

RETIREMENT PLANNING

HOW TO GROW YOUR

401(k)

What makes a good plan – and when you should lobby for change?

BY CHRISTINE BENZ

Your company retirement plan may well be getting better. The introduction of “nudge” features like automatic enrollment and auto-escalation (participants put more into their 401(k)s when they get raises) and the uptake of professional management mean that many 401(k) investors are able to save more and invest better than they would have even a decade ago. Morningstar also is seeing more and more index funds in 401(k) plans, which usually feature ultra-low costs.

But there still are huge variations in plan quality across employers. Although plans from large employers aren’t universally good, scale is generally an advantage in the 401(k) marketplace. That means that a plan that contains many millions of dollars is going to have more clout to swing a good deal with providers than will the plan of a tiny firm that lacks a big 401(k) kitty. Moreover, smaller firms, by necessity, frequently require employees to multitask: At a smaller firm, the person who’s charged with maintaining the 401(k) plan on an ongoing basis may also be overseeing payroll and selecting phone plans.

If you suspect your plan is lacking, don’t just commiserate with colleagues about it. By doing a thorough checkup of the plan, you can decide how much of your investment dollars to allocate toward it; you may decide to invest just enough to earn matching contributions and then turn to an IRA with any additional contributions. Checking up on your plan – and taking the extra step of documenting what you find and communicating it to your 401(k) committee or the individual who oversees your

MAKING THE MOST OF A HEALTH SAVINGS ACCOUNT ONCE YOU TURN 65

BY KIMBERLY LANKFORD
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Q: Does the penalty for using health savings account money for non-medical expenses disappear entirely at age 65? Does that mean I could withdraw the money after age 65 for a vacation and just pay taxes on the money, like I would with a 401(k)?

A: Yes to both questions. You’ll have to pay a 20 percent penalty plus income taxes if you withdraw money from an HSA for non-qualified expenses before age 65. But the penalty disappears at 65, and you’ll just have to pay taxes on the withdrawal if you use the money for anything other than eligible medical expenses at that point – similar to the tax deferral of a 401(k). But you may be able to do even better. After age 65, you can use HSA

money tax-free for several extra expenses, such as paying your monthly premiums for Medicare Part B and Part D and Medicare Advantage plans. If you have your Medicare premiums paid automatically from your Social Security benefits, you can withdraw the money tax-free from the HSA to reimburse yourself for those expenses. And you can continue to use HSA money tax-free to pay your out-of-pocket costs for medical care and prescription drugs, dental and vision care, a portion of long-term-care insurance premiums based on your age (up to \$4,220 in 2019 for people ages 61 through 70, for example) and other eligible expenses. For more information about HSA-eligible expenses, see IRS Publication 969, Health Savings Accounts. Plus, there’s an interesting nuance

to the law that lets you withdraw money tax-free from an HSA to recoup payments for any eligible medical expenses incurred since you opened the HSA, even if the reimbursement is years in the future. That means if you paid cash for any eligible medical expenses after you established your HSA, rather than tapping the account, you can let the money grow tax-deferred in the HSA and then withdraw it tax-free at any time to recoup your costs. “It’s important for consumers to keep their receipts for their qualified HSA expenses,” says Steve Auerbach, CEO of Alegeus, which provides technology for HSAs.

Many health plans and HSA administrators provide web tools to help you track your bills for qualified medical expenses and note how you paid those bills.

firm’s benefits package — can also help you build a case for improving it.

A basic audit

You may have noticed that your company retirement plan is lacking a good core bond fund, or your gripe is that matching contributions are low. But before sounding off on these problems on a one-off basis, take stock of the plan from top to bottom, including a review of its administrative costs, fund choices and their expenses, employer matching contributions, and the presence of additional options, such as the ability to make Roth and after-tax contributions. Note that this review process generally applies to 403(b)s and 457s, too.

Unfortunately, you won’t be able to find every bit of information you need in a single document; you’ll need to gather the information from various sources, including your plan’s Summary Plan Description and annual report (Form 5500), both of which you can obtain from your company. Here are the key items to look for, as well as how you’ll find them and how you can benchmark them.

Matching contributions

Find the amount of your contributions that you’re being matched on in the Summary Plan Description. Also, check up on the vesting schedule for those matching contributions (how long you’ll need to stay at the company

to be able to take those contributions with you when you leave). Armed with that information, you can assess whether your employer’s matching setup is generous, miserly or somewhere in-between. The most common matching configuration is 50 percent of contributions, up to 6 percent of pay. Of course, you always want to invest enough to earn matching contributions, but if upon further research you determine your plan is subpar, you may want to steer additional retirement contributions elsewhere.

Administrative fees

This is the trickiest part of any 401(k) assessment. That’s because plans can charge administrative

TIP: CAREFULLY CONSOLIDATE

BY MARY KANE
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YOUR MONEY

If you’ve worked for multiple companies in your lifetime, you probably have accumulated several 401(k) accounts, a couple of IRAs and a brokerage account or two.

As you near retirement, you might consider consolidating some of the accounts to help you organize and track your investments and perhaps save some money with fewer account fees.

Consolidating your employer plans in one IRA “retains the tax-advantaged status of the assets, allows more choice of investments and ensures you remain in touch with your assets,” says Terry Dunne, senior vice president at Millennium Trust Co.

But while consolidation may result in “simplification and convenience,” it’s not as easy as it sounds, says Ajay Kaisth, a certified financial planner in Princeton

Junction, N.J. And there are some good reasons for maintaining separate accounts, so you “need to be sure that the benefits outweigh the costs,” he says.

You might, for instance, want to keep a 401(k) plan that has lower-cost institutional shares of mutual funds and access to commission-free trading, instead of rolling it into an account without those features. Or, if you want to make a qualified charitable distribution someday, you can only do that through an IRA.

Before you make any moves, review the rollover chart at IRS.gov to learn which accounts can be rolled over into another. Study the specific rules of each of your plans; custodians can vary in whether rollovers are allowed and what kind of fees are involved, says Joyce St-reithorst, a CFP in Melville, N.Y.

Next, weigh the pros and cons of consolidating. Combining accounts makes it easier to manage your money and “to

