401(k) in Focus

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FISHER INVESTMENTS®
401(k) SOLUTIONS

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Keep Your Retirement on Track: Avoid Hazards on the Road

When you joined your company's 401(k) plan, you began the journey toward a secure retirement. As you continue your journey, you'll need to watch for "road hazards" along the way that could knock you off course. We'll shine a light on three so you can steer clear of them. But first, remember why your 401(k) account is valuable to you:

- It provides a way for you to easily make *regular* scheduled contributions to your retirement fund, helping you save more
- It offers substantial tax deferral opportunities
- It allows you to benefit from the power of compounding growth over time

Why does time matter? The sooner you invest in the plan, the longer the money has to grow. The hazards discussed here focus on the dangers of removing money from your 401(k) account before retirement age. When money is withdrawn early, your account stops growing and you may not benefit from the power of compounding growth that occurs over time.

Hazard #1: Plan Loans

Many plans let you borrow money from your 401(k) account. Plan loan rules are set by the Internal Revenue Code and the plan's loan policy, and include limits on the amount, repayment periods and the rate of interest.[1] But if you fail to make required plan loan payments or leave the company and do not repay the loan, the loan goes into default and can become a taxable distribution. When that happens, you'll have to pay taxes and penalties.

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Hazard #2: In-Service Withdrawals

Some plans let you withdraw funds while you are still employed ("in-service"). A hardship withdrawal may be allowed when you have an immediate and heavy financial need you can't otherwise meet. Generally, you'll need to exhaust all other options, including plan loans, to qualify. Some plans allow in-service withdrawals even when there is no hardship, letting participants who are over 59 ½ or disabled to withdraw funds for any reason without a tax penalty.[2]

Rules covering in-service withdrawals are specific. Withdrawals count as income the year they are received, and federal, state and local income taxes must be paid. Generally, when you receive the withdrawal, 20% will be withheld to offset the income taxes you may owe on it. However, when you file your taxes, you may find you owe more than the 20% withheld depending on your federal and state tax brackets. Also, you will be subject to the 10% penalty tax if you are younger than 59 ½.

[1]To see if your plan allows loans or withdrawals, review the Summary Plan Description.
[2]Please consult your tax adviser.

Hazard #3: Cashing Out with a Job Change

Job changes usually mean retirement plan changes too. When changing employers, there are usually three options: 1) Leave your money in the plan if the plan allows or it's $5,000 or more; 2) Move your money into another tax qualified plan, either one offered by your new employer or an IRA; 3) Take your money out as a cash distribution.

The first two options, when properly done, maintain your money's tax-deferred status, meaning there are no penalties or tax events. Additionally, your money stays invested and keeps growing. But if you take the money out in cash, taxes will be due. Again, 20% will be withheld to offset federal income taxes. If the 20% doesn't cover your taxes, you'll have to pay the difference when you file. You may also have to pay state and local income taxes. Finally, unless you have an exception,[3] if you're under age 59 ½, you will pay an additional 10% penalty tax on the distribution.

The real cost to your retirement

Let's say you decide to cash out your $1,000 account balance when you change jobs. It seems like a small thing to cash out $1,000 but consider the real cost to your future retirement wealth:

- Your company withholds $200 or 20% for federal taxes, leaving you with $800
- At the end of the year, assuming the 20% wasn't enough to cover your federal taxes, you're still not done paying
    - You'll have to pay another $100, the 10% penalty for the early distribution if you're under 59 ½
    - You may owe state and local income taxes

In the end, you're left with $600-$700 of the $1,000 withdrawal—and that's assuming no other taxes are owed. But what if you kept that $1,000 invested?

Let's assume you are 35 at the time, work another 30 years and earn an average of 8% yearly on your retirement account. Your $1,000 would have grown to more than $10,000 without any additional contributions.

While it may be tempting to dip into your 401(k) account to pay for a new car or vacation, it's important to remember your retirement fund depends upon the power of tax-deferred compounding growth over time—and withdrawn money doesn't grow. You've already taken the most important step by beginning to save for retirement. Don't let a few road hazards impede your journey. Instead, keep your money invested and working for you.

NEXT ARTICLE:
"Believing These 401(k) Myths Could Hurt Your Retirement"

[3]Withdrawals before age 59 ½ are subject to an additional 10% excise tax for early withdrawal except for death, disability, installment payments, age 55 and separation from service, deductible medical expenses, Qualified Domestic Relation Orders (QDROs), and corrective distributions.

Believing These 401(k) Myths Could Hurt Your Retirement

Despite our best intentions, many of us aren't financially ready for retirement. The reasons are many: we are programmed to focus on the present rather than plan for the future, life gets in the way or we think we'll get around to saving later. Also, there are some 401(k) myths we've accepted as reality that have the potential to hurt our financial future. Let's take a look at three common 401(k) myths and clear up some incorrect assumptions. Knowing the truth can go a long way toward getting and keeping your retirement plans on track.

Myth #1: Social Security will be enough

Fact: Probably not

What is "enough"? Most financial advisers say you'll need 70-80% of your pre-retirement earnings to continue living your same lifestyle after retirement. If your annual income is $50,000 and you need 75% of that in retirement, your required monthly income will be $3,125. The average Social Security monthly payment for a retired worker is $1,337.[1] That's less than half of what you'd need to cover your expenses.

In fact, if you retire at the full retirement age in 2015 and start taking your benefits, the maximum Social Security benefit is $2,663.[2] To reach that, you'd need to have earned the "maximum covered earnings" for at least 35 years of your career. The maximum covered earnings in 2015 are $118,500. Assuming the need for 75% of that income, the monthly income required would be $7,406 a month. Social Security provides only 36% of that.

Bottom line: You probably can't rely on Social Security to cover all your post-retirement expenses.

Myth #2: I don't earn enough to save

Fact: Every little bit counts

When saving for retirement, the power of compounding means that even small amounts saved each month can add up to significant dollars in the long term. Small changes to your daily routine can help:

- Stop your 3:00 p.m. visit to the vending machine and have over $25,000 in retirement.
    - Saving $4.50 each week saves $18 a month—invested over 30 years, you will have $25,354.[3]
- Bring your lunch instead of eating out for over $180,000 in retirement.
    - Saving $6.50 a day, 5 days a week saves $130 a month—invested over 30 years, you will have $183,112.[3]

Also, be sure to take advantage of your company's 401(k) match if they offer one. Some employers will match your contributions up to a certain percentage. For example, let's say you earn $40,000 a year and contribute 3%, or

[1]Social Security Administration Monthly Statistical Snapshot, August 2015.
[2]Social Security Administration, *Fast Facts & Figures About Social Security*, 2015.
[3]Assumes 8% rate of return. Actual investment returns vary and investments are subject to losses.

$100, to your 401(k) every month. Your employer matches it, adding an additional 3% or $100 a month, for a total of 6% of your annual income. After 30 years, the combined investment can grow to $281,710.[3] Half of that (over $140,000) is because of your employer's contribution, which is money you *only* get if you invest in your 401(k).

Lastly, the Internal Revenue Service (IRS) helps people with lower incomes save for retirement with a special "saver's credit," which is available to low and middle income earners when they make qualified retirement contributions.[4] Eligible workers can receive a tax reduction or an increased tax refund up to $1,000, or $2,000 for married couples, for saving their first $2,000 in a retirement plan or IRA. For more information regarding the saver's credit, visit www.irs.gov/uac/Get-Credit-for-Your-Retirement-Savings-Contributions.

Bottom line: Find small ways to save now—and don't miss out on "free money" if your company offers a 401(k) match or if you qualify for the IRS saver's credit.

Myth #3: I'm so close to retirement that it doesn't matter—what's done is done

Fact: It's never too late to save—you may have more options than you think

While it's true that the power of compounding is most helpful over long time periods, it doesn't mean you can't benefit from it later in your career. When you start withdrawing from your 401(k) account, the money left in your account will still be invested, which allows for it to continue growing through compounding. Also, the IRS allows for "catch-up contributions" for those over age 50. Catch up contributions allow for an additional $6,000 to be contributed to a 401(k) for a total of investment of $24,000 in 2015.

You can also consider delaying when you start to collect Social Security if you don't need the withdrawals immediately. Delaying the date you start to collect Social Security can actually increase your monthly payment for the duration of your retirement.[5] For example, assume Bill reaches his "full retirement age" at age 66. This is when the Social Security Administration gives him his full benefit—$1,000 per month. While Bill could start collecting Social Security at age 62, his monthly payment would only be $750—meaning $3,000 less per year every year. He could also wait four years after reaching full retirement age to start collecting Social Security at age 70 and his monthly payment would be $1,320—almost $4,000 more a year. If he waits until he's 70, he may also gain four more years of working—and investing in his 401(k)—before retirement.

Bottom line: You're not stuck—there's still time to save and reconsider your ideal retirement date to provide income for yourself in retirement.

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"Quarterly Market Update from Fisher's Investment Policy Committee"

[4] "Plan Now to Get Full Benefit of Saver's Credit; Tax Credit Helps Low- and Moderate-Income Workers Save for Retirement," IRS Newsroom, 11/03/2014.

[5] Social Security Administration, *When to Start Receiving Retirement Benefits*, August 2015

Quarterly Market Update from Fisher's Investment Policy Committee

Volatility spiked in the third quarter (Q3) as global markets entered their first correction since 2012. Corrections (short, sharp, sentiment-driven drops exceeding -10%) are normal in bull markets. These unpredictable mass psychology swings don't reflect meaningful shifts in fundamentals. This isn't a time to react from fear and sell, which increases the risk of missing upside when stocks rebound. This is a time to take a deep breath and remember a temporary market move shouldn't jeopardize your long-term goals. While the wobbles are uncomfortable and often scary, corrections tend to come and go relatively quickly—brief breaks in a broader bull market.

The present correction, at its lowest point to date, reached -13.8%—middling by historical standards.[1] During the quarter, the MSCI World Index fell -8.4%, bringing full-year returns to -6.0%.[2]

While the correction isn't unusually large, after years of relatively calm markets, it feels severe to many. Recency bias—investors' tendency to emphasize the recent past—might make the low volatility, correction-free stretch in the three years before Q3 feel standard. As Ken Fisher wrote in *The Only Three Questions That Count,* "Though big corrections are fairly normal in bull markets, few remember or recognize it when next it happens. ... [Folks] regularly ask if a drop of a few percentage points over a few weeks augurs a bear market ..." This is the sixth correction since this bull market began in 2009. Pullbacks in 2010 and 2011 were larger than the present, yet stocks rebounded swiftly, and the bull charged on. We believe stocks will reward patient, disciplined investors with a similarly strong rebound this time.

No one can know when this pullback will end. Short-term swings are impossible to predict and time, and we aren't aware of anyone with a proven history of doing so repeatedly. Stocks could be recovering by the time you read this, or more downside may lurk. Many thought the bottom had arrived in late August, but markets retested those lows as Q3 ended. This isn't surprising given the relative calm that greeted August's sharp swings. Corrections rarely end without fear surging, and we haven't seen that yet. Should this come, the accompanying media sensationalism could challenge even steely investors. Preparing yourself in advance is vital.

Human nature is investors' biggest roadblock during corrections, making behavioral finance one of your biggest assets. As Ken also wrote: "Your brain is designed with bodily survival in mind, not financial survival. What may be a great instinct for avoiding ambush by a fanged beast can be very dangerous—completely harmful—when analyzing

[1]FactSet, as of 10/01/2015. MSCI World Index returns with net dividends, 5/21/2015 – 9/29/2015.
[2]Ibid. MSCI World Index returns with net dividends, 6/30/2015 – 9/30/2015 and 12/31/2014 – 9/30/2015.

capital markets. Recognizing the symptoms of a financial brain gone haywire is your best defense against yourself."

Prospect theory, also known as myopic loss aversion, says we are hard-wired to hate losses over twice as much as we enjoy an equivalent gain. Seeing quick portfolio declines prompts a strong urge to just do something to "stop the bleeding." This might feel better in the moment, but it can make your goals significantly harder to reach. Declines in a sufficiently diverse portfolio don't become actual losses unless you sell and miss the rebound. If you stay cool and remain invested, those declines are temporary. Over time, they become blips and often fade from memory. For instance, when most folks recall the 1990s, they think of booming tech stocks, history's longest bull market and dynamite returns. The four corrections along the way don't immediately leap to mind. Big as they felt at the time, they didn't matter in the end. This bull market shares several similarities with the 1990s, with this correction eerily reminiscent of 1997's. The 1990s bull ran two and a half more years—and endured another correction—after that pullback, and we believe plenty more returns lie in store this time.

As often happens during corrections, big, scary stories seized the spotlight—namely, false fears over China's slowdown and a Fed rate hike. Yet for all the noise, remarkably little happened in Q3. A much-hyped Chinese currency "devaluation" amounted to a -3% move, and Chinese authorities have continued propping up the currency ever since. After much talk, the Fed didn't hike rates. Politics took center stage, but this isn't the time for investors to stew over 2016's elections—too early, too much static. Economically, little changed from Q2: Most measures continue showing growth in the US, Europe and non-commodity-dependent Emerging Markets. Most Chinese data remain expansionary and in line with the slowdown of the past four years. Q2 S&P 500 earnings contracted a bit, but if you exclude the Energy sector, profits grew nicely—a repeat of Q1. The bull market's positive fundamentals remain intact.

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At times like this, counsel and coaching are vital. Ken has studied behavioral finance for years, and we designed our service model to help you avoid the pitfalls of fear and greed. Your Retirement Counselor and his or her teammates are always ready and eager to answer your questions, discuss our latest thoughts and help you identify and avoid behavioral traps. Our website, www.MarketMinder.com, provides regular commentary and analysis of global markets and economics. We believe knowledge and education empower investors and enable them to reach their goals, and we encourage you to take advantage of the services we offer.

- The Investment Policy Committee

NEXT ARTICLE:
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FAQ Corner: Ask a Retirement Counselor

In your opinion, which is better—a 401(k) account or a savings account?

It's a great question and one that we often hear when meeting with employees. The answer likely depends on your goals for the money you're saving. If you are saving for something that you will spend the bulk of the money on in the next one to three years, then it should likely be in a short term saving vehicle like a bank savings account. Money you may need short term access to shouldn't be invested in a 401(k). You would have very limited access to it prior to the age of 59 ½; withdrawing it before then would result in a 10% penalty and paying income taxes on the balance.

However, if your goal is to save the money for your long term retirement income needs, the 401(k) is a great vehicle to use! Not only are there beneficial features to sometimes take advantage of, like a match program, but the 401(k) also offers the option to save on a pre-tax basis. This means saving in a 401(k) could result in at least a 20% difference in the amount invested right out of the gates—compared to placing money in an after-tax bank savings account.

What do you like most about being a Fisher 401(k) Solutions Retirement Counselor?

By far, my favorite thing is working and interacting with the employees I meet on a daily basis. I very much enjoy learning about each individual's unique situation and helping to educate them on important retirement topics such as identifying their investing goals, determining savings rates, and empowering them to select investment strategies within the plan. I find it very rewarding when I can help someone get on a better track to a more comfortable retirement and then watch them achieve their goals over time!

Alex Queen's Bio

Alex Queen has been with Fisher Investments in service-oriented roles for more than 14 years. In any conversation with Alex, his commitment and passion for providing exemplary customer service to both employers and their employees alike is readily apparent. Alex and his wife, along with their growing family, reside in Camas, WA.

Budget Tips

Keep Your Holiday Spending in Check With These Three Handy Tips

Keep your spending on track—and avoid the stress of unwanted credit card balances—by following these handy tips.

1. Set a Spending Limit
The greatest step to avoiding post-holiday debt is to determine how much you can truly afford. Check your budget, dedicate a specific dollar amount, and do your best to stick to the plan.

2. Make an Intended Gift List
Designate an amount for each person on your Intended Gift List. Find gifts within your budget and include extra costs like postage and gift wrap. Use creative ways to save your dollars—combine gifts for couples, go in on big ticket items with friends, or create inexpensive gifts like a Movie Night Basket.

3. Shop Online and Start Early
You can compare prices online and search out retailers who offer price matching. Look for deals that include free shipping. By shopping early, you're less likely to overspend on last minute gifts.

Check It Out

Take a Moment to Consider if You're on Track for Retirement

This New Year's, resolve to take steps to increase your retirement savings. Review your existing 401(k) account. Ask yourself—could I be contributing more? Am I maxing out my company's match program? Can I find an extra $10-$100 to save and invest each month? By reviewing where you are and looking for new ways to save even more, you're making positive steps toward a financially healthy future.

There are a lot of great tools available to help you. Check out the National Retirement Planning Coalition's website, retireonyourterms.org. This website features great planning tools including calculators, articles and links to topics and sites of interest for retirement savers. The *Tools & Calculators* tab features nine calculators designed to help you get monetary estimates on a range of subjects from retirement income to home budgeting. Check out the *Your Plan* tab, which provides information on different retirement subjects based on your current age. There's also the *Planning Topics* tab with multiple resources on varied topics.

ABOUT FISHER

Fisher Investments 401(k) Solutions is dedicated to helping small businesses and their employees reach their retirement goals. We seek to offer comprehensive 401(k) plan services that are designed to help employees optimize their retirement savings while easing the company's risk and administrative burden.

If you have a 401(k) account serviced by Fisher Investments 401(k) Solutions and need help or have any questions, please contact us at **888-322-7586**. When you call, you'll speak with a real live person. We can help you with your 401(k) account, including assistance with technical or operational issues, as well as other service needs. We can help answer questions about the latest news developments and what it may mean in terms of investments and retirement planning.