

Getting Better With Age

As the 401(k) Continues To Evolve, It Remains a Great Retirement Saving Strategy

Since their launch in 1981, 401(k) plans have grown to become the most popular company retirement plan in the United States. According to the Investment Company Institute, 401(k) plans hold \$7.4 trillion in assets, in more than 710,000 plans, on behalf of nearly 70 million active participants, former employees and retirees.

Saving in a 401(k) has never been easier. Many more employers now offer automatic enrollment with built-in automatic savings increases each year — along with robust investment decision support tools. Here are six more reasons why your 401(k) continues to be a great retirement saving strategy:

Your savings are automatic. With your 401(k), you're following the core financial planning principle of "pay yourself first." Money is deposited from your paycheck to your account without you even having to think about it. It doesn't get much easier than that.

Tax-deferred compounding. You defer paying income tax on money that you save in a 401(k). Income tax won't be due on this money until it is withdrawn in retirement. The money that would otherwise go to pay current taxes remains invested for greater long-term growth potential. As a result, any interest, dividends and capital gains you earn can benefit from the power of tax-deferred compounding.

Tax-deferred compounding: the sequel. Employees who are age 50 and older are eligible to make additional "catch-up" contributions beyond the annual Internal Revenue Service limit. This is a significant benefit, especially if you've not been able to save as much because of competing financial priorities (such as saving for a college education or supporting aging parents). Catch-up contributions that you make also benefit from tax-deferred compounding.

Free money courtesy of the employer match. You should always aim to save at least enough to get a full employer match (subject to your plan's vesting rules). A 401(k) match of 50 cents

for each dollar you save in the 401(k) plan up to 6% of pay is a 50% return on your investment. A dollar-for-dollar 401(k) match doubles your money.

Your money goes where you go. If you leave your employer for any reason, you can take your vested balance (including the employer match) with you. It's fully portable, and you can roll it into an Individual Retirement Account (IRA) or a new employer's 401(k) plan (if allowed).

Roth contribution option. If available to you, contributions to a Roth 401(k) are made with after-tax dollars (no tax deduction), but potential earnings and distributions are tax-free, as long as you have held the account for at least five years and are at least 59½ years old. If you think you'll be in a higher tax bracket during retirement, a Roth option may be a sound strategy (or consider diversifying your money between both traditional and Roth options).



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Understanding the Typical Components of an Estate Plan

The topic of estate planning can be difficult to think about, but is so important to achieving financial wellness. Besides designating how you want your assets distributed, an estate plan provides your health care directives, simplifies the probate process and helps minimize taxes. It also helps protect your loved ones by minimizing conflicts and ensuring their financial security. Typical components of a comprehensive estate plan include the following:

Last will and testament. This document outlines how you want your assets distributed after your death. It allows you to name an executor who will manage your estate, pay debts and distribute your assets. You can also designate guardians for minor children.

Revocable living trust. A trust is a legal entity that can “own” assets. The document looks much like a will. And, like a will, a trust includes instructions for who is to handle final affairs and who is to receive the deceased’s assets. Today, many people use a revocable living trust instead of a will in their estate plan because it avoids court interference at death (probate) and at incapacity. To create a basic living trust, you make a document called a declaration of trust, which is similar to a will. You name yourself as trustee — the person in charge of the trust property. If you and your spouse create a trust together, you will be co-trustees. As long as you are alive and competent, you can change the trust document, add or remove assets or even cancel it.

For a revocable living trust to work properly, you must transfer your assets into it. Titles must be changed from your individual name (or joint name with a spouse or partner) to the name of your trust. Because your living trust legally holds title to the assets it holds, these assets aren’t considered a part of your estate, and therefore do not need to go through the probate process upon death or incapacitation. This makes it very easy for someone (a co-trustee or successor trustee) to step in and manage your financial affairs.

Durable power of attorney. This document designates someone to make financial decisions on your behalf if you are unable to do so. The chosen individual can manage your assets, pay bills and handle other financial matters.

Healthcare power of attorney. Also known as a medical power of attorney, this document appoints someone to make medical decisions for you if you are incapacitated. This document ensures that your healthcare preferences are respected even when you cannot communicate them.

Living will. A living will, or advance healthcare directive, specifies your wishes regarding medical treatments and end-of-life care. It can include instructions on life support, resuscitation and other critical care decisions.

Beneficiary designations. For assets like life insurance policies, retirement accounts and payable-on-death accounts, beneficiary designations are crucial. These designations override the instructions in your will, ensuring that these assets go directly to the named beneficiaries.

Creating an estate plan involves careful consideration and documentation to ensure your wishes are honored and your loved ones are taken care of after your death. Consulting with an estate planning attorney can help you navigate the complexities and create a comprehensive plan that meets your needs.



Informational Sources: Investopedia: “[What is Estate Planning? Definition, Meaning, and Key Components](#)” (April 22, 2024); Empower: “[5 Essential Estate Planning Documents](#)” (June 11, 2024); Legal Zoom: “[A Smart Way to Avoid Probate: The Living Trust](#)” (September 17, 2024).

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