FARM BUREAU FINANCIAL SERVICES

The Complete Guide to 401(k) Plans:

EVERYTHING YOU NEED TO KNOW

Saving With a 401(k)

This complete guide to 401(k)s explains all you need to know about this company-sponsored retirement plan, including what it is and how it works. A 401(k) is one way to save for retirement, and the good news is that more Americans than ever are taking advantage of these employer-sponsored retirement savings plans. Approximately 89% of eligible employees had a balance in their 401(k) plan in 2016, according to the American Benefits Council. What's even better: About a third of 401(k) savers increased their annual contributions in 2018.

WHAT YOU'LL LEARN

4 How to get started

6 Choosing an investment method

7 Selecting beneficiaries

8 Savings alternatives to a 401(k)

10 Self-funding a 401(k)

Rolling over an old plan

11 Finding an old 401(k)

Calculating your 401(k)'s value

Getting Started:

What Is a 401(k) and How Does It Work?

A 401(k) is an employee-sponsored retirement fund, named after the **401(k) section of the U.S. Internal Revenue Service (IRS) tax code**. Employees contribute funds through payroll deductions, which can be before or after taxes. While 401(k) earnings are tax-deferred, they will be taxed when withdrawn.

You can sign up for a 401(k) through your employer (if it offers a plan). If it doesn't, there are other ways you can save for retirement, like through an IRA. And if you're self-employed, you can start your own 401(k).

When you sign up for a 401(k) plan, you'll decide what percentage of your income to contribute to your 401(k). This money is then invested in stocks, bonds and/or mutual funds, depending on your investment strategy, and compounds interest over time with the goal of providing you with income in retirement.

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401(K) MATCH

Some employers match their employees' 401(k) contributions, usually up to a certain amount. For example, your employer might match 5% of your pre-tax annual income investment. If you're lucky enough to have an employer 401(k) match, be sure to take advantage of it — after all, it's free money! Wealth management advisors recommend an employee contribute at least the employer match percentage.

401(K) INVESTMENT STRATEGIES TO CONSIDER

There are different ways you can invest your 401(k) funds. The investment approach you choose helps determine the level of risk and potential returns you'll see. We outline three types of strategies to discuss with your wealth management advisor.

Open-end vs. Closed-end

Open-end funds offer shares continually. An investor can buy and then sell a share at its net asset value (determined by dividing the fund's total assets by the number of outstanding shares). Closed-end funds, on the other hand, issue a finite number of shares. Supply and demand determine their value.

Diversified vs. Nondiversified

Diversified funds contain no more than 25% of its assets in a single security — moderating the fund's overall risk. Nondiversified funds are more volatile, but might offer greater returns.

Growth vs. Value

A growth fund prioritizes quickly growing companies — newer companies in emerging industries, for example. Value-oriented funds focus on "bargain" stocks that a manager expects will eventually increase in price. Some managers choose to combine these two schools of thought.

TYPES OF FUNDS

Stock mutual funds can help you grow your capital and dividend income. **The types of funds** you and your wealth management advisor will pursue generally depend on your investment strategy.

- Large-cap, midcap and small-cap funds
- Aggressive growth funds
- Equity-income/growth and income funds
- Sector funds
- Global, international, country and regional funds
- Specialized funds
- Index funds

CHOOSING A BENEFICIARY

When you open a 401(k), you need to select a beneficiary — or multiple beneficiaries — who would receive your assets after you die. Unlike choosing beneficiaries for life insurance, **beneficiaries of a 401(k)** and traditional IRAs pay income tax on distributions.

Your primary beneficiary is your first choice to receive retirement benefits. If your primary beneficiary doesn't survive you or declines the benefits, your secondary (or contingent) beneficiary would receive the benefits.

If you'd like to name more than one beneficiary to share the proceeds, you can specify the percentage each beneficiary will receive.

ANNUAL CONTRIBUTION LIMITS

Your maximum retirement plan contributions change yearly and depend on your age.

- 401(k) contribution limit: $19,500
- IRA contribution limit: $6,000
- SIMPLE IRA contribution limit: $13,500

The IRS also allows people 50 years and older to contribute "catch-up" money. For 401(k)s, these individuals can save an additional $6,500. For IRA contributors, the catch-up contribution is $1,000.

Beyond the 401(k):

Alternative Savings

If you've **maxed out your 401(k)**, you shouldn't stop saving for your future. Consider one of these savings options to maximize your investments.

Traditional or Roth IRA
An individual can contribute $6,000 every year to an IRA account — and that's on top of your 401(k) investments. While a traditional IRA offers an immediate tax break, a Roth IRA means tax-free withdrawals when you're of retirement age. One benefit of an **IRA vs. a 401(k)**: You have more investment choices, so it's easier to control your portfolio.

Mutual Funds
Investing in mutual funds is a key strategy to help you diversify your portfolio. How? You'll pool money with other investors to buy stocks, bonds and short-term securities — so you own a small portion, which minimizes risk.

Annuities
Annuities help you accumulate funds for retirement by paying a steady stream of income. Annuities, which are financial products you make deposits into and then give you back interest on that money, often have higher guaranteed rates, and no limit on deposits. However, you pay taxes when you receive annuity income.

Life Insurance
Certain types of **permanent life insurance policies** build cash over time. This can be a great way to provide tax-free supplemental income when you retire.

College Savings Plans
Certain **college savings plans offer tax advantages**. Education Savings Accounts (ESAs) have a maximum $2,000 annual contribution and must be made before your child turns 18. The funds can be used for elementary, secondary and college education expenses. State-sponsored 529 plans feature higher limits (up to $300,000 depending on the state), including a $65,000 one-time contribution. Withdrawals for both plans are not taxed as long as the expenses qualify.

Self-Funded 401(k)s

Don't have access to an employee-sponsored 401(k) plan? You don't have to miss out on your retirement goals. Investigate these options for self-funded and self-employed plans:

- **Traditional IRA**
  Save up to $6,000 annually (or $12,000 including your spouse). This is deducted directly from your paycheck before taxes.
- **Roth IRA**
  Roth IRAs have the same limits as traditional IRAs. However, if you expect to retire at a higher income bracket, consider the after-tax contributions of a Roth IRA.
- **Solo 401(k)**
  Self-employed individuals can set up this plan, where they act as both the employee and the employer, and save up to a maximum of $19,500 annually. You're also able to invest up to 20% of your net earnings from self-employment.
- **Simplified Employee Pension (SEP) IRA**
  Contribute up to 25% of the W-2 income you pay yourself with this tax-deferred plan.
- **Savings Incentive Match Plan for Employees (SIMPLE) IRA Plan**
  This option allows up to $12,500 in contributions annually, and you pay taxes when you withdraw. Bonus: As an employer, you can deduct matching contributions as a business expense.
- **Defined Benefit Plan**
  If you're already paying into a 401(k) or SEP IRA, the Detailed Benefit Plan is a great add-on. Depending on your age, you could save more than $100,000 a year with tax-deferred growth.

ROLLING OVER A 401(K)

If you've scored a new job, be sure to take your previous employer-sponsored 401(k) plan with you. Follow these key steps to make the process a cinch.

1. **Find out if your new employer offers a retirement fund.**
   As part of your onboarding process, you should learn about your new company's benefits — including retirement funding. If it offers a 401(k) plan, great! A simple 401(k) rollover might be the easiest and smartest move. Always ask for a "direct rollover," so your check is sent directly to your new account.
2. **Decide where to transfer your 401(k) rollover.**
   If you decide not to do a one-to-one 401(k) transfer, consider rolling the funds into a Roth IRA or traditional IRA. Remember that while a traditional IRA will transfer money into a tax-deferred status, you will have to pay taxes on transfers into a Roth IRA. Annuities are another option that can provide income for life.
3. **Find the necessary account information.**
   You'll need current account balances, details of the types of mutual funds in the account and account statements.
4. **Talk to your wealth management advisor.**
   Now is a good time to reassess your financial goals. Is it time to think about saving for college or a new home? Or is retirement approaching? Your Farm Bureau wealth management advisor can help you make sense of your retirement funding options and help you decide what works best for you, your family and your situation.

FINDING AN OLD 401(K)

What if you can't find an old 401(k) from a previous employer? You might be surprised to know you're not alone — about 1 in 10 people have unclaimed cash or property that is currently being held by state governments and treasuries.

If you're looking for a 401(k) from an old job, a good place to start your search is the internet. Online resources like the National Association of Unclaimed Property Administrators can help you find unclaimed property and 401(k) accounts.

Another option is to contact your former employer, which should be able to tell you where your 401(k) was managed and who you can contact with questions.

Finally, try searching your personal files to track down an old statement, which could provide you with key details to help you track down your account.

WITHDRAWING FROM YOUR 401(K)

When you're looking to buy a new house or fund your child's college education, withdrawing from your 401(k) might be tempting. But hold that thought — it's generally not a good idea.

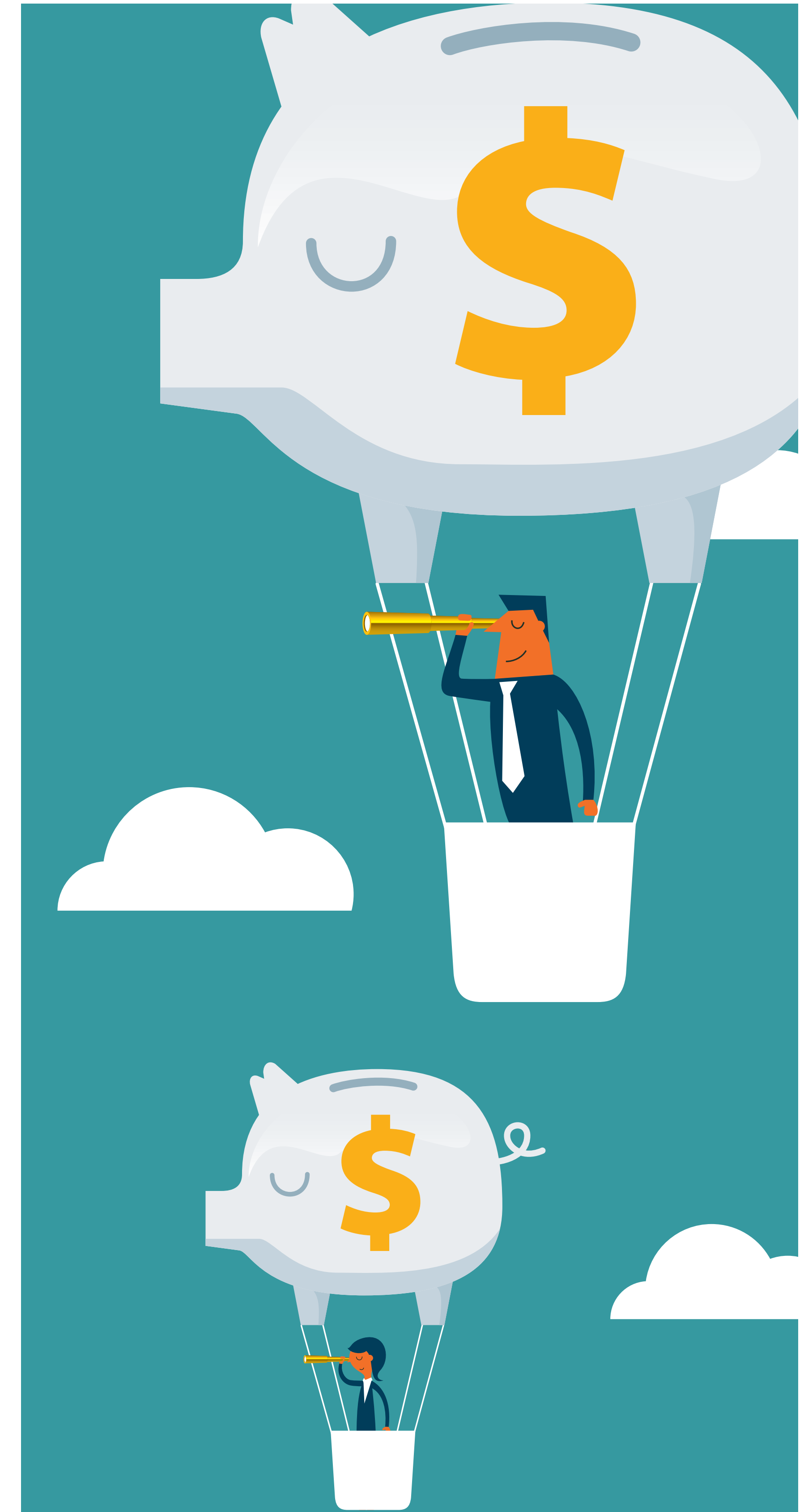
First, not all 401(k) accounts allow borrowing, and if yours does, there will be limits. Generally, you're able to borrow up to $50,000 or 50% of your vested balance — whichever is less. And this isn't "free" money; you'll have to pay that money back incrementally through your paychecks, which is taxed income. Remember: You're borrowing from your future self, and likely significantly reducing or delaying your retirement payout.

YOUR 401(K)'S FUTURE VALUE

Unsure how much your 401(k) will be worth in 5, 10 or 20 years? Use our 401(k) value calculator. Simply enter in your years left working, current income, current 401(k) balance and contribution information to determine your account's future value.

Plan for Your Future

Planning for retirement is important. Farm Bureau can help. Contact your wealth management advisor today to find out how you can start securing your financial future.



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