

Know Your Retirement Plan

You should know how your retirement savings plan works—so you can make it work better for you.

What belongs to you—and when

Review the rules on **vesting**—the process by which you gain full ownership of employer contributions to your account. (Your own contributions are fully vested right away.) Some firms also allow for immediate vesting of company contributions, while others provide gradual vesting over a period of years. Your plan must consider you fully vested when you reach the plan's normal retirement age (typically 65). Full vesting is also usually triggered for workers who die or become disabled, or when a plan is terminated.

Borrowing from yourself

Most retirement savings plans allow workers to borrow from their account balances, although in some cases you can only take out a loan to pay for certain expenses, such as buying a home or paying medical expenses. Typically, a worker can borrow up to 50% of his or her account balance, but not more than \$50,000, and must generally repay the loan within five years. If you default on the loan, you'll have to pay taxes on the balance; workers under age 59 ½ also will have to pay a 10% federal early-withdrawal penalty. And you typically must repay the loan within a limited time if you leave your current employer.

One of the great tax shelters

Many work place retirement plans provide most workers with the ability to make tax-deferred retirement savings contributions. The amount varies with tax law and plan provisions. Workers age 50 and over may be able to make additional "catch-up" contributions.

Your company's retirement savings plan may be required to pass a **non-discrimination test** to make sure that the amounts contributed by highly compensated employees aren't too high compared with contributions by other workers. That gap must fall within IRS guidelines for the plan to keep its tax-qualified status, which allows it to provide tax breaks to participants. Your company can set its own contribution limits and other rules, as long as they don't exceed the federal maximums. Your employee benefits office or human resources representative can help you sort out the specifics of your company's plan.

Growth for the long run

Of course, you will have to pay federal taxes on your pre-tax contributions and earnings when you begin withdrawing from your plan. The rules say you don't have to start making withdrawals until you are age 70 ½—and you can elect to spread these withdrawals over many years. Meanwhile, you can continue to potentially earn profits on every penny of your contributions and earnings. This combination can greatly increase the long-term growth of your savings, so that your retirement has the potential to measure up to your dreams.

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