THE BASICS OF A 401K:

WHAT YOU DON'T KNOW (OR DO) CAN HURT YOU!

Do you know Lee Supply has a 401K plan? If you're not familiar with how a 401K works, this flyer is intended to provide some basic information on 401Ks and how our plan works.

What is a 401K?

A 401(k) is a type of retirement plan that allows employees to save and invest for their own retirement. Through a 401(k), you can authorize your employer to deduct a certain amount of money from your paycheck and invest it in the 401(k) plan. Your money is invested in investment options that you choose from the ones offered through your company's plan. The federal government established the 401(k) in 1981 with special tax advantages, to encourage people to prepare for retirement.

How does a 401K work?

You decide how much money you want deducted from your paycheck and invested during each pay period, up to the legal maximum (the IRS sets an annual dollar limit each year). You also decide how to invest that money, choosing from your plan's different investment options. The money you contribute to your 401(k) account can be deducted from your pay before income taxes are taken out. This means that by contributing to a 401(k), you can actually lower the amount you pay each pay period in current taxes. For example, if you earn $1,000 each paycheck, and you contribute, say 10% ($100), you are only taxed on $900. You don't owe income taxes on the money until you withdraw it from the plan, when you could be in a lower tax bracket. Our 401(k) plan also has a 'Roth' savings feature that allows contributions on an after-tax basis, with the possibility of receiving tax-free qualified distributions in the future.

What's the difference between saving money in my company's retirement plan and putting money into a mutual fund or bank account?

Taxes, taxes, taxes! An ordinary savings account or mutual fund doesn't allow you to save on a tax-deferred basis. So in an ordinary savings account, you're saving money that has already been taxed, and you continue to pay tax annually on any of the earnings of that account, too. The money you contribute to your company's 401(k) retirement plan, however, can come out of your paycheck before current taxes are taken out. Plus, you don't pay income tax on the money you contribute to your 401(k) account or on any earnings until you take it out, which is usually at retirement, when you may be in a lower tax bracket. The bottom line: More of your money is working for you instead of going toward taxes. Keep in mind, however, that investing in your company's retirement plan is only a part of a sound retirement saving plan. It is still important to consider personal savings aside from your retirement savings, too.

Does Lee Supply offer a matching program?

This is decided each year but for the past 2 years, Lee Supply has matched contributions. The matching amount is 25% of the first 4% of contributions (or salary). To get the full benefit of the match, you would need to contribute 4% of your salary to the 401K. For example, someone who makes $35,000 per year would contribute $1,400 to the 401K each year, which is $53.85 per paycheck. And since the 401K contributions come out pre-tax you would see even less of an impact to your bi-weekly paycheck. Lee Supply would then match 25% of the $1,400, which is $350 of "free money" going into your 401K savings!

How much do I need to save for retirement?

The experts used to say save 10-15% each year but that was if you started saving in your 20s. If you wait until age 30, that number jumps to 20% and by age 40 it hits 43%! The key is to start saving early, even when you're not even thinking about retirement. But it's never too late to start saving! Every little bit will help once you are at an age to retire and can no longer work. And the best way to start saving is to put the money in a separate account where it can grow and you aren't tempted to withdraw it, like a 401K.

How do I start contributing to a 401K?

It's easy! If you are 21 and over and have been employed at Lee for more than 2 months, just go to www.netbenefits.com and register on Fidelity's website. You can choose either a traditional 401K (pre-tax contributions) or a Roth 401K (after tax contributions). They have an income stimulator to assist with how much you should contribute each pay to get your desired savings. They also have great guidance consultants to help you determine how you want your contributions directed. Their toll free number is 1-866-973-5023 and are available 8 a.m. – 8 p.m. Monday – Friday.

What are the maximum contributions I can make each year?

For 2015 (and remains the same for 2016), the maximum contribution per year is $18,000. For those age 50 and over, you can contribute an additional $6,000 per year (catch up).

Next Steps:

1) Register at www.netbenefits.com
2) Call the Fidelity Guidance line with questions
3) Watch your savings grow!