



401 (k) Contributions and How Much is Right For You? [Ep. 16]

Transcript

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You should on average get about a two to three percent raise every year so the thought process is you're still getting a raise You're just taking a portion of that raise and putting it to the side to help protect young or have a better retirement when you get there.

Some people that make a decent amount of money the government comes back in and goes hey congratulations Mr. or Miss. client you make so much money. You can't contribute to a Roth IRA or traditional IRA and get the benefits there is no income limits on a Roth 401(k).

(...)

Robert I'm excited today to talk about four one case as always so am I just being here with you today Welcome. You're welcome. You're welcome. So (...) Talk to us about foreign case. How do you know if a foreign can make sense when you contribute how much to contribute? Yeah, how much to contribute? Yeah, First I think you have to understand 401(k)s so forever since 401(k) have been in existence. There's always your traditional 401(k). So, what is a traditional 401(k)? You put in money out of your paycheck into an employer sponsored plan, right? It's non-taxable It's non-tax dollar. So before tax goes in so these dollars have never been taxed It grows in the market throughout your working career Hopefully decades and down the road it grows and then when you retire the thought process is that when you retire, you'll be in a lesser tax bracket. That's not always the case, but we'll get to that later. But that when you take those funds out whether what your contributions of what you put in and the growth of that That you will be taxed on the amount that you take out at that time to use for retirement So that is a traditional 401(k) and how it works Okay, so should everybody be contributing to these?

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Everybody's a trick question Should you contribute to them? Absolutely, as long as your company does a few things, right? So, the first thing I would look at is does your company do a company match? Right. So what is a company match and these they can come in all different shapes and sizes all different numbers meaning I'll just use a common one a company matches the first six percent of your salary that you put in So if you put in six percent, they'll match a hundred percent of that six percent This isn't every company, but this is every paycheck, right? It's a state and it's standard you put in six percent of your salary. They'll match that six percent Now you can put in more than six percent. You can put in ten fifteen twenty You can put in fifty, but they're only going to match that first six percent Which if you have a match, you should absolutely Do that for okay, that's free money. That's a hundred percent return overnight. We're great wealth managers I don't think we can't do that. So, take the free money. So yeah So this is very interesting back in 2001 there was some Legislation being passed that allowed for the formation of a Roth 401(k) and to this day people don't even know they exist the first one came out in January 2006 by just a handful of companies and every year that passes. They become more and more popular more and more companies are offering them but a Roth 401(k). Similar to a traditional 401(k) where you still have your contribution limits, which we'll talk about in a little bit So you can you can contribute the same amount right which is different from a Roth IRA or traditional IRA but in a Roth 401(k) you can you can contribute the same amount as a traditional 401(k) and If your company matches you will still get that match But here's the nuance to it if you get the match the company wants to tax right off that year So they'll can train they if let's say you're doing 10% and for the sake of conversation Let's stick with the 6% that they match. So, you're doing 10 into a Roth 401(k) 10% of your paycheck They're going to match you the first 6% of what you do, but their contribution isn't going to go into a Roth It's going to go into a traditional 401(k). So, you're going to have two buckets of money there just because they want the tax benefit now What is a Roth? Well, you're putting money in that you are going to get taxed out of your paycheck So you're getting paid that you're getting taxed almost like it's going to your bank account But instead of it going to your bank account, it's going into your Roth 401(k). What's the beautiful side of that? Well, you've already paid taxes on those dollars, but now whatever that money grows You will never pay taxes on it in the future when you retire. So Let's for example say over time over a 10-year period you put in a hundred thousand dollars into a Roth 401(k) and you retire 30 years down the road and let's say over that 30 year time frame that 100,000 that you contributed that you paid taxes on is now worth half a million dollars The four hundred thousand dollars that it grew you don't it's tax free. You don't pay a dime of taxes on it So doing a Roth 401(k) if it's offered to your company is extremely important and extremely valuable That's an extra icing on the cake, you know, weren't were going to talk about this, but you just made me think of something so tax-free

(...)

Talk to me about required minimum distributions because on a traditional you would have to take requirement minimum distributions how do how does that work in general? Just a 30-second refresher and what's the benefit of a Roth money, how is that different when it comes to

RMDs? Right? That's a good point So now the law is an RMD or required minimum distribution Depending on the year you were born means that the government if you have a traditional 401(k) or a traditional IRA Any money that you've put into the market that has been tax deferred you've never paid taxes on it. Well, sometimes when people retire, they don't need that money So they don't want to pay taxes on it but the government in a certain age is going to force them to take it because they said as a Line that you like to say a lot the government goes "you've held on to your money long enough Now you got to pay some tax dollars" So in a traditional 401(k) or IRA you're forced to take it at age 73, 74, or 75 depending on the year you were born now, so they're going to force you to take it There's nothing you can do around it except if take a portion of a portion of it usually it's around 4% on average and that that in that percentage increases as you get older But when you start it's a little right about 4% maybe a little bit under. Now a Roth 401(k) or Roth IRA, you've already paid taxes on it. So, they've already got the government already got their money, so you are not forced to take the government's not going to step in at 73 and 74 and 75 and say you have to take those dollars but how what does that help you do? Well, that also helps you lower your taxable income because even though Ross are tax-exempt It can still add to any other income that you're taking from so a Roth 401(k) being able to avoid required minimum distributions can help out in the long run, especially with RMDs. Thanks. Thanks for clarifying that and in terms of how much money you can put in a Roth or a regular 401(k), how does that work? Well, the good thing is the contributions are the same and this is age specific So if you're from you know working age 18, let's call it to 50 years old You're able to contribute the standard amount this changes every year every other year they'll increase it as inflation happens(...) currently in 2025 the contribution max limit is

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\$23,500 now, I think a common misconception is people think that that's the max they can put in themselves(...) Including what their employer matches, but that is not the case. That's every dollar they can put in the employee can put in they can put themselves up to \$23,500 The match goes on top of that the total maximum amount that you can put into a traditional 401(k) or even a well, sorry a traditional 401(k) is(...) \$70,000 that is what you put in that is what your company matches if you happen to have a defined benefit plan that can go on top of that if your company allows you to do additional after-tax contributions That can go on top of that and you can get to the \$70,000. Now that's everything from 18 to age 50 now it used to be I was about to ask you that because I know a bunch there's some new laws right now. What is it after you're 50 years old? Hey, but I mean well not even after you're 50 once you turn 50 So 18 to 49 once you turn 50 you come up into what we call catch up now It used to be 50 and above you just have catch up until you retired now What is that it allows you currently the dollar amount as you can do an additional?(...) \$7,500 out of your pay period out of your paycheck on top of the twenty three thousand five hundred and that's your max contribution. Annually now that also increases your max contribution into a retire an employee sponsored plan with the defined benefit plan with additional after-tax dollars. So, if it was \$70,000 and now you've got seventy-five hundred now, you're at seventy-seven thousand five hundred that can be your max contribution. However, in 2025 that law changed and said from age 50 to 59 you can do that catch up. But they added a little nuance in there a little a little spiciness where they said from age 60 to 63 so

counting age 60, 61, 62 and 63 they have a super catch up or what they call an enhanced catch up where they're going to allow you another(...) \$3,750 dollars on top of the seven thousand five hundred that you can do on top of the twenty three thousand five hundred So now you're eleven thousand two hundred and fifty dollars above the twenty three thousand five hundred Which of course that'll take you now into the eighties eighty thousand dollars as far as what you can do eighty one thousand two hundred and fifty is what you can do in a max contribution into a 401(k) Roth will apply to that. But remember you can only contribute a certain amount to a Roth the Company's contributions are going to go into a traditional. Not at now not everybody can afford to maximize their 401(k) contributions because they're trying to you know, pay rent live eat get food.

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If somebody could they're in a situation financially that they can maximize their 401(k) contributions, should they and also tell us what the true up is called.

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Okay, or what it is. I'm have to break that one down So let's say should they well everybody, you know We all have budgets and all of our budgets are different all of our clients budgets are different So especially somebody maybe they're right out of college and they're just getting started and they go I don't know if I could afford to contribute to my 401(k) if I can afford anything What should I do? I would say at minimum try your best to do the match because that's free money I consider that as a part of your salary. That's a part of your income Whatever your employee offered you if you're your salary was a hundred thousand dollars, but they give you a six percent match That's six thousand dollars on the table. It's yours take it. So, I would say at minimum do that. Now if they can afford any more than do the math see what you can afford add some to it some 401(k)s add a 1%

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Automatic increase to your 401(k) each year to where you click a button and every year, they're not giving you an extra 1% But every year your 401(k) contribution is going to increase by one comes out of your pocket, right? Right, it comes out of your pocket

But when you think about it the average raises a person gets and this is why they did it this way because you might not think 1% is that big of a deal Compounded over 30-40 years. It's massive(...) You should on average get about a two to three percent raise every year, So the thought process is you're still getting a raise. You're just taking a portion of that raise and putting it to the side to help protect young or have a better Retirement when you get there. So definitely do the 1% increase of course if you can afford it most people don't even notice it but if you can go above and beyond that then I'd say go to max it max your 401(k) especially if you have a Roth 401(k) because and I don't want to get too much in the weeds in this some people that make a decent amount of money the government comes back in and goes hey congratulations

Mr. or Miss. Client you make so much money. You can't contribute to a Roth IRA our traditional IRA and get the benefits There's no income limits on a Roth 401(k). So, if you are one of those lucky individuals that that makes that that good money you know and they might still be on a budget too but if you are in that camp then try to max out your 401(k) whether it's Roth our traditional.

Now...okay. Well, let me tee you up. Sure. Let's say(...) Somebody does they get gung-ho? They're like man. I don't have any money in retirement. I just got a massive raise I want to I'm going to I don't know how they do this maybe they had a massive bonus in January, but they want to go ahead and put you know 20 grand in one month or over two months, but my point is they're kind of front-loading it, right? What's something they need to be aware of why that might hurt them? Yeah, this is an important factor a second ago. You brought up true up well, and we'll talk about that in a second. Let's say they have a standard 401(k) that does not have a true up and they put in

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\$20,000 or let's say they just get to the twenty-three thousand five hundred dollars in the first four months first four months of working they throw everything they can at it. They've maxed out Well, if their company does not have a true up which we'll talk about then that means they could be missing out on those contributions because in a standard 401(k) the company is going to match 6% going back to the 6%(...) They're going to match the first 6% of your income well, if you put in 40% of your income to get to that 23 5 as soon as possible and you're done after four months. What are they going to match?(...) So you want to make sure that it you're it out over there whole right you think by loading it up yeah, you'll get some compounding interest you get it in the work in the market working faster for you But you could be missing out on thousands of dollars that you're owed that's in your pay. That's in your that's to me It's part of your salary. You're missing out on all of that so you really need to dive into the as we say the devil's in the details You really need to dive into the details to see what your company offers If you are lucky enough to where you have something called a true up. Well, what does that mean? Well, it's kind of the opposite you can front load your 401(k) and let's play this out. Let's say you have a salary of three hundred thousand dollars, right? Good for you and you're putting in 6% your company's matching 6%, right? So that's 18,000 you're putting in your company's matching 18,000. Well, let's say you go. You know what? I don't need this money I'm lucky enough to have a good income. I'm going to front load it over the first four months so in four months you've put in twenty-three thousand five hundred dollars over that four-month period what's of call it a third, right? They match 6% of that 18,000 a third, right? So now they've put in \$6,000 but you've already maxed out(...) At the end of the year the true up is they look at your eligibility they look at your income and then they go, you know what they did max their stuff out I'm going to make them whole and that extra twelve thousand dollars your own which is not a small chunk of change BAM, they put it into your 401(k) and that's your money.

Makes sense makes sense(...) In terms of retirement plans, we're talking about 401(k) but what other plans are there that people should be aware of and take advantage of?

far as 401(k) something else there there's other retirement and it just depends our retirement(...) savings out there, but it depends on your job, right? So, if you're a teacher you work for a hospital you work for the government. There are things like TSP TRS 403 B's 457 simple IRAs and SEP IRAs if you're self-employed.

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We could probably do an entire episode. Maybe we do(...) As far as how those work and kind of the details of those but those 401(k)s and Roth 401(k)s are kind of the main ones out there.

Okay and what happens if somebody wants to say for retirement, but they don't have 403 B 401(k) 457 what should they be doing to maximize the retirement? I would say start with talking to an adviser or a wealth manager and understanding your options because we just talked about a Roth 401(k) or sorry a Roth IRA a Traditional IRA, but what about brokerage accounts all of these different types of accounts are taxed differently. So if you don't have the 401(k) look at your budget have a financial plan See what you can afford to start putting in retirement and then do things in multiple buckets have that tax deferred bucket of an IRA That you'll pay taxes on later have the tax exempt bucket with the Roth IRA and then have the taxable bucket of a brokerage account where you're going to pay taxes out of your paycheck on it but it's going to grow at long-term capital gains, which besides a Roth at being taxed at zero it's the cheapest tax we can give you so understand your options but then have a plan you said in another episode if you failed a plan then you plan to fail Well, you got to have a plan especially if you don't have a 401(k).

How much should somebody contribute into a 401(k)? Okay, as much as they thought as much as they can as much as they can afford but it goes back to doing a plan. Sometimes people think that okay. Well, I'm just going to put in 15% there's this rule of thumb out there that people talk about that. I want to do 15% sure, right and I don't some people that we know always preach the 15% rule but it is that the right number is 15% the right number. Well, it depends. How old are you? When do you want to retire? How much money do you need in retirement? What's your goal with the money? What other income sources do you have? Well, the only way to answer that question is have a detailed personalized comprehensive financial plan that goes over your situation I mean, it's easy as a rule of thumb to say that to somebody who's 18, 20, 21 years old but what if you got a late start in life for no fault of your own you're just you're just a Everyday mom and dad working taking care of family and you got some raises and now you can finally start doing it because you've been taking care of your family. Does that rule apply? I mean something's better than nothing but you got to do the math and you need to talk to a(...) Financial adviser or a wealth manager that has the Information at their fingertips to give you guidance the technology at their fingertips to give you guidance and not just do a Google calculator financial plan But dive into the details and understand the ever-changing nuances of our environment in the financial world.

(...)

Awesome there's a lot of good stuff you've gone over the things that are resonating to me that I think people are going to get out of this is the true up being aware of what it is and how it works to make sure you're not leaving money on a table the catch-up the ways that you can put additional money if you're 50 or older any last things you want to say as we wrap up this episode I think one of the biggest things is If you have a 401(k) and you're thinking about how much I can contribute do as much as you can. But definitely do the match and the next step after that is do some calculations have a plan in place to know where you're headed and know if what you're doing is setting your future self-up for success and your future family up for success and the younger you get started the better, but it's never too late. Perfect Thank you.

All right from Michelle(...) Robert Casey, do you recommend doesn't say Robert Casey? They should you recommend always participating in an employee stock purchase plan?

Is there any circumstances where I shouldn't I don't want to lose money. Oh, It's the last part that catches you there because if you said should I But I want to lose money. Well, I mean You just got to realize the details if you said should I contribute to an employee purchase plan? And the first thing I would say is do you get a discount now standard discounts is 10 to 15 percent. That's pretty standard.

What does that mean? It means that know what that means? Well, okay Let's I'll just use Walmart and I'll say Walmart's stock price is a hundred thousand or a hundred dollars a share Right and you get a 15 percent discount So it's a hundred dollars a share but you get to buy it for \$85 BAM, it's an immediate game media 15 percent return right there as long as the stock So unless you think the stock in that scenario is going to tank, right? Even if it's stayed flat, you're up 15 percent, right?(...) but that's the tricky part right because you said but I don't want to lose money. Well Walmart's a solid company, but it could go up or down on an any yearly basis so if you don't want to lose money then that that's a hard question to answer because what if you get a 15% gain you can't just sell it immediately a lot of times these plans will have a hold period you have to hold it six months a year maybe even longer and there's lockout periods. But I would say you have to look at your company or have they been around a long time? Do they have a solid financial standing and even though the market's going to be lumpy? Are you willing to take that ride with them knowing that they're giving you a deal? They're investing in you by letting you have a discount of 15% I mean that normally good companies will do that but the reward could be extremely valuable and hopefully you believe in them because you're working there so in almost all cases, I would say yes but if you're not comfortable with any risk(...) Then it's going to be it's going to be troublesome investing as a whole because the only thing that's truly comfortable that you would be comfortable with is CD's and money markets and you could be leaving a lot of money on the table and maybe not even keeping up with inflation. So, you could be hurting yourself. I think I would add on that that(...) It would make sense to your point if you if you believe in that company you can get that discount but I also think you want to be careful not go overboard we've you know, we've had some clients work at the Verizon's or the world stuff like that and they've put a significant part upwards of 90%

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not only buying their company stock in their 401(k), but now they're buying E-SOP and a quick way to make a lot of money is to be invested concentrated in one stock a quick way to lose a ton of money is to be invested heavily in one stock. So, I would say in addition that be very careful What percentage of your portfolio your net worth that stock represents? I mean if it's 5% even if it came down that shouldn't be too detrimental, but you know if it's 50, 60, 70, 80 we've seen up the words of 90% of your net worth in one company...

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It could work out well but you got to remember past performances and guarantee future results just because we had a good five ten year run The last thing you need is right before retirement or during retirement that stock to turn around and go south I mean look at Enron, right? That was a triple-a rated company not too long before it went under we have classes used to work there and had company stock you know other ones, I mean you and I have been together for a long time and and(...) We've run into some success stories But the failures outweigh the successes as far as when it comes to the stories I mean we have success stories with people that worked at Home Depot and never went to college Just right out of high school jumped into it made millions Right and it worked and the hardest thing that you have to do when you when you meet somebody like that is realize hey you Won you did well, but now it's you need to diversify(...) Something you love to say is why risk money you need to make money you don't need all right diversify even the best company Walmart. I don't think would ever go under, but it could right. So just because a company's done well for you take the win even Tom Brady retired at some point, right? You got it you get enough wins but sometimes you got to take that win right out on a on a high or think of Amazon is doing amazing Jeff Bezos is setting as

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Book has been quoted as that one day it won't no longer exist now that might be 50 years hundred years 200 years. But if you own at a time and it's a lot of your net worth that that's a problem There was an executive with Amazon that said they could see Amazon one day going bankrupt now It's a great way. We like Amazon. Yeah, we do. It's in our model but as much as we like it, we're not going to put a hundred percent of somebody's assets in it and one of those tough stories luckily it worked out Well for us as we've said it before on the show is a client that was with JC penny for a long time Yeah, a lot of their net worth in JC penny finally(...) When they came to us they already knew we were going to try and get them out of it and I love the story they tell when they're at client events like I knew they were going to try and talk me out of JC penny and I finally did it. I finally let them well, look at JC penny now you know, they even JC penny 20 years ago was a department store that we all went and shopped at we all did Christmas gifts, especially around Christmas time I was in JC penny and now it's done. It doesn't exist. But the problem is it's 15 years ago we knew they were in trouble all right. So even great companies that are companies that used to be great can go in trouble so take your

win take the W and enjoy it and just diversify after that. Perfect. Thanks Robert. Thanks everybody. See you next time.

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