Fisher Investments®
401(k) Solutions

# 401(k) IN FOCUS

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# Keep Your Retirement on Track:

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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 When money is withdrawn early, your account stops growing and you may not benefit from the power of compounding growth that occurs over time.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. 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.

## Hazard #2: In-Service Withdrawals

Some plans let you withdraw funds while you are still employed ("in-service"). [1] A hardship withdrawal may be allowed when you have an immediate and heavy financial need you can't othwerwise 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 1/2 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 1/2.

## 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 59 1/2, 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% 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 1/2
  - You may owe state and local income taxes

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 withouth 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 compouding 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.

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*[1] To see if your plan allows loans or withdrawals, review the Summary Plan Description.*
*[2] Please consult your tax adviser.*
*[3] Withdrawals before age 59 1/2 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.*

# Quaterly Market Update from the Fisher Investments Investment Policy Committee

Global markets finished a back-and-forth Q2 up slightly, eking out gains amid morphing fears. [1] Concerns over rising yields, tariffs, slower economic growth and politics took turns starring in headlines as market volatility's alleged cause. Jumping from fear to fear is a classic trait of a correction—a short, sharp, sentiment-driven drop exceeding -10%—as investors stung by volatility seek to justify drops and rationalize taking action. In a bear market—a long, grinding, fundamentally driven decline exceeding -20%—the opposite usually happens: Investors cling to positives and dismiss reasons more downside awaits. This sentiment backdrop, combined with underappreciated positive political and economic drivers, suggests to us a bear market isn't likely. While additional near-term volatility is possible—and unpredictable—we believe the bull market should eventually resume with gusto, delivering strong returns.

At quarter end, headlines returned to hyping tariffs as a threat to stocks. While no tariff is good, we believe those discussed to date lack the size and surprise to wallop stocks. President Trump has recently approved tariffs on approximately $85 billion in imported goods. He has threatened tariffs on $408 billion more. With tariff rates ranging from 10% to 25%, the maximum annual impact if Trump enacts all threatened tariffs would be $81.5 billion—about 0.4% of America's $19.4 trillion GDP. [2] Even this is unlikely. Unilateral tariffs are easy for exporters to avoid—brokers can reroute goods through third-party nations for a small fee. Hence their impact is a tiny ripple—a pebble tossed into a lake, not an elephant jumping into a swimming pool. They could also be the president's way of energizing his base before midterms—threats he can walk back, perhaps after "winning" apparent concessions from trading partners.

As many investors sweat tariffs, they ignore a strong global economy. GDP grew in Q1 in the eurozone, UK and US. US loan growth has accelerated, funneling more capital to businesses and households to spend and invest. Business surveys in America, Britain and the eurozone show output and new business are rising. While inching up, inflation and inflation expectations remain moderate, extending a Goldilocks-style economy globally. The ECB announced plans to stop buying long-term government bonds under its quantitative easing program, an unheralded positive that should spur loan growth. If markets were zooming, we suspect pundits would cheer an echo of the mid-to-late 1990s, when stocks enjoyed years of solid returns before Tech Bubble euphoria took hold. But, in our opinion, sideways choppy markets and fearful headlines blind folks, creating room for positive surprise—bullish.

Global politics also remain favorable, with gridlock entrenched throughout the developed world, preventing extreme legislation that could roil stocks. Despite high-profile political turnover in Spain and Italy, these countries still have a minority government and weak coalition,

respectively—recipes for inaction. German Chancellor Angela Merkel's coalition is teetering, as is UK Prime Minister Theresa May's minority government. The twin issues of Brexit and migration hog politicians' attention on both sides of the English Channel, crowding out major legislation. About the only significant measure passed in Q2 was Britain's bill to add a third runway at Heathrow airport. Legislative risk seems low.

Meanwhile, US politicians are preoccupied with midterm campaigning. Though the recent retirement of Supreme Court Justice Anthony Kennedy could add fuel to already hot campaign rhetoric, we expect the election's outcome to prove more boring than today's sensational headlines suggest. We believe one of three outcomes are likely—and all point to gridlock: a small Democratic majority, small Republican majority or split Congress. Any of these should usher in the political cycle's sweet spot: the 87% Miracle. Since 1926, US stocks have historically been positive 87% of the time in each of the three post-midterm quarters—well above the average quarter. [3] The twin tailwinds of gridlock and falling uncertainty are powerful. Positioning for that in advance is key.

We believe stocks should post strong returns this year. But that doesn't mean they will zoom higher tomorrow. Corrections' ends, like their beginnings, can't be forecast. Further, returns during midterm-year Q3s are more variable, and we could see volatility persist before the 87% Miracle starts. That said, more variable doesn't mean negative. And, crucially, we don't believe a bear market is likely this year. We scour for reasons we could be wrong—surprising, fundamental negatives with the power to erase a few trillion from global GDP and turn this correction into a bear market. However, we don't see any probable to occur. Rather, we believe fundamentals favor a strong second half and beyond.

- The Investment Policy Committee

[1] Source FactSet, as of 7/2/2018. MSCI World Index return with net dividends, 3/31/2018 - 6/29/2018.

[2] Source: Office of US Trade Representative, White House and US Bureau of Economic Analysis, as of 6/28/2018.

[3] Source: Global Financial Data, Inc., as of 6/15/2018. S&P 500 Index total return, 12/31/1925 - 3/31/2018.

# FAQ–Ask a Retirement Counselor

## What is Vesting and What Happens to My Money if I Leave the Company?

Vesting refers to how much of your 401(k) balance you get to take with you when you terminate employment. However, unlike your own contributions to your 401(k), which are always 100% vested; employer contributions are oftentimes accompanied by a vesting schedule.

Many retirement plans establish vesting schedules that require employment of between 3-6 years before participants are able to take 100% of their employer contributions with them. These policies are typically put into place to help employees reach their retirement goals and encourage longevity of employment. Of course, in some cases employer contributions are 100% vested immediately; meaning the plan is not accompanied by a vesting schedule.

## What happens if I leave employment?

Let's say the vesting schedule in your company's plan increases by 20% each year. That means that you'll be entitled to 100% of your employer contributions after 5 years of employment. However, if you leave your employment after 4 years, you'll only be entitled to 80% of your employer contributions.

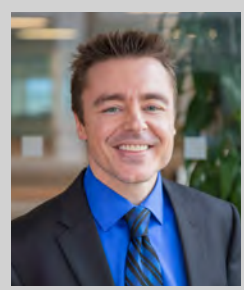
If your employer does not have a vesting schedule that increases every year, but instead becomes fully vested after a certain period of time (e.g., 3 years), you will lose all the money your employer has contributed to your 401(k) if you leave prior to the end of that time period. That's why it's very important to learn about your plan's vesting policy when considering how much to contribute and certainly before considering other employment opportunities. Please contact Fisher Investments 401(k) Solutions at 888-322-7586, review your plan's Summary Plan Description, or ask your HR representative to learn more about the details of your plan.

## Should I even contribute to my 401(k) if I don't plan on staying?

Of course, even if you don't plan on staying at your current employer long-term, it is very important to participate in your company's 401(k) plan. If you're considering changing jobs before becoming 100% vested, you should even consider increasing what you would otherwise contribute to make up for any employer contributions that you may be forced to forfeit upon termination to be sure you stay on track with your retirement goals.

Let's face it, plans change and you may end up staying with your employer for much longer than you anticipated and it's never a good idea to pass up what essentially amounts to free money.

### About Tim Kroon



Tim Kroon joined Fisher 401(k) Solutions as a Retirement Counselor in 2016. Prior to his time at FI, Tim was a relationship Manager at Standard Insurance for 9 years, a Senior Licensed Financial Personal Representative for Washington Mutual, a Financial Advisor for Financial Design Group, and a Financial Advisor at American Express Financial Advisors. Tim earned his B.S. in Business Administration with dual concentrations in Finance and Accounting from the Charles H. Lundquist School of Business at the University of Oregon.

# What are the Four Essential Types of Investments?

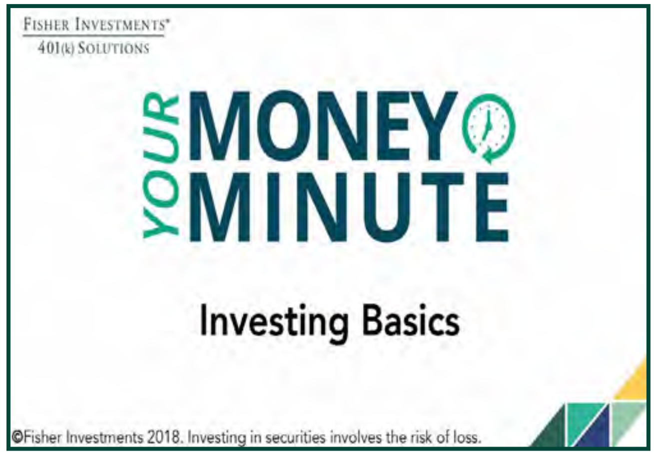
## Your Money Minute: Investing Basics

*Your Money Minute* is a series of short two-minute videos focusing on a variety of personal finance topics. These videos will provide you with important, practical, relevant information and can help you get the most from your company's 401(k) plan.*

In this edition, Retirement Counselor, John Klein covers the four essential types of investments:

- Cash
- Stocks
- Bonds
- Mutual Funds

Saving for retirement is an important first step. However, selecting investments is just as important to help you reach your long term retirement goals.




We understand that planning for retirement can be stressful, but we're here to help. Simply call the 401(k) Solutions' Help Desk at 888-322-7586 and request an appointment to speak with your Plan's Retirement Counselor.

*Click on the image above to view the video. You can also visit *https://www.fisher401k.com/resource-library/videos* for other Your Money Minute videos.

### CONTACT US

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. We can help you with your 401(k) account, including assistance with technical issues, as well as other service needs. We can also help answer questions about the latest news developments and what they may mean in terms of investments and retirement planning.

### ABOUT FISHER

Fisher Investments 401(k) Solutions is dedicated to helping business owners and their employees successfully reach their retirement goals. We help people better optimize their retirement savings opportunities and understand their retirement plan options through in-person enrollments, ongoing education and our live-person Help Desk.

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