

RIVERNORTH RETIREMENT PLAN NEWS

3rd Quarter 2011

DID YOU KNOW?

The IRS recently announced cost of living adjustments for 2012, which will affect the dollar limitations for 401k and other retirement plans. In 2012, the elective deferral limit for 401k plans will increase from \$16,500 to \$17,000, while the catch-up contribution for participants age 50 or older remains unchanged at \$5,500. This is the first change for many of these limits in several years. It will allow for greater annual tax-deferred savings to participants' retirement accounts.

Source: www.irs.gov/retirement

QUESTIONS ABOUT YOUR OTHER INVESTMENTS?

Contact RiverNorth
Retirement Plan Services:

401k@rivernorth.com
(866) 467-6412

Retirement Plans: The Employee Perspective

What is the employee perspective on employer-sponsored retirement plans?

Qualified employer-sponsored retirement plans can provide a number of tax and non-tax benefits to employees. The employee perspective on these plans should certainly consider the obvious tax deferral and retirement savings benefits. Additionally, however, employees should consider various strategies to optimize their benefits. For example, employees will approach their retirement plans most effectively when they take full advantage of employer-matched savings and by remaining with a particular company at least until vesting has occurred. In some cases, moreover, the advantages and disadvantages of borrowing from employer-sponsored plans should be evaluated.

Why should an employee participate in a qualified employer-sponsored retirement plan?

Participation in an employer-sponsored retirement plan is probably the most effective way to save for retirement. If you have an individual retirement account (IRA) rather than an employer-sponsored plan, you know that your annual contribution amount is relatively limited. 401(k) plans allow much higher annual contributions. And, if your primary method of saving for retirement is to personally invest in securities, there is always a temptation to spend your savings prior to retirement. The temptation to withdraw your money prematurely from an employer-sponsored plan is severely curtailed. This is because many qualified plans don't permit in-service withdrawals at all, or permit them only for limited reasons (for example, financial hardship). In addition, a 10 percent early distribution penalty generally applies to the taxable portion of any withdrawal you make before age 59½ (unless an exception applies). In addition to the retirement savings aspect of 401(k) plans, these plans can offer significant tax advantages. Deferring part of your com-

pensation to the plan can lower your present taxes. Postponing receipt of this taxable income is also useful, because when you eventually realize the income at some future point, it's possible that you'll be retired and/or in a lower tax bracket. Keep in mind that the earnings on your plan contributions grow tax deferred until you take distributions. 401(k) plans can also permit Roth contributions. Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. This means there's no up-front tax benefit, but if certain conditions are met, your Roth 401(k) contributions and all accumulated earnings are free from federal income taxes when distributed from the plan.

How can an employee optimize his or her retirement benefits?

One way to optimize your retirement benefits is to ensure that you contribute to the plan as much as the law allows in a given year. Also, keep in mind that if your salary increases, so should your contribution level. For example, it's nice for you to contribute a flat \$100 to your 401(k) plan each month, but if your salary increases by \$1,000 each year, the amount of your contribution should increase also in order to maximize your retirement savings. Contributing to your company's 401(k) plan can help you save for retirement, defer taxes on your current income, and defer (or eliminate) taxes on the earnings.

You can also optimize your retirement benefits by taking full advantage of employer matching contributions. Some employers, for example, might contribute 50 cents for every dollar you contribute to the plan. In a very real sense, this gives you an automatic 50 percent return on your investment.

Another consideration is vesting. If your employer matches your contributions (or

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funds the pension plan entirely), it may impose a vesting schedule on you. This means that you will not be able to take ownership in the employer-funded part of a pension plan until certain conditions have been met. Typically, the employer will require you to work for the company for a set number of years before you will become vested. If vesting occurs after 3 years of service and you're thinking of leaving the company after 2 and one-half years, it would be advisable for you to try to stick around for another six months.

Should you borrow money from your retirement plan?

Some 401(k) plans may allow you to borrow money from the plan under certain conditions. Typically, the interest charged on such a loan will be less than that of an unsecured bank loan. When you pay the money back, you're really paying the money to yourself. Therefore, borrowing money from your 401(k) plan may be the cheapest source of funds you can find for a loan.

When you take a loan from your 401(k) plan, the funds you borrow are removed from your plan account until you repay the loan. While removed from your account, the funds aren't continuing to grow tax deferred within the plan. So the economics of a plan loan depend in part on how much those borrowed funds would have earned if they were still inside the plan, compared to the amount of interest you're paying yourself. This is known as the opportunity cost of a plan loan, because you miss out on the opportunity for more tax-deferred investment earnings.

Also, while the interest you pay on a loan is usually deposited into your plan account, the benefits of this perk are somewhat illusory. To pay interest on a plan loan, you first need to earn money and pay income tax on those earnings. With what is left over after taxes, you pay the interest on your loan. When you later withdraw those dollars from the plan, they are taxed again because plan distributions are treated as taxable income. In effect, you are paying income tax twice on the funds you use to pay interest on the loan.

STOCK AND BOND MARKET RETURNS THROUGH SEPTEMBER 30, 2011							
Source: Morningstar	ANNUALIZED						
	1 MONTH	3 MONTHS	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Citigroup 3 Month T-Bill	0.00%	0.01%	0.07%	0.11%	0.20%	1.62%	1.92%
Barclays U.S. Agg. Bond Index	0.73%	3.82%	6.65%	5.26%	7.97%	6.53%	5.66%
Dow Jones Ind. Avg.	-5.91%	-11.49%	-3.90%	3.83%	3.15%	1.37%	4.67%
S&P 500	-7.03%	-13.87%	-8.68%	1.14%	1.23%	-1.18%	2.82%
Russell 2000	-11.21%	-21.87%	-17.02%	-3.53%	-0.37%	-1.02%	6.12%
MSCI EAFE	-9.86%	-19.60%	-17.18%	-12.02%	-4.02%	-6.14%	2.42%

Questions?

Contact: RiverNorth Retirement Plan Services
Toll-Free: (866) 467-6412
E-mail: 401k@rivernorth.com
Web: www.rivernorth401k.com

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