When employees approach their employer with questions about contribution limits, one of the most commonly searched 401(k) terms on Google, it creates an opportunity for education and encouragement. Employees may not know the difference between a 401(k) and an Individual Retirement Account (IRA), what distinguishes a traditional IRA from a Roth IRA, or how much more money they’re allowed to contribute to any of these kinds of accounts each year. Their questions can be used to open the door to deeper conversations. Below, we have outlined some of the questions that typically come up around contribution limits and ways you can turn those questions into more engaged and educated employees.

**Questions About Contribution Limit Basics**

Your employees can contribute to a 401(k) and an IRA at the same time. That’s because an IRA is a personal account, self-managed by each individual, while a 401(k) is only available through an employer. While saving in both ways is highly encouraged, the IRS allows
taxpayers to put a lot more savings into a 401(k) than an IRA. Between all their personal IRAs, a person can only contribute $5,500 per year, unless they’re 50 or older, when they can contribute $6,500. By comparison, the maximum contribution an individual is allowed to make to a 401(k) is $18,500 a year for employees under 50, and $24,500 for those over 50. At any age, that’s more than triple what can be saved in an IRA.

When an employee approaches you about contribution limit basics, you can emphasize how much they’re allowed to save and how much your company matches.

Questions About How Much to Contribute

Once employees learn that they are allowed to contribute more than the company match, they may wonder: How much should I contribute? Funds in either type of retirement investment account (IRA or 401(k)) have a high potential to grow through compound interest over time, especially the longer they’re given to grow. Employees can benefit from knowing that even small amounts saved early have a bigger impact than the same amount saved later. Thanks to compound interest, just $35 a week can add up to $100,000 in 20 years and close to a million in 40. Here’s where your 401(k) service provider or recordkeeper can help out—they likely have a retirement calculator that your employees can use to help them understand how much to save today for the type of retirement they want in the future.

Questions About Employer Matching & Vesting Schedules

Employers are allowed to contribute up to $36,500 a year to each employee’s 401(k), almost double what the employee is allowed to save themselves. 401(k) plans are so unique to each company that it’s difficult to comment on tendencies or common trends. We do know from a 2013 Plan Sponsor Council of America survey that the average match percentage was 4.7% of the employee’s income. In 2010, the Bureau of Labor Statistics reported that 40% of employers offering 401(k) plans matched 0%. Today it’s most common for an employer to match their employees’ contributions dollar for dollar up to 3% to 6% of the employee’s total income.

Some employers use a vesting schedule for matching contributions. 401(k) plans can be set up so that employees are fully vested from their enrollment date and own the company’s contributions as soon as they’re made. Others might have what’s known as
a vesting schedule, where employees are vested after they’ve been on the job for a certain number of years. Some schedules occur in increments, meaning the employee becomes vested gradually over a period of a few years. After an employee is fully vested in the 401(k) plan, they own all employer contributions.

It’s pretty common for candidates considering different job options to ask about an employer match or the company’s vesting schedule. At that time, you can lay out not only what the employer offers from a financial perspective (matching/vesting schedules), but also from a non-financial perspective. You can emphasize the type of 401(k) and finance education your provider offers, how often they come out to meet with employees in person, and the type of fund lineup you offer.

Questions About Traditional vs Roth Plans

Even if they’re opening a personal IRA, employees might still come to you with questions about how to divide their savings strategy between two accounts. The general distinction between a traditional IRA, Roth IRA, 401(k) and Roth 401(k) lies in when their money is taxed. With a traditional 401(k) or IRA, no contributions or funds from interest will be taxed until the money is used during retirement. Traditional IRAs and 401(k)s offer money the opportunity to grow tax-deferred.

Roth IRAs and Roth 401(k)s differ in that the taxes are paid when the money is deposited in the account, but there’s no tax later when the funds are withdrawn, and no tax on the earnings. Employees can decide which type of account to contribute to by considering what they expect their tax bracket to be during retirement. Many factors, like deducting children from taxes, the end of tax credits for paying interest on a mortgage or student loans, even an increase in tax rates could mean people are in a different tax bracket after retirement, even if their income stays the same or goes down. If employees expect to be in a lower tax

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<th>Traditional 401(k)</th>
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<td>Pretax contributions</td>
<td>After-tax contributions</td>
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<td>Reduces current tax liability</td>
<td>No current tax benefit, but no future taxes</td>
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<tr>
<td>Distributions taxed as ordinary income</td>
<td>Distributions are tax-free</td>
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<td>· 5-year waiting period (after first Roth 401(k) contribution)</td>
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<td>· Age 59½, death, or disability</td>
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bracket during retirement, a traditional plan may be best, because they won’t pay taxes on their contributions until they withdraw them later, when they’re taxed at a lower rate. However, if the employee expects to be in a higher tax bracket, a Roth plan in which taxes are paid now may be a better choice.

You may or may not offer both traditional and Roth contribution options for your company-sponsored 401(k), but when you are approached with questions about Roth vs. traditional retirement accounts, it’s important to clarify the structure of your company’s plan. Plus, you can answer any questions about how and when contributions are taxed. Roth vs. traditional questions are advanced for the typical 401(k) investor—and show an interest and engagement in really preparing for retirement. Taking a few minutes to share the different tax situations for Roth vs. traditional IRA & 401(k)s can help your employees be more retirement prepared.

**Answers: Education and Empowerment**

If your employees are curious about their retirement savings contribution limits, it’s likely due to their ability and/or desire to save more. That’s a great thing for them and you alike; they’ll be on a less rocky road to retirement, and you’ll know your 401(k) is doing the most it can to help them on that road. Even employees who can’t increase their monthly contribution can take advantage of the opportunity to deposit lump sums like bonuses into their 401(k) or tax refunds to their IRAs.

Employees who understand contribution limits have a better idea of what their options are. When an employer or 401(k) provider takes the initiative to provide this information, they’re also creating the opportunity for more nuanced conversations. Each employee will have their own unique maximum possible contribution, based on dozens of life factors. Understanding both the contribution limits set by the government and how to create a personal goal will help employees achieve a comfortable retirement over the next 10, 20, or 50 years. For an employer, that means affirming that whatever the employee is able to contribute can make a difference in the long-term.

**About Fisher Investments 401(k) Solutions**

Fisher Investments 401(k) Solutions is dedicated to helping small and mid-size businesses deliver successful retirement plan services. Our success is defined by each business achieving its custom 401(k) plan goals and by empowering employees with the dedicated support and resources necessary to achieve a dignified retirement. Our solutions are built on the core principles of providing employers and employees ready access to dedicated 401(k) specialists, flexible investment options, and fee transparency.

The Fisher Investments Resource Library is designed to support 401(k) Plan Sponsors with insights, tools and answers without obligation.