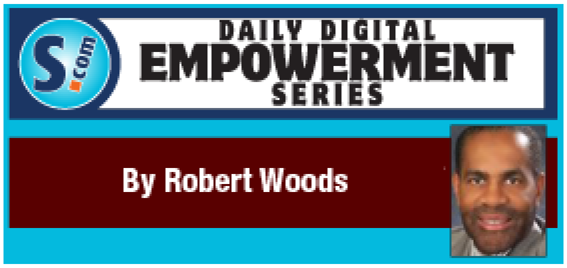
Fundamentals of Money Management

You Are In It for the Long Term



OPINION – In prior articles, I talked about the fundaments of cash and money management as it pertains to a Defined Contribution Plan (DC Plans or in Individual Retirement Accounts (IRA's)). In a nutshell, you are in these investments plans for the long term.

This not a Vacation Plan, nor is it a Christmas Club Saving Account. It is an investment plan for the next 10, 20, 30 years and beyond! We spend money to maintain our higher quality of life based on our cash flows and credit. I see people thinking of retiring only to find out they cannot. Why? Lack of an adequate savings account or an investment plan that will allow them the freedom to retire without worrying about their finances.

The Federal Government and the IRS have provided you with a golden opportunity of saving your money in a long-term investment program. Not only that, they provide you with a tax shelter on today's income. If your employer is providing a matching program, you are being offered a deal you should take every day. Imagine investing $100 and an employer match of 50 percent. You start out with $100 and at the end of the day you have $150. That is a gift you cannot afford to ignore.

DC Plans and other tax deferred plans come in many varieties …401(k)…402(c)…403's…408(d)(3) and …457's are a few of them. They are named after the IRS Code that regulates them. Each Plan is similar in that **they are all tax deferred plans** (tax exempt until withdrawal). Yet each Plan has different applications that provide a saving component and a tax shelter component.

There are also plans such as the Thrift Savings Plan (TSP).

- The TSP program is a Federal Government Program and is similar to a DC Plan except only federal employees and all branches of the military can participate in its program. If you are in the military or a federal employee, go to the Human Resources office and ask what savings and tax shelter program are offered to you.

Ask if your company has any one of these plans, if so, get the rules on how to use them and start securing your financial future by doing the following:

- Participate in your company plan.
- Contribute as much as possible (Invest the maximum allowable limit).
- Get vested before you pull out of your Plan or change jobs.

What is vesting? Vesting in a retirement plan means giving you full ownership of your employee-employer account when an employer provides a matching contribution. After the vesting period the employer cannot come back and take what they put into your plan. If a person leaves the plan before they are fully vested, the employer may take back either all or part of their match. Rules vary from company to company and from plan to plan. Ask about the vesting rules your company may have in their plan.

According to the Internal Revenue Services (IRS): https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-vesting.

"Vesting" in a retirement plan means ownership. This means that each employee will vest, or own, a minimum percentage stated in the plan document of their account in the plan each year. When an employee is 100% vested in his or her account balance, he or she owns 100% of it and the employer cannot forfeit, or take it back, for any reason. Amounts that are not vested may be forfeited by employees when they are paid their account balance or when they don't work more than 500 hours in a year for five years.

Example: Employer A sponsors a profit-sharing plan. The plan only has employer contributions, uses a 6-year graded vesting schedule and counts hours of vesting service based on a calendar year. John began working for Employer A in June 2007 and quit in August 2011. John worked at least 1,000 hours (the minimum number of hours of service required to be credited with a year of service under the terms of the plan) in 2007, 2008, 2007, 2009, 2010 and 2011. He had 6 years of vesting service and is 80% vested in his account.

If you have questions about your vesting, ask your employer or human resources department. Read the Summary Plan Description or refer to your annual benefits statement.

The key is to get started as soon as possible. In the next series of articles, we will talk about financial planning. You must know where your money is going and how much you can begin to invest for retirement. In our next article we will discuss "The World of Credit."

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