



Making Your Retirement Plan Elections



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Employees everywhere recently had the opportunity to make their benefit elections for the upcoming year, including healthcare coverage, retirement plans, insurance, and other perks offered by employers. Though many enrollment periods have passed, there are some items employees can still control in their retirement accounts; here, Senior Wealth Strategist Glen Goland, JD, CFP®, offers advice on setting your plan up for the year.

CHOOSING A CONTRIBUTION AMOUNT

Many employers offer 401(k) or other types of savings plans that allow employees to contribute a portion of their salary to a retirement fund. Employees should consider their current cash flow needs and their goals for retirement deciding how much to contribute and to which plans and accounts.

Employer-sponsored retirement plans often include payments from the company to the employee accounts through an employer matching contribution, in which the employer matches some portion of the employee's contribution. Generally, employees must contribute to their plan in order to be eligible to receive matching contributions. As we start a new tax year, employees ought to make sure they are contributing at least enough to be eligible for — and preferably to maximize — employer matches to their retirement plan.

The recently-passed Secure Act 2.0 includes a provision that will allow employers to make matching contributions to accounts of those employees who are not contributing due to their student loan obligations. If you are not contributing to your workplace retirement plan because of your student debt service, check with your employer, as you may now be eligible to have your employer match a portion of your student loan payments with a contribution to a retirement account on your behalf.

PRE-TAX VERSUS ROTH ACCOUNTS

Workplace retirement plans often provide employees with the option of investing their dollars in a standard pre-tax retirement account or in a Roth option. Deposits to a



standard retirement account will be contributed on a pre-tax basis, reducing your current taxable income, while Roth dollars go in after you have already paid taxes on that income. Standard contributions (along with any investment growth) are treated as taxable income when withdrawn, while qualified Roth dollars — including both your contributions and the investment growth — come out tax-free.

When deciding whether or not to utilize a Roth, you are essentially deciding whether to pay taxes on the assets now or to pay later. If you think you are likely to be in a materially higher tax bracket in retirement (either because you think tax rates are going up or because you intend to retire to a state that assesses an income tax), then the Roth is likely a better option for you. Also, if you have a long time before retirement for your assets to grow, a Roth can be very valuable, as those dollars will be tax-free. You can always choose to divide your contributions between pre-tax and Roth as well.

CONTRIBUTION LIMITS

The tax code includes annual limits for contributions to retirement plans. The contribution limits [have increased in 2023 from last year](#); employees can contribute \$22,500 into an employer-sponsored retirement plan this year, with a \$7,500 catch-up contribution for those over age 50. If you reached these limits in 2022, consider increasing your contribution this year to reach the new maximum.

Employees should take the time to review their options and make the best decision for themselves and their families. By carefully considering their options, consulting with outside experts where appropriate, and making informed decisions, employees can ensure that they are getting the most out of their benefits package.

