YOUR GUIDE TO DEFINED CONTRIBUTION

RETIREMENT PLANS

Discover the who, what, why and how of these popular retirement plans

Prepared on behalf of:

LIBERTY GROUP

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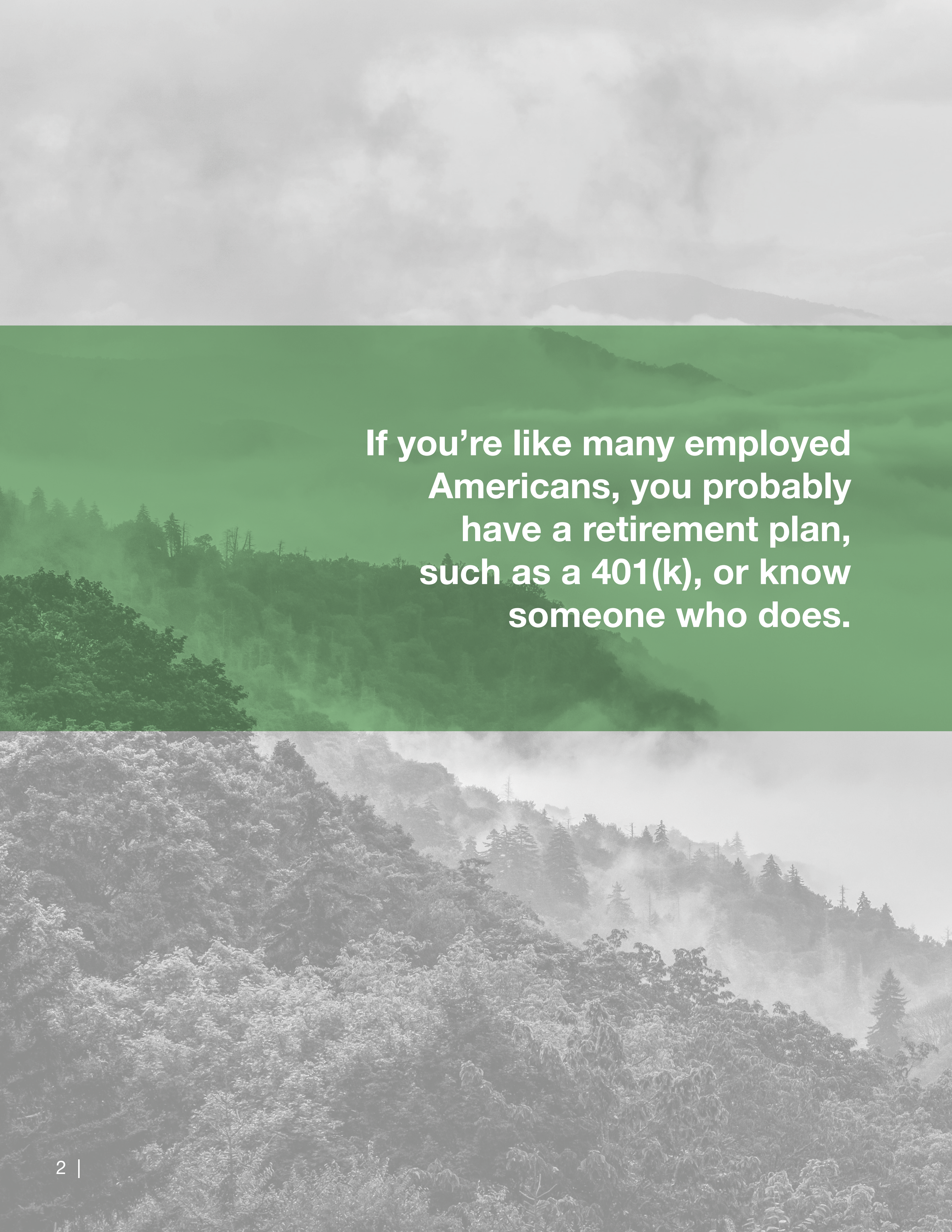

If you’re like many employed Americans, you probably have a retirement plan, such as a 401(k), or know someone who does.

Retirement plans, such as 401(k)s, are one of the most common retirement savings vehicles available — in 2023, 73% of employed Americans had access to retirement benefits.[1]

But even those who have participated in a defined contribution retirement plan for years may not understand its full benefits. Let's take a look at how this type of plan works — and why it could be a vital part of your retirement savings strategy.

Defined Contribution Plan Basics

A defined contribution retirement plan is a savings vehicle sponsored by an employer as a benefit for its employees. Each employee's plan is typically funded in two ways:

1. The employee contributes a portion of each paycheck, usually through automatic deductions.

2. The employer may match the contribution up to a predetermined limit, if they choose.

There is a limit on how much employees can contribute to their retirement plan during each tax year:

Annual Plan Limits[2]

2024

$23,000 (under age 50)
$30,500 (age 50+, catch-up amount is $7,500)

2025

$23,500 (under age 50)
$31,000 (age 50-59 and over 63, catchup amount $7,500.)
$34,750 (age 60-63, catchup amount $11,250)

Employers also have limits on how much they can contribute on your behalf. For 2025, the maximum contribution you and your employer can make is $70,000 ($77,500 for employees age 50-59 and over 63).($81,250 for employees 60-63)[3].

Who’s Who With Your Plan

The funds in your plan belong to you — but it takes a team to help manage them. Here’s a look at all the parties involved:

Employer: Also called the plan provider. Sponsors the plan and sets it up for the employees. May make contributions on each employee’s behalf.

Participant: An employee who contributes to the retirement plan.

Advisor: Assists the employer’s leadership team with decisions about the plan, such as which investments to offer. Will also monitor plan activity, oversee due diligence and may provide participant education opportunities.

Record Keeper / Custodian: Responsible for all housekeeping related to the plan, including processing transactions, producing statements, overseeing the website, holding assets, etc.

Third-Party Administrator (TPA): May be the same or different entity as the plan record keeper. Administers the plan, monitors activity for compliance with the plan document, provides all testing and more.

Investing in a Defined Contribution Plan

Each plan offers a set of investment options, ranging from aggressive to conservative. These options usually include a variety of mutual funds managed by a financial services group that works with the employer to select which funds are available to plan participants.

Each employee can choose which funds they wish to invest in within their individual plan, from the list of available options. And your investment selections may not be set in stone; some plans allow participants to switch to different funds that are available within their retirement plan. (This is especially valuable as you get closer to retirement and your goals shift from growing your money to preserving your savings.)

Fees

Like other investment types, defined contribution retirement plans have associated fees that can impact how much your money grows over time. The amount of these fees varies, although they typically range from 0.5% to 2% based on the size of the plan, who provides it and how many employees participate.[4]

Plan participants won't write a check for these fees or see them deducted from paychecks. Instead, the fees are paid through the plan and cover mostly administrative and investment costs.

Most fees come from either the plan provider (the company administering the plan) or the investments themselves. While plan participants can't avoid paying fees, they can lower how much they pay by selecting funds with lower expenses. An employer might also decrease fees by regularly exploring new plan options and offering lower-priced funds within an existing plan.

Withdrawing Money From Your Qualified Retirement Account

How your money is taxed

For qualified retirement accounts such as 401(k)s or 403(b)s, contributions may be made on a pretax or after-tax basis, depending on the plan provisions. All earnings are tax deferred, making it a useful tool for lowering your taxable income. Growth within the account is also tax-deferred, and an employee pays taxes on money in the plan only when taking distributions from the account.

Some employers offer a Roth 401(k) option. In this case, contributions are made on a post-tax basis. But when you take distributions, you won't owe taxes on the money you take out — a benefit that could make a big difference for your retirement income.

Making early withdrawals

Funds within a defined contribution plan are intended to be used during retirement. The IRS says once an employee reaches age 59 ½, they can access their funds freely if permitted by the plan. (Keep in mind you'll still owe ordinary income taxes on any distributions.)[5]

Employees under age 59 ½ can still access funds — but there's a catch. A 10% penalty tax is usually owed on any early distributions, in addition to ordinary income taxes. However, there are a few times when payouts can be made without penalty, such as:[6]

- The employee retires or leaves the company and rolls their money into another qualified investment
- The employee dies
- The employee experiences a hardship allowed for under the plan's terms

Some plans allow employees to take loans from their available funds, up to a certain amount. Loans must be paid back in a defined time frame (usually five years), and interest is charged on the loan amount — although the interest rate tends to be lower than if you took a loan from a traditional lender, and the loan interest is paid back into your retirement account.

Options for your funds

Once you've reached the age of 59 ½ or left employment from the company, you have some options for your retirement plan funds:

> **Option 1:** You can leave the funds in the plan. Some people choose to start taking monthly withdrawals to replace their paycheck. However, there are a few drawbacks with this option, namely that you run the risk of investments within the plan being reduced or the company eliminating the plan altogether.
>
> **Option 2:** You can transfer the funds into another plan. This option is only available to those who will continue working and have access to a plan through their new employer.
>
> **Option 3:** You can move the funds into an IRA. Many retirees opt to roll over their retirement plan money into an IRA to take advantage of increased investment options. A rollover also lets you combine money from multiple plans into one account, potentially growing your funds more quickly.

No matter which option you choose, you must start taking distributions from either a defined contribution plan or IRA by age 73. These required minimum distributions (RMDs) are taken annually and are counted as ordinary taxable income.

Setting Yourself Up for a Confident Retirement

If you participate or are considering participating in a retirement plan, you don't have to go it alone! Some companies offer resources to help participants make such decisions as which funds to invest in, how much to contribute from each paycheck and even what to do with a plan after a participant leaves the company.

Your financial advisor also can provide guidance on how to manage your retirement plan funds and your available options in retirement. Saving into a defined contribution retirement plan, like a 401(k), can give your retirement a boost — if you understand how to use it to your advantage. Working with a knowledgeable advisor can help you optimize the benefits of your plan and put you on the path to your ideal retirement.

Common Retirement Plan Terms to Know

3(16) Plan Administrator Manages the day-to-day operations of the plan.

3(21) Investment Adviser Person or entity who provides investment advice to the plan sponsor regarding which investment options to offer within the plan. Also known as an ERISA 3(21) fiduciary.

3(38) Investment Manager Advisor who is tasked with selecting, monitoring and updating investments within a plan. Also known as an ERISA 3(38) fiduciary.

401(k) Plan Defined contribution plan provided by an employer, through which participants can defer a portion of their pretax income to save for retirement.

403(b) Plan Defined contribution plan provided to employees of public education organizations, non-profit organizations and certain government entities.

457(b) or 457(f) Plans Defined contribution plan provided to employees of public education organizations, non-profit organizations and certain government entities. Unlike a 403(b) plan, a 457 plan does not charge you early withdrawal penalties. 457(f) plans are for highly compensated employees and often have higher contribution plan limits.

404 Limit – Employer Deductible Contribution Limit The maximum amount in employer contributions a plan sponsor can make in a year. This limit is set at 25% of eligible compensation earned by all plan participants.

404(a)(5) Participant Fee Disclosure Provides sufficient information regarding the plan, including fees and expenses, to participants so they are able to make informed decisions concerning the management of their individual plan accounts.

415 Limit – Annual Additions Limit Maximum amount that can be made to a plan participant's account in a year, including all contributions except rollover and loan repayment.

Active Management An investment style in which an investment manager continuously makes investment decisions, including buying, selling and reallocating assets within the portfolio.

Administrator Manages the plan's day-to-day activities. The administrator can be the plan sponsor or a designated third party.

Administration and Record-Keeping Expenses All fees paid by plan participants, originating from the plan record keeper and the selected investments.

Adoption Agreement The portion of the plan document that contains all of the alternatives and options that may be selected by the employer.

Alpha The difference between a fund's expected performance and its actual returns.

Annual Audit Required review of plans with more than 100 participants, conducted by an independent auditor.

Asset Allocation Investing strategy that distributes assets among different classes, with the intent of balancing risk and reward within a portfolio.

Automatic Deferral Default Percentage Percentage of pay that is automatically deferred when an employee is enrolled in a plan through automatic enrollment. A typical automatic deferral default percentage is 3% of pay. Generally, participants can choose to defer an amount other than the default percentage.

Automatic Enrollment Allows employers to enroll employees in a plan automatically. Employees can "opt out" of the plan if they wish.

Automatic Escalation Some plans allow participants to automatically save a higher percentage from their paychecks into a defined contribution plan, either based on age or increasing wages.

Basis Points (BPs) A unit of measure. One basis point equals 0.01%. 100 basis points equal 1%.

Benchmark A point of reference. For instance, some mutual funds use the S&P 500 Index as a benchmark to gauge performance.

Beneficiary The individual(s) who will receive the retirement plan benefits or proceeds after the plan participant dies.

Beta Volatility or risk related to the benchmark index. If the beta is greater than one, the fund is more volatile than the index; if it is lower than one, the fund is less volatile.

Blackout Period A predetermined period when plan participants cannot access funds in their retirement accounts. May also be known as a quiet period, transitional period or lockdown. These can occur during the valuation process or due to a change in how the plan is administered or who is managing it.

Break in Service Usually identified by a period of 12 consecutive months in which the employee works fewer than 500 hours or doesn't meet the employment criteria required to participate in the plan.

Bundled Services An arrangement in which plan service providers charge an all-inclusive fee for plan establishment, investment services and administration. Bundled services are priced as a package and generally are not priced on a per-service basis.

Catch-Up Contributions Plan participants age 50 and older can contribute additional funds, making their annual contribution limits higher than participants under the age of 50.

Conflict of Interest Occurs when a person's professional responsibilities conflict with their personal interests. Conflicts of interest could affect record keepers, plan trustees or advisors.

Custodian Tracks and holds the plan's securities. Custodians may include trust companies, banks, mutual fund companies and insurance companies.

Defined Benefit Plan An employer-sponsored retirement plan that pays a specific amount to participants after they retire, based on salary history and years of service. Commonly known as a pension.

Defined Contribution Plan An employer-sponsored retirement plan, such as a 401(k) plan, that is funded by a combination of employer and employee contributions.

Discretionary Contributions How much an employer may, but is not obligated to, contribute to a plan, including profit-sharing or matches. Many companies match 3% to 6% of employees' annual salary.

Distribution Withdrawals taken from a retirement account. These can be one-time, lump-sum withdrawals or funds taken out on a recurring basis.

Distribution Expense Costs associated with distributing assets from a defined contribution plan, including the required filings. Reported on a 1099 tax form.

Diversification Using a variety of investments within a portfolio to potentially reduce risk and optimize growth. Does not serve as a guarantee of profit or protection against loss.

Elective Deferral Payroll deduction contributions to the plan that an employer makes on behalf of an employee, instead of the money going into the employee's paycheck. The employee must authorize the deduction first.

Eligible Employee Any employee who meets the requirements to participate in a defined contribution plan, as defined by the plan's documents.

Employee Retirement Income Security Act of 1974 (ERISA) Federal law that sets the standards for private-sector retirement plans, including fiduciary responsibility, plan participation, participant rights and more.

Employer-Sponsored Retirement Plan
A 401(k) or pension plan offered by a company for the benefit of its employees in retirement.

Enrollment Signing up for a retirement plan. At enrollment, participants decide how much of each paycheck to defer and which funds they wish to invest in within their plan.

Exclusive Benefit Rule Standard that says all activities of the plan must be solely for the benefit of the plan participants and their beneficiaries, not for the fiduciary's interests.

Expense Ratio Costs of managing investments within a retirement account. This is usually shown as a percentage of total assets (i.e., Total Costs / Total Assets = Expense Ratio).

Fidelity Bond A bond designed to preserve a retirement plan's participants in the event a fiduciary or other responsible person steals or mishandles plan assets.

Fiduciary The person responsible for managing the plan for the benefit of the plan participants and beneficiaries.

Fiduciary Insurance Insurance that helps protect plan fiduciaries if they are found liable for a breach of fiduciary responsibility.

Financial Wellness Proactively managing your financial situation and finding balance between the mental, spiritual and physical aspects of wealth management.

Forfeiture The non-vested portion of a plan a participant relinquishes when they leave the company.

Form 1099R Tax form provided to a plan recipient and filed with the IRS following a distribution from a retirement account.

Hardship Withdrawal Early distribution of funds, to be used for coverage of medical expenses, purchase of a primary residence, payment of higher education costs, funeral expenses, repairs to a primary residence or payments to avoid foreclosure or eviction. Hardship withdrawals are taxable and also subject to a 10% penalty tax if the plan participant is under age 59 ½.

Highly Compensated Employee Any employee who owned more than 5% of the business in the past year or received compensation higher than a specified dollar amount and is in the top 20% of compensation for the company.

Index An indicator or measurement. A stock or bond index is a portfolio of securities, representing a particular market and used as benchmarks.

Investment Adviser Representative (IAR) Person(s) who provides investment advice in return for compensation. May work with the plan sponsor to choose funds offered in a defined contribution plan and help plan participants decide which funds to invest in.

In-Service Withdrawal Also known as early distribution. Occurs when an employee takes a withdrawal of funds from a qualified employer-sponsored retirement plan (if permitted by the plan) while still working or before experiencing a triggering event. A triggering event is retirement at (or after) age 59 ½, disability or termination from the company, or death.

Investment Manager Any fiduciary who has the ability to manage, acquire or dispose of assets within a defined contribution plan. Usually registered as an investment advisor and recognized as a trusted advisor for the plan.

Investment Mapping Process of keeping plan assets invested while changing service providers. This is typically done by ensuring that the investment of plan assets maintains the strategy and objective used by the previous provider. For example, assets invested in large-cap growth stocks would remain invested in that asset class under the new provider.

Investment Policy Statement Document that provides guidelines for the plan's investment management. It typically sets forth the plan's investment objectives, investment strategies, policies and investment limits.

Lifecycle Fund Mutual fund that adapts to participants' risk through different life phases. For example, a target-date fund in a 401(k) invests based on a future retirement date and becomes more conservative as that date gets closer.

Loan Fees One-time and ongoing administrative fees associated with taking a loan from your retirement plan.

Lump-Sum Distribution One-time withdrawal from a retirement account, such as a 401(k).

Management Fee Charged for expenses associated with managing a retirement plan.

Non-Qualified Deferred Compensation Plan Unsecured agreement for an employer to give an employee future benefits in exchange for services today. Typically used for highly paid executives.

Non-Qualified Plan A retirement plan that does not qualify for tax-deferred or tax-free growth or distributions.

Passive Management Also known as indexing. “Hands-off” strategy to investing, in which funds are allocated in an attempt to replicate the performance of a predetermined benchmark.

Plan Administrator Person or company that oversees the retirement plan’s administration, payment of benefits and enrollment of eligible employees.

Plan Participant Employee who is deferring part of their annual salary into an employer-sponsored retirement plan.

Plan Provider/Sponsor Company that offers a plan to employers for the benefit of their employees.

Profit Sharing An agreement for an employer to distribute a portion of its profits to employees. These distributions are discretionary and can be contributed to an employee’s plan.

Qualified Plan A retirement plan that meets the criteria for tax-deferred or tax-free growth or distributions.

Registered Investment Adviser (RIA) Person or firm that makes investment recommendations in return for a fee and is registered with the U.S. Securities and Exchange Commission.

Required Minimum Distribution (RMD) Amount plan participants age 73 or older must withdraw from their qualified account annually. This amount is taxable as ordinary income and is calculated based on how much money is in the account and the account owner’s age.

Rollover Moving money from one qualified retirement plan into another.

Roth 401(k) Employer-sponsored retirement savings account funded with post-tax dollars, instead of pretax dollars like a traditional 401(k). Withdrawals from a Roth 401(k) are tax-free in retirement.

Salary Reduction Agreement Formal agreement in which the employee agrees to have a portion of their wages redirected into a retirement plan.

Self-Directed Retirement Plan Allows the plan participant to choose how their funds are invested. Contribution limits for both employer and employee, as well as other plan requirements, still apply.

Share Class Types of shares issued by a mutual fund. There are typically three types of share classes associated with 401(k)s:

- **Class A:** Include a front-end sales load, which may be reduced as the investment size grows. Class A shares usually have lower 12b-1 fees and lower annual expenses than other classes.
- **Class C:** Have either a front- or back-end sales load, plus 12b-1 fees and other annual expenses.
- **Class R:** Exclusive to retirement plans. Can vary based on the plan’s requirements.

Solo 401(k) Type of retirement plan designed for one-person businesses, benefiting the business owner and spouse.

Standard Deviation A mutual fund or portfolio’s volatility, as measured by the fund’s range of total returns and spread of its short-term fluctuations.

Summary Annual Report (Form 5500) Document provided each year to all plan participants by the plan sponsor, summarizing the plan's funding, number of participants, total assets within the plan, administrative expenses over the past year, etc.

Summary Plan Description (SPD) Formal document containing full description of a plan. A summary plan description lays out terms and conditions for participation and must be provided to a participant within 90 days of enrollment.

Target-Date Fund (TDF) A target-date fund in a 401(k) invests based on a future retirement date and becomes more conservative as that date gets closer.

Termination Fee Costs associated with terminating a relationship with a service provider, permanent termination of a plan or termination of specific plan services. Also called "surrender" or "transfer" charges.

Third-Party Administrator (TPA) Organization that manages a retirement plan for an employer. May process claims, ensure eligibility and provide communications to participants.

Trustee: Individual/Employer Person(s) appointed by the employer to serve as trustee for the plan.

Trustee: Institutional Organization — usually a bank or trust company — that serves as the plan trustee.

Vesting Schedule How long an employee must work for an employer in order to access an accrued portion of their retirement plan.

Sources

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