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Finding a Financial Planner

Emily G. Brown JD

University of Massachusetts Boston, emilyg.brown@umb.edu

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Fact Sheet

PENSION ACTION CENTER, GERONTOLOGY INSTITUTE

JOHN W. McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

Finding a Financial Planner

This fact sheet provides information on how to find the right financial planner to help you meet your retirement planning goals.

What do financial planners do?

A financial planner advises clients on various money matters. They counsel clients on how to save properly, invest, and manage their financial assets. Generally, a financial planner specializes in one or more areas such as, estate planning, asset allocation, tax strategies, and retirement planning. They can help clients meet certain financial goals, like saving for a house or accomplishing a specific retirement savings objective.

How do you know if you need a financial planner?

If you have questions about saving for your retirement or are unsure about how to plan and execute your retirement goals, hiring a financial planner might be a good option for you. For example, if you are in a defined benefit plan or other plan that gives you different benefit payment options at retirement, such as taking a single-life benefit, a joint-and-survivor benefit, or a lump sum distribution, a financial planner would be very helpful. She can help you to make this decision by looking at your overall retirement income picture, and suggesting which of these options would be best for you. If you are in a 401(k) or other account plan, she can advise you about your withdrawal options.

The right financial planner is knowledgeable in many aspects of retirement planning. Beyond providing advice and counseling, a good financial planner will also implement the best strategy to achieve your financial goals.

How do you find the right financial planner?

Make sure you do your homework **before** hiring a financial planner because whoever you choose will be helping you create financial security for you and your family in your retirement years. Also, remember that anyone can label her or himself a financial planner; therefore, it is important for you to find a qualified planner who will make

decisions that align with your best interests.

What type of professional title does a financial planner have?

A **Certified Financial Planner** (CFP) is licensed and regulated. The Certified Financial Planner Board of Standards certifies financial planners. CFPs complete rigorous training and must satisfy stringent requirements to achieve certification. They adhere to high ethical standards and take mandatory educational courses to maintain certification. CFPs are also licensed and regulated.

Chartered Financial Analysts (CFA) go through similar exhaustive training and testing to receive the title of CFA.

Interview at least three financial planners before choosing

Here are some helpful questions to ask

- What services does she offer?
- How much does she charge for these services?
- What experience does she have with helping clients meet their retirement savings goals?
- How does she get paid?
 - Planners are generally paid either by commission, a percentage of the value of the assets she manages for you, hourly, or by a flat fee.
 - If the planner is paid on commission earned on the investments she sells, she may have a biased incentive to steer you in a particular direction that may not be within your best interest. Search the National Association of Personal Financial Advisors database at <http://www.napfa.org/> for fee-only financial advisors.
- Has she been disciplined by the Securities & Exchange Commission (SEC) or the Financial Regulatory Authority (FINRA)?
- Does she have a history of consumer complaints?

Look out for some of these warning signs

- Commission-based salary
- Not CFP or CFA certified—likely not regulated or held to rigorous ethical standards
- Does not explain the potential risks associated with investment options
- History of disciplinary actions and consumer complaints
- Hard to understand—you are hiring this person to educate you about financial investments and to possibly help you meet certain financial goals. If a financial

planner throws around a good deal of jargon that is hard for you to understand and does not take the time to explain, this should raise a red flag. Beyond being savvy with your finances, your FP should also be a good teacher; after all, you are entrusting your retirement security to this person, so make sure you understand what is going on!

Additional resources and Tips

- SEC article with more information about warning signs to look for:
http://www.sec.gov/oiea/investor-alerts-bulletins/ia_unregistered.html
- Figure out what a financial planner's professional title actually means with this helpful article: http://www.sec.gov/investor/alerts/ib_making_sense.pdf
- Check the CFP website to determine if your planner is certified:
<http://www.cfp.net/home>
- Find out if a financial planner has been disciplined:
http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx

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Your Former Employer's 401(k) Plan

Jeanne Medeiros JD

University of Massachusetts Boston, Jeanne.Medeiros@umb.edu

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JOHN W. McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

Your Former Employer's 401(k) Plan

When you leave a job where you have participated in a 401(k) plan, you may have a number of different options about what to do with the money in that account. This fact sheet explains those options and offers guidance about the pros and cons of each option.

Here are some frequently asked questions:

Q. Can I leave my money in my former employer's plan?

You may be able to do this. However, if the balance in your account is less than \$5,000, the plan could have a rule prohibiting you from leaving the money in its account. This is called a "forced distribution." Refer to the plan's [Summary Plan Description](#) to see if it has this type of rule.

If you do not fall under a "forced distribution" rule, you can keep the account with your old employer and start a new account with your new employer as well. There are no restrictions on how many 401(k) accounts you can have.

You may decide to keep the funds in your former employer's 401(k) plan if you are satisfied with the investment options it offers you and if the investment options have performed well for you. However, the plan may change its options in the future, so there is no guarantee of future performance.

Some words of caution about keeping your money in a former employer's account

Be sure that the plan always has your current address, and be sure to stay aware of the company's status. Subsequent changes to the company, such as sales or mergers or bankruptcy, might make it difficult to keep track of your funds. See below for a further discussion of finding a former employer's 401(k) account.

Q. What are my other options?

If you cannot leave the money in your former employer's plan or if you choose not to leave it there, your options are:

1. **Immediate rollover to new employer's plan:** See if your new employer has a 401(k) that will accept an immediate rollover of the funds from your former employer's account. In that case, you can fill out paperwork requesting the plan sponsor to send the funds directly to the new employer's account.
2. **Deferred rollover to new employer's plan:** Your new employer's account may not allow you to participate immediately; it might have a one-year requirement for participation. In this case, you can set up a "rollover IRA" account with a bank or other financial institution, and have your former employer transfer the funds into that rollover account. If you plan to roll the assets over into the new account when you become a participant, make sure that this IRA holds only the funds from the previous employer's 401(k). In other words, you cannot use an existing IRA or deposit any other money into the account. Once you become a participant in your new employer's plan, you could roll these assets into it.
3. **Transfer to an IRA:** You may transfer the balance in your account to a new or existing Individual Retirement Account. If this is done as a "trustee - to-trustee" transfer directly from the 401(k) plan to the IRA account, no taxes are taken out during this transfer. If you have the 401(k) balance sent directly to you, however, 20% will be deducted and sent to the IRS.

**Some words of caution about having your funds
in an IRA as opposed to a 401(k) plan**

Money in a 401(k) plan cannot be touched by creditors. If you are sued or if you file for bankruptcy, that money is protected by federal law. Funds in IRAs may be protected from creditors by state law, but that protection varies from state to state. For information about the laws protecting retirement savings in the New England states, please see our fact sheet:

["Protecting Your Retirement Savings from Potential Creditors."](#)

4. **Withdraw the funds:** As a former employee, you can request the distribution of your 401(k) assets at any time. However, if you take the money as a distribution, the plan will withhold 20% for taxes and send it to the IRS. If you are under age 59 1/2, you will, under most circumstances, also be subject to a 10% penalty.

Q. If I decide to withdraw the account balance from my former employer's plan, how do I do that, and how long should it take?

As a former employee, you should be able to simply contact your former employer and request whatever forms are necessary for the distribution to be made.

Check the plan's [Summary Plan Description](#) to see how often the plan makes distributions. Some plans only make distributions at fixed times, such as quarterly or even annually. This might be linked to the plan's valuation date. Some plans determine account balances on a daily basis, but some might do it on a more infrequent basis, for example, monthly, quarterly, semi-annually, or annually. If this is not described in the Summary Plan Description, ask about the plan's valuation cycle when you ask for the distribution request forms.

If you have difficulty getting your former employer to give you the forms or to make the requested distribution, contact one of the pension counseling projects funded by the U.S. Administration for Community Living/ Administration on Aging. These projects cover 30 states and provide free pension counseling and advocacy. You can find a directory of them at: <http://www.pensionrights.org/find-help>. Another source of help, especially if you live in a state not served by one of these projects, is the U.S. Department of Labor's Employee Benefits Security Administration, which you can reach by calling 866-444-EBSA.

Q. My former employer does not seem to be in business any more. How can I get the money from my old 401(k) now?

The first thing to note is that your account balance in that account is protected by federal law. Although it might take a little detective work to find it, you should not lose the money because your employer has gone out of business, relocated, merged with another company, or gone bankrupt.

If you live in one of the 30 states served by the pension counseling projects described above, you should contact that project. These projects, funded by the U.S. Administration for Community Living/ Administration on Aging, provide free pension counseling and advocacy. You can find a directory of them at: <http://www.pensionrights.org/find-help>.

There are a number of helpful suggestions for tracking lost pension funds in a booklet published by the Pension Benefit Guaranty Corporation, entitled, "Finding a Lost Pension." This booklet is available on the [PBGC's website](#). Although 401(k) plans do not fall under the authority of the PBGC, you can use most of the advice in the booklet to help you search for any retirement plan sponsored by a former employer, including a 401(k) plan.

Do you have any questions about this fact sheet? Call the Pension Action Center at 888-425-6067 or visit us online at pension.umb.edu

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Hardship Withdrawals and Loans: Some Words of Caution

Emily G. Brown JD

University of Massachusetts Boston

Jeanne Medeiros JD

University of Massachusetts Boston

Ellen Bruce JD

University of Massachusetts Boston

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Fact Sheet

PENSION ACTION CENTER, GERONTOLOGY INSTITUTE

JOHN W. McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

Hardship Withdrawals and Loans: Some Words of Caution

As defined benefit pension plans become more and more rare, the responsibility of saving for retirement falls increasingly on individuals. Many studies have been published about the average or median balances in retirement savings accounts and virtually all of them have reached the same conclusion—most Americans aren't saving enough money to last them through their retirement years.

In this fact sheet we look at one of the factors that contributes to this problem, that is, the availability of loans and hardship withdrawals from 401(k) retirement accounts, which can lead to lower account balances overall. Sometimes, when you are facing a financial need, you might look to borrow or withdraw money from your retirement account. This approach may be an option, but there are a number of things you should consider first. This fact sheet highlights some of the reasons why taking these loans and withdrawals might have a long-term impact on a person's retirement security.

Hardship Withdrawals

A hardship withdrawal enables a plan participant to withdraw funds in times of immediate and heavy financial need. A 401(k) plan is not required to permit hardship withdrawals, but may permit them if they adhere to the Internal Revenue Service guidelines.

These rules require that **the hardship withdrawal should be a last resort for participants**. Before getting a hardship withdrawal, you must:

1. first, exhaust all distributions or nontaxable loans available under the plan,
2. demonstrate that you have no other funds available to meet the need,
3. show that the amount being withdrawn is necessary to satisfy the need, but is not in excess of the needed amount, and
4. show that the withdrawal is necessary due to an “immediate and heavy financial need.”¹

¹ <http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Hardship-Distributions>
IRS rules & Regs (Reg. §1.401(k)-1(d)(3)(iv)(B))

Acceptable reasons for a hardship withdrawal may be:

1. To pay for medical expenses for you, your spouse, or dependent
2. To pay for funeral expenses
3. To make payments necessary to prevent eviction from your home or foreclosure on your principal residence
4. To repair damage to your principal residence
5. To pay costs directly related to the purchase of your principal residence
6. To pay college tuition and costs for yourself, your spouse, your dependent, or your child who is no longer a dependent.

Remember, plans are not required to allow hardship withdrawals, so you should check the plan's Summary Plan Description to see if your plan does, and to see what the requirements are.

Consequences of Hardship Withdrawals are Both Short- and Long-Term

As you can see, it may be quite difficult to get a hardship withdrawal from your 401(k) plan. If you receive it, **it may be more costly than you think, since it is depriving you of money that you may need for your retirement years. The withdrawal will permanently reduce your retirement savings because it is not repayable.** For this reason, most financial advisors would tell you that it really should be a last resort.

Some of the immediate and short-term consequences are:

1. The withdrawal likely will be taxed as gross income.
2. In most cases, the withdrawal will face a 10% penalty tax for an early distribution, unless you are over 59 1/2.²
3. There will likely be a 20% withholding for income taxes.
4. You will be prohibited from making employee contributions and employee elective contributions for six months after taking the withdrawal.

Loans

Sometimes people think that borrowing money from their 401(k) account is the same type of financial decision as going to the bank and taking some money from their savings account. But taking a loan from a 401(k) may have very different consequences, both long- and short-term, and you should only make this decision after you have considered all of these consequences.

² Distributions before age 59 ½ are generally subject to a 10% penalty tax. Some exceptions apply to this rule. More information can be found on the IRS website: <http://www.irs.gov/taxtopics/tc558.html>

Short-Term Consequences of Loans from 401(k) Plans

1. Loans must be paid back, usually within one to five years; however, some exceptions apply.
2. The funds that come out of your paycheck to pay back the loan are post-tax money, not pre-tax. You also pay interest on the loan.
3. If you leave the employment before you have repaid the loan in full, you can request a coupon book to continue making payments on your own, or the employer can treat the remaining balance as a lump-sum distribution. If you default on the loan, it will also be treated as a lump-sum distribution.
4. The amount that is considered a lump sum distribution (see above) would then be subject to income taxes and the 10% early withdrawal penalty tax. So, for example, if you didn't pay back \$10,000, you will pay a \$1,000 penalty and also pay income taxes on \$10,000. In other words, you could find yourself looking at a big, unplanned tax bill.
5. While the amounts you contribute to your 401(k) account as regular contributions are not treated as taxable income, the amounts you pay to repay the loan do come out of your taxable income. This means that you are taking pre-tax money out of your account and repaying it with after tax money—this may cost you much more than you think.

Long-Term Consequences of 401(k) Loans

When you pull money out of your retirement account, you are using money that would otherwise be working for you, building toward your retirement income security. One of the greatest features of these plans is that your money is earning compound interest; this means that the interest you earn one year gets added to the principal and also earns interest. Over time, this causes the money in your account to grow more rapidly. While you are slowly repaying the loan amount, you are slowing the growth of your 401(k) overall, and losing out on the opportunity to have your money working for you.

Conclusion

Emergencies do happen, and there are times when you might really need some extra money to meet these challenges. Ideally, you should try to have an emergency fund set aside for just that reason. If you don't and are considering using some of your retirement funds, most experts would recommend that you take a loan rather than a hardship withdrawal. Hopefully, you will be able to repay the loan and restore some of the value to your account. As mentioned earlier, the hardship withdrawal is *not* repayable to the plan, so your retirement account loses that money permanently. In general, you would not be able to get a hardship withdrawal if you are eligible for a loan, since you do have to exhaust all your available resources to qualify for a hardship withdrawal.

In today's world, we all need to maximize the amounts in our 401(k) and other retirement accounts. While you may look at the money in your 401(k) account and think that, since it is your money, you should be able to tap into it when you need it, we advise you strongly consider the hidden costs and downsides of taking either a loan or a hardship withdrawal.

Do you have any questions about this fact sheet? Call the Pension Action Center at 888-425-6067 or visit us online at pension.umb.edu

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Getting the Most Out of Your 401(k)


Emily G. Brown JD

University of Massachusetts Boston, emilyg.brown@umb.edu

Jeanne Medeiros JD

University of Massachusetts Boston, Jeanne.Medeiros@umb.edu

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Getting the Most Out of Your 401(k)

Planning for your retirement is an active and ongoing endeavor. It requires a certain amount of diligence and knowledge to ensure you have an adequate amount of financial stability at retirement. In order to safeguard your economic security, it is important to know if you are getting the most out of your 401(k) retirement savings account.

This factsheet provides basic information about enrolling in a [401\(k\)](#) retirement savings account and important items to keep in mind once you are enrolled.

How to Participate

First, determine if your employer offers a 401(k) retirement savings account for employees. Some employers automatically enroll employees into a 401(k). However, in some retirement savings programs employees must sign-up on their own and agree to have a certain percentage of their salary withheld.

How Much to Contribute

- The 2015 maximum limit on contributions is \$18,000 for employees under age 50 and \$24,000 for those ages 50 and over. This amount changes every year based on inflation (Inflation causes the value of the dollar to decrease over time; therefore, as the value of the dollar decreases, more money is needed to provide financial security in the future). Be sure to check this figure yearly; more information can be found on the [IRS website](#).
- How much money will you need to live comfortably once you retire? This is an important consideration to take into account when deciding how much money to contribute to your 401(k). Many 401(k) financial statements only provide a lump sum balance of the account and do not provide an estimate of what a monthly payment would look like at the time of retirement. It is critical to understand how the lump sum amount in your 401(k) will translate into a monthly paycheck.
- AARP and the Labor Department provide retirement calculators to help determine if you are saving enough for your retirement. [Click here to try the AARP retirement calculator](#). [Click here to try the Labor Department retirement calculator](#).
- Do not contribute more money than you can afford to live without. The money put

into a 401(k) is meant for retirement. If you withdraw the money prior to age 59 1/2 you will be subject to a 10% extra tax as a penalty for early withdrawal.

- Does your employer match employee contributions? You can maximize the benefit of your 401(k) by contributing enough of your salary to receive the maximum employer benefit.

For example, your employer matches 50% of the first 4% of your salary...

If you are contributing 2% of your \$30,000 salary (\$600) you likely are not maximizing the benefit of your employer match. Your employer will contribute only \$300 for a total contribution of \$900. However, if you contribute 4% (\$1,200) your employer will contribute \$600, for a total contribution of \$1,800. Once you are vested in the retirement plan your employer's matching contribution is yours!

The employer's contribution is like getting a raise. Don't pass it up!

What Information Do You Need?

Certain documents and financial statements are available to help you make the most of your 401(k)

- After enrolling, make sure you receive a copy of your employer's [Summary Plan Description](#) (SPD). Employers are required to provide a copy of the SPD to new participants within 90 days of enrollment. Take the time to review this document because the SPD contains information such as how long it takes to vest in employer contributions, payment options, your spouse's entitlement to a portion of the benefit, whether or not loans are permitted, and other vital facts about how the plan operates. Keep this and any other pension-related documents with your important papers. [For more information about what documents to keep and for how long to keep them, click here.](#)
- Different fees are associated with the management of your 401(k). It is important that you understand the fees involved with your investment choices. Information about investment fees can be found in the Plan Document or SPD.
- Your Individual Benefit Statement should be provided to you at least once a year if the account is [not-self directed and quarterly for self-directed accounts](#). Review this statement carefully. It generally includes, among other things, your home address, marital status, your salary level, and years of service with your employer. The statement also shows the performance of your investments, your account balance, and the amount of employer contributions that have vested. Carefully review this statement, make sure you understand it, and contact your employer if any information is inaccurate.

- Remember to check your account statement to determine that the amount withheld from each paycheck corresponds with the balance in your retirement account. If the amount in your account does not reflect the amount withheld from your paycheck, please contact the US Department of Labor, Employee Benefits Security Office at 1-866-444-3272.

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Understanding the Differences Between Defined Benefit Pension And Defined Contribution

Emily G. Brown JD

University of Massachusetts Boston, emilyg.brown@umb.edu

Jeanne Medeiros JD

University of Massachusetts Boston, Jeanne.Medeiros@umb.edu

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Understanding the Differences Between Defined Benefit Pension Plans and Defined Contribution

In recent years, more and more employers are offering employees defined contribution plans instead of defined benefit plans. Although there has been a shift away from the defined benefit pension plan, it is important for employees to understand the difference and value of both pension plans.

Each type of pension plan has both advantages and disadvantages. What may appear as an advantage to one person might seem to be a disadvantage to another person. For example, a person who spends all or most of her career with a single employer will have very different concerns from someone who changes jobs many times over the course of her career. It is important to understand the factors highlighted below in light of your own particular work history.

Defined Benefit

- A **defined benefit** plan is a traditional pension plan, which pays a specific benefit, usually on a monthly basis, based on a formula that may include your age at the time of retirement, your rate of pay, and your length of service.
- Generally, all employees participate in these plans after meeting certain criteria pursuant to the employer's eligibility requirements; for example, participants must reach a certain age in order to participate; many companies require participants to be at least 21 years of age to enroll.
- The plan is funded by the employer or employers. The employer is responsible for keeping the fund sufficiently funded and for paying the monthly benefits promised by the plan. If the fund's investments do poorly, it is the plan sponsor's responsibility to invest more money to keep the fund properly funded. This is called the "investment risk"; in a defined benefit plan, the employer bears this risk.
- The plan sponsor must ensure the plan has enough money to pay the promised pensions for as long as the retirees live – whether they live to 66 or 106! This is

sometimes referred to as the “longevity risk”; in a defined benefit plan, the employer also bears this risk.

- As the above paragraphs indicate, in a defined benefit plan, both the investment risk and the longevity risk are the responsibility of the employer, not the employee.
- A defined benefit plan must always provide for survivor benefits for the spouses of retirees. The default form of benefit payment in a defined benefit plan is a 50% joint and survivor benefit. This means that, when the retiree dies, the retiree’s spouse receives 50% of the monthly benefit the retiree had been receiving for the rest of the widow or widower’s life. The spouse has the right to receive this benefit unless she or he has signed very specific paperwork giving up this right.
- Only the plan participant and surviving spouse can receive pension benefits after retirement; a defined benefit pension is generally not assignable to third parties.

Defined Contribution

- A **defined contribution** plan is one in which a defined amount is contributed into the plan by the employer, the employee, or both.
- Generally, employees may elect to participate in this retirement savings plan.
- The eventual payout depends on the amount contributed and the investment performance of the account.
- The money invested in the plan through employee and/or employer contributions may grow or may lose value, depending on how well the plan’s investments perform. The “investment risk” falls on the employee because, unlike defined benefit plans, there is no guarantee of any specified benefit amount at retirement.
- Some defined contribution plans provide employees with a heightened level of control over funds. Known as a self-directed retirement plan, employees have the power to choose how retirement assets are invested (i.e. stock market, bonds, mutual funds, etc.).
- There is also higher level of “portability” available with defined contribution plans. The employee may have the option to take a loan or hardship withdrawal while employed, and will be able to withdraw or roll over the account into some other plan or investment vehicle when he leaves employment with the plan sponsor.
- The “longevity risk” is completely on the employee. It is the employee’s responsibility to make the funds last as long as he or she needs them. If the investments do poorly, or he or she lives a long time after retiring, the employee may outlive the funds.
- An employee may elect any surviving beneficiary to receive the remaining value of the account upon his or her death.

| DEFINED BENEFIT | vs. | DEFINED CONTRIBUTION |
|------------------------|-----------------------------------|-----------------------------|
| All employees | Who participates? | Employee usually elects |
| Yes | Formula for benefits? | No |
| Employer | Who funds? | Employee and/or employer |
| Yes | Survivor's protection? | Generally no |
| Possible | Cost of Living Adjustment? | No |
| Usually no | Portability | Yes |
| Employer | Who Bears Risk? | Employee |

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Disclaimer

This fact sheet is intended to provide general information about pensions and other retirement benefits and should not be used as a substitute for a consultation with an attorney or other legal professional. Individuals should always consult a legal or financial advisor to discuss the facts and circumstances of their specific situation.

Because of the rapidly changing nature of the law affecting pensions and other retirement benefits, the information published online by the Pension Action Center is subject to change without notice. Although every effort has been made to verify the accuracy of information presented, there may be errors.

If you find inaccurate data in this fact sheet or on our web site, please let us know by sending an e-mail to the Pension Action Center at Pension@umb.edu.

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Understanding the Specialized Language of Retirement Plans

Emily G. Brown JD

University of Massachusetts Boston, emilyg.brown@umb.edu

Jeanne Medeiros JD

University of Massachusetts Boston, Jeanne.Medeiros@umb.edu

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Fact Sheet

PENSION ACTION CENTER, GERONTOLOGY INSTITUTE

JOHN W. McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

Understanding the Specialized Language of Retirement Plans

Whether you are a participant in a defined benefit plan or a defined contribution plan, the realm of pension benefits can be tricky and confusing to navigate. Some of the terminology used might be unfamiliar to the average person. This glossary of common terms associated with retirement plans is meant to serve as a helpful resource for plan participants.

ACCRUAL

The process of accumulating funds for a pension benefit.

ACCRUED BENEFIT

The total amount a participant has earned for a pension. It is usually expressed in a monthly or yearly dollar amount which a participant would receive at the his/her normal retirement age.

ACTUARY

A professional mathematician who computes pension costs, risks, etc., according to probabilities based on statistical records.

ANNUITY

Regular payments of income, usually monthly, over a specified period of time, often for life. Defined benefit plans usually pay benefits in this form.

BENEFICIARY

The person that a plan participant designates to receive pension benefits if the participant dies first.

BENEFIT CREDIT

see Credited Service

BENEFIT SERVICE

see Credited Service

BREAK IN SERVICE

Refers to when a pension participant does not work long enough to be credited for his/her work during a plan year or years. Usually results when a participant works less than 500 hours in a plan year.

“CASH OUT”

Withdrawing your funds from your individual retirement account. As opposed to rolling over the funds into another investment vehicle or leaving the funds behind, withdrawal can trigger taxation and penalties.

CLIFF VESTING

A pension plan rule that provides all-or-nothing vesting: that is, a person is 100% vested after a specified period of time, usually five years. (Compare graded vesting)

CONTRIBUTORY PLAN

A plan to which employees as well as employers make payments.

CREDITED SERVICE

Generally means the years a plan counts in computing the dollar amount of a benefit. It is sometimes called “benefit credit,” “benefit service,” or “participant service.”

DEFERRED VESTED BENEFIT

A benefit that is not forfeitable [i.e., is vested] but that is not immediately payable when a person leaves employment. It is deferred to that future time when the participant is eligible to receive it, usually at normal retirement age or early retirement age.

DEFINED BENEFIT PLAN

A pension plan that pays a specific benefit, usually based on age at time of retirement, rate of pay, and length of service. The employer or plan sponsor bears the responsibility of having funds available to pay the plan’s promised benefits.

DEFINED CONTRIBUTION PLAN

A pension plan in which a defined amount is contributed to the plan by the employer, the employees, or both. The eventual payout depends on the size of the contributions and the success of the underlying investments. Employees bear the risk that the accrued benefits at retirement will be adequate. The most common type is the 401(k) plan

EMPLOYEE BENEFIT PLAN

A broad term that encompasses both pension plans and welfare benefit plans.

EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 (ERISA)

The federal law, which took effect in 1976, that regulates private pensions

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

A defined contribution plan in which contributions to the plan are in shares of the stock of the employer.

FIDUCIARY

A person responsible for managing a plan and its assets. His/her duty is to protect the interest of the plan participants and beneficiaries.

FREEZE

A frozen pension occurs when plan administrators amend a plan to discontinue benefit accruals. This means that the workers affected by the freeze stop earning additional benefits from the point of the freeze forward. Companies are allowed to freeze pension plans, but cannot take away benefits that workers have already earned. For more information please read the [factsheet](#) written by the Pension Action Center, explaining pension freezes (compare “termination”).

GRADED VESTING

A pension plan rule providing for vesting gradually over a period of years. For example, a person would be 20% vested after three years, 40% after four years, etc., until she or he is 100% vested after seven years.

HARDSHIP WITHDRAWALS

Some, but not all, defined contribution plans allow a withdrawal of funds due to hardship. A hardship withdrawal must satisfy an immediate and heavy financial need of the employee, and the employee cannot have another financial source to alleviate this need. Various consequences are triggered once an employee elects to receive a hardship withdrawal from his/her defined contribution fund.

IN-SERVICE WITHDRAWAL

A withdrawal made from a plan account by the holder before a triggering event occurs. The most common triggering event is age. Many withdrawals are subject to a tax penalty if a withdrawal occurs before a certain age.

INDIVIDUAL BENEFIT STATEMENT

A document that employers are required to provide participants showing their earned benefits under the pension plan, as well as their vesting status. Under the Pension Protection Act of 2006, traditional pension plans are required to give employees this statement every three years, or notify them annually that statements are available. Employees in a retirement savings plan, such as a 401(k), should receive account statements quarterly, if they are in a plan where they

have control over their investment choices, that is, a “self-directed account”. If they are in a plan where employees do not have control over their investment choices, they should receive an account statement once a year.

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

An individual account or annuity set up with a financial institution, such as a bank or a mutual fund company. Depending on the type of IRA, funds can be tax-free or tax-deferred.

JOINT AND SURVIVOR BENEFIT

A pension benefit to the surviving spouse if the worker or retiree died first

MATCHING CONTRIBUTION

An employer with a defined contribution plan may elect to match a percentage of an employee’s contribution to the plan. For example, an employer may elect to contribute 50 cents for every dollar contributed by the employee.

MULTI-EMPLOYER PLAN

A collectively bargained pension plan to which more than one employer contributes. It usually covers a specific industry or trade; for example, carpenters’ union, or food and commercial workers’ union.

NORMAL RETIREMENT AGE

The age specified by a pension plan as the earliest at which an employee can retire without taking a reduction in pension benefits.

PARTICIPANT

Someone who is or may be eligible to receive plan benefits. A “member” of a plan.

PLAN ADMINISTRATOR

The individual or company responsible for managing the plan. Many employers contract out this job to a benefits specialist.

PLAN YEAR

The 12-month period that the pension plan uses in its calculations. It may be a calendar year, fiscal year, or anniversary year of the beginning of the plan.

PORTABILITY

The ability, when a worker ends employment, to take accrued benefits and transfer them to an individual retirement account (IRA) or another pension plan.

PROFIT SHARING PLAN

A defined contribution pension plan in which the sponsor's contribution may depend on its profits; sometimes referred to as a discretionary contribution plan.

QUALIFIED DOMESTIC RELATIONS ORDER (QDRO)

A state court order or a court approved property settlement agreement that says a pension plan is to pay a share of a pension to an "alternate payee," usually the employee's former spouse.

QUALIFIED PLAN

A plan that meets Internal Revenue Service requirements to qualify for deductibility of plan contributions.

RETIREMENT EQUITY ACT

The Retirement Equity Act of 1984 was created to provide equality and protection for the spouses of employees. It requires that people who are married when they begin receiving their pension must receive their benefit in the form of a Joint and Survivor Annuity unless the spouse voluntarily gives up this right. This protection applies to any retirement plan that pays benefits in the form of a monthly annuity. The law also added survivor benefit protections for widows and widowers whose spouses died before reaching retirement age.

ROLL OVER

The term used to describe the process of moving retirement funds from one investment vehicle to another. For example, instead of cashing out your 401(k) account when you leave your employer, an employee may choose to roll over the funds from the 401(k) into another investment vehicle such as an individual retirement account (IRA).

ROTH IRA

This investment account requires you to pay taxes on the contributed money up-front, when it is first invested. However, once invested, the principal and earnings grow tax-free. At retirement, you are not required to pay taxes when you withdraw money from the account. (Compare Traditional IRA)

SUMMARY PLAN DESCRIPTION (SPD)

A summary in plain understandable language, of a pension plan's terms, including information on eligibility, benefits, and claims procedures.

SURVIVOR'S BENEFIT

See Joint and Survivor Benefit

TERMINATION

Ending a pension plan. The termination of defined benefit plans is regulated by the Pension Benefit Guaranty Corporation, which guarantees vested benefits up to certain maximum levels. Vested benefits under those maximum levels should not be lost due to plan termination. For more information, see www.pbgc.gov.

TERM CERTAIN

One of several payment options sometimes available when a person elects to receive benefit payments. This form of payment pays benefits to the retiree for his or her lifetime, but only pays benefits to a survivor if the retiree dies within the term specified, and only for the balance of that term. For example, John Smith elects a 10-year term certain in 2014 and designates his daughter as the beneficiary. If he dies before 2024, his daughter will receive the benefits through 2024. If he dies after 2024, no benefit will be paid to his designated beneficiary.

TRADITIONAL IRA

Provides a tax break up front. You do not pay taxes on the money you invest in the account. Once invested, the principal and earnings grow tax-free. At retirement, you pay taxes as you withdraw funds.

VESTED

Term that means a worker has satisfied plan requirements so that he/she is eligible for, and entitled to, benefits.

YEAR OF SERVICE

A term used to describe a plan year of employment that counts in determining participation, vesting, and accrued benefits.

401(K) PLAN

A defined contribution voluntary savings plan, named for the section of the tax code which established it. Employees contribute a portion of their pre-tax salary and employers may match some or all of their employees' contributions.

403(b) PLAN

This tax sheltered annuity plan is only available to public schools and various 501(c)(3) tax-exempt organizations. Similar to 401(k) plans, employees contribute deferred salary into an individual account. These funds are not taxable until distributed. However, a 10% penalty is incurred if funds are distributed before the employee turns 59 ½.

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