments without having to invest a lot of money..

What is a Managed Target Date Portfolio/Fund?
A Managed Target Date Fund is a mutual fund made up of a collection of other mutual funds. Each Target Date Fund is highly diversified and is designed to become more conservative over time. A typical mutual fund never changes your investing style or risk tolerance. So when someone invests their retirement savings in a regular mutual fund, they have to move money from an aggressive fund(s) to a conservative fund(s) over time. This is not necessary with a Target Date Fund. Target Date Funds get more conservative over time and are made to correspond to your age. For example, the 2060 Target Date Fund is for someone who plans to retire around the year 2060. The 2060 Target Date Fund is a bit aggressive because the people who invest in the fund have 30 plus years before they retire. However, 25 years from today the Target Date 2060 Fund will be more conservative because the investors using the fund will be closer to retirement and so on! they will need to have a more conservative portfolio.

What if I don't want to put my money in one of the Managed Target Date Portfolios/Funds?
If you don't want to invest your money in one of the Target Date Funds you don't have to. You have other investment options. To change your investments contact the Participant Services Group at 1-800-876-9557 where there are people who speak Spanish to help you or you can make changes to your investments on the website startright.bokf.com.

Do I have to invest in the Managed Target Date Portfolio/Fund that corresponds with my date of birth?
No. You have the option to invest in any fund or group of funds offered in the retirement plan. The Plan offers a wide variety of funds including cash-focused funds, stocks, or bonds. To direct your Investments contact the Participant Services Group at 1-800-876-9557 or make changes to your investments on the website startright.bokf.com.

What is the difference between investing in a Traditional retirement plan or a Roth retirement plan?
The main difference between the two types of plans is in the way taxes are applied. In a Traditional retirement plan, an advance tax deduction is applied to your pre-tax contributions. Tax contributions and earnings are taxed only when you withdraw money. In a Roth retirement plan, contributions are made after taxes. Since there is no upfront tax deduction, the account grows tax-free and withdrawals during your retirement are not subject to income taxes, as long as you are at least age 59½ and have had the account for five years or more. However, if you need to withdraw money before you are 59½, a 10% withdrawal penalty will apply to both types of plans.

Should I invest in a Roth retirement plan or a Traditional retirement plan?
If you think your tax rate at retirement will be the same or higher than it is now, you may want to retire with a Roth retirement plan. This is the case for young people who are just starting their careers and expect their income to increase in the future. For those in the 15% to 20% tax bracket, it may not be a bad idea to pay those taxes now and not have to worry about future changes in your tax bracket. On the other hand, if you are in your prime earning years and believe you will be in a lower tax bracket when you retire, you may benefit from continuing to contribute to the Traditional retirement plan. But in reality, things are much more complicated. For one thing, no one can predict with certainty what tax rates will apply in the future, though the general consensus is that they will rise to help the government offset growing budget deficits and pay for Social Security and Medicare. This is one of the reasons why those in the higher tax brackets indicate a preference for the Roth retirement plan. "They are ready to pay the normal tax now, whatever it is, since the certainty that they will not have to pay taxes in the future offsets the value of the tax deferral."

Still have questions about the Roth retirement plan?
That's what we believed. That's why we went ahead and answered the most important.

a. Who can access a Roth retirement plan?
All people whose employers offer it.
b. What happens to the matching contribution made by the employer?
Employer matching contributions are pre-tax, accumulated in an individual account, and taxed as ordinary income upon withdrawal.
c. What are the rules for early withdrawal?
The rules for withdrawal in the Roth retirement plan are subject to the same requirements as the Traditional retirement plan, according to the IRS.
d. What happens if I leave my job?
The Roth retirement plan balance can be rolled over to a Roth IRA.
e. Will the Roth retirement plan option always be available?
Yes. Initially, the Roth retirement plan option was set to expire after 2011, but in 2006 legislation made it permanent. Therefore, you can count on it.

Can I withdraw money from my account while I'm still working?
Some plans offer loans that allow you to borrow money from your retirement account, but you'll have to pay it back with interest. If you don't repay it, the loan will be considered a withdrawal and the outstanding loan balance will be subject to current income taxes and a 10% early withdrawal penalty. If your plan does not offer loans, you may be able to qualify for a hardship withdrawal if you have no other resources available.

What are the general rules regarding loans from a retirement account?
Your plan description or plan highlights will say if your employer allows you to take loans from their plan. You must repay the loan within five years, although this can be extended in the case of your first home purchase, if the plan allows it. In general, you are allowed to borrow up to 50% of the vested account balance up to a maximum of $50,000 (established by law). Generally, loan payments are deducted from your paychecks. If you are married, your spouse will need to consent to the loan. Funds obtained from a loan are not subject to income tax or the 10% early withdrawal penalty. If your employment ends, any unpaid loans will be treated as a distribution to you. This distribution will be subject to income taxes and, if you are not at least age 59½, the 10% withdrawal penalty.

What are the rules regarding hardship withdrawals from my retirement account?
Hardship withdrawals are permitted by law, but your employer is not required to offer this option in your plan. The IRS code governing retirement plans provides for hardship withdrawals only if: (1) the withdrawal is due to an immediate and serious financial need; (2) the withdrawal must be necessary to meet that need (that is, you have no other funds or other way to meet the need); (3) the withdrawal must not exceed the amount you need; (4) you must have taken all available tax-exempt loans or distributions under the retirement plan; and (5) cannot contribute to the retirement plan for 6 months after withdrawal. The IRS considers the following four elements reasonable grounds for making hardship withdrawals:

- Non-covered medical expenses for you, your spouse, or your dependents.
- Purchase of the employee's main home.
- Payment of college tuition or related educational costs such as room and board for the next 12 months for you, your spouse, dependents, or children who are no longer dependents.
- Payments needed to prevent eviction from your home or foreclosure on your main home.

Hardship withdrawals are subject to income taxes, and if you're not at least age 59½, a 10% withdrawal penalty. You cannnot return the withdrawal into the plan.

What happens to my retirement account balance if I decide to leave the company or if I am laid off?
Your distribution options are the same whether you voluntarily quit or are fired. If your account balance is greater than $5,000, you can keep your money in the plan. If you want to take your money with you and do not want to pay taxes on this money and also pay a 10% penalty, then the vested account balance can be transferred to another employer's retirement plan or placed in an Individual Retirement Account (IRA) to avoid taxes and any early withdrawal penalties.

After working 3 years in the US as a temporary worker (H1 Visa), I am planning to return home. I would like to know what the repercussions are on my retirement account. Can I continue to maintain this account until I am 60 years old? What early withdrawal options do I have to minimize taxes and avoid penalties?
Your options are the same as those of a citizen. If the amount in your retirement account is more than $5,000, you can leave the funds in the plan. You can also transfer the funds to an IRA plan (we recommend this option). As a non-citizen, you will have no problem maintaining this account. You may withdraw all or part of your retirement account or IRA funds before age 59½ for any reason, but you will owe federal income tax and a 10% early withdrawal penalty. After age 59 1/2, you will only owe income tax.

What happens to my money if I die?
An employee who has a retirement plan can decide who gets their money if they die. When a person dies, the person who was designated beneficiary will receive the money in the retirement plan.

I have a retirement account with my former employer. If I need to access the money, what options do I have?
As a former employee, you can request a distribution of your retirement assets at any time. Contact your former employer and request the necessary forms to make a lump sum withdrawal. Your former employer must withhold and remit 20% of the amount to the IRS as a “prepayment” on income taxes. Also, if you're not at least 59½, you'll have to pay an early withdrawal penalty.

For the past three years, I have maintained a retirement account with a former employer. I just started working at another company that offers the retirement plan. How can I transfer my old employer's retirement account to my new employer's plan without paying penalties?
First, you should check with your new employer to see if their plan accepts transfers. If so, ask for instructions on where to send the assets from your old retirement account. Then contact your old employer and request the necessary forms to complete the transfer to your new employer's plan. There are no penalties for transferring assets from one plan to the other.

How do I locate a former retirement account that I believe I contributed to with a former employer?
Contact your former employer. Ask them to check your plan records to see if you participated in the retirement plan. Make sure you have the full name, social security number, and the dates you worked for them handy.