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Financial Briefs

NOVEMBER 2026

Pension Plans vs. 401(k) Plans

A pension plan has become increasingly rare, or at least that's the conventional wisdom. But that doesn't mean that pensions are not still an important retirement planning tool for many people. While it's true that few private sector employers offer pension benefits for new hires, they are still common for people who work in the public sector. Many older people also have some pension benefits, perhaps from a previous employer. So, although pensions aren't available to everyone, they are still an important part of the retirement planning mix for millions of Americans.

Whether you have a pension, a 401(k) plan, or a combination of the two, you may be wondering which is better. The answer depends on your circumstances.

The Difference between Pensions and 401(k) Plans

What separates a pension plan from a 401(k) plan? A pension is a defined benefit retirement plan. Your employer contributes money throughout your working years in a pot with all other employees' money. The money is then invested on behalf of you and your co-workers. When you retire, you receive a predetermined monthly benefit, based on your length of service, salary, and age. Your benefit is guaranteed, but you don't have any control over how the money is invested.

With a defined contribution plan, like a 401(k) plan, you (and your employer if they offer matching contributions) set aside money in a special account. You can then invest that money in options available in the plan. Unlike a pension, the amount you receive when you retire depends on the amount you save and the investment returns you receive.

Pros and Cons: Pensions

At first glance, pensions seem superior to defined contribution plans. After all, you get a guaranteed benefit that lasts for the rest of your life after you stop working. A pension eliminates the risk of outliving your money or losing all your savings because of a market crash or an investing mistake. Overall, pensions also have slightly better returns over time than 401(k) plans.

But pensions have their downsides, too. One of the biggest is that you can't control the investments. That means that if you're a savvy or aggressive investor, you could be missing out on possible gains. Another drawback? If you leave your employer before a certain time

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How Much Should You Save in Your 401(k) Plan?

How much should you save in your 401(k) plan? As much as you can seems like a pretty good answer. Of course, life isn't that simple. Saving as much as possible is a laudable goal, but it doesn't exactly qualify as planning. To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits

Before you start coming up with an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2026, workers younger than 50 can save $24,500 in a 401(k), 403(b), or similar plan, while those age 50 and older can save $32,500 annually, an extra $8,000 per year.

Contribution limits usually go up slightly every year; so if you're an aggressive saver, you'll also want to pay attention to that and adjust accordingly.

At a Minimum, Get Your Match

The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would

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Pension Plans

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(called your vesting period), you lose access to all or a portion of your benefit. Finally, if your employer runs into financial distress or goes out of business, your benefit may be far less than you anticipated.

Pros and Cons: 401(k) Plans

Many employers prefer 401(k) plans since they take the responsibility for managing employees' retirement off of the employer and place more responsibility on employees. Many employees like 401(k) plans too, since they can control how much they save for retirement and how it is invested. And your contributions remain yours — you won't lose it if you change jobs (although you may lose matching contributions, depending on how long you've worked for your employer) or face the possibility of reduced benefits if your employer goes bankrupt. Finally, you can pass on any money left in your 401(k) plan to your heirs. That's not the case with a pension, where the benefits end after the pensioner or the pensioner's spouse dies.

But 401(k) plans have their disadvantages as well. First, you need to be motivated enough to set aside money from your paycheck — money you could be spending today — for retirement. Many people struggle with this, either putting off saving or not saving enough. Another problem? Many people don't take enough risk with their retirement savings. If you stick with cash or low-interest bonds, your returns likely won't be high enough to generate the income you need in retirement.

Defined benefit and defined contribution plans each have their pros and cons. Whatever type of retirement plan you have access to, it's essential to understand how it works and what your responsibilities and options are, so you can plan for retirement. Please call if you'd like to discuss this in more detail.

Should You Borrow from Your 401(k) Plan?

For many people, their 401(k) account represents one of their largest financial assets. While designed to provide a source of income in retirement, the Internal Revenue Service (IRS) allows plan sponsors to permit participants to borrow from their accounts before they retire.

But tapping into your 401(k) may jeopardize the lifestyle you're hoping for once you retire. So is it ever okay to borrow from your 401(k) plan?

The general consensus is that spending today what you've put away for tomorrow is a bad idea, especially if you're planning to spend on discretionary purchases. If you're using your account as an alternative to a credit card, it may be a sign that you're living beyond your means and probably should look for ways to cut back your spending. However, under certain circumstances, borrowing from your 401(k) plan may make financial sense. Before you take out a plan loan, though, it's important to weigh the pros and cons.

The Advantages of 401(k) Loans

If your family is suffering financial distress and your credit is poor, a 401(k) loan might be your only option for a loan. The terms can also be quite generous: you're allowed to borrow half of your account value, to a maximum of $50,000, and the rate is generally very competitive with rates on unsecured consumer loans — typically 1% above the prime rate, although this will vary by plan. Finally, application fees, if your plan charges them, are generally much lower than bank fees.

Plans must also allow hardship withdrawals, but specific requirements must be met to qualify. In addition, the withdrawal is subject to income taxes and early withdrawal penalties.

Because a 401(k) loan isn't subject to income tax or penalties, it may be a better alternative. In addition, because you're paying yourself back with interest, your loan retains some value as an asset that provides a positive return.

The Disadvantages

The first thing to realize is that you have to pay the balance with interest within five years, unless the proceeds are being used to purchase a principal residence (then you can repay over a longer time period). Next, consider how secure your job is, because if you no longer work for your plan sponsor, you may have to repay the entire loan balance within 90 days. Otherwise, that amount is considered a withdrawal; and if you're not yet at least 59½ years old, you'll owe a 10% penalty in addition to income taxes.

A plan loan also presents some other possible disadvantages:

Opportunity Cost. Money taken out of your plan can't take advantage of bull markets. So even though your interest payments are providing some return, having your money out of the stock market could significantly reduce how much you'll have when you're ready to retire.

Suspended Contributions. Make sure you won't have to reduce or stop new 401(k) contributions because you are struggling to make your loan payments.

Taxation. Loan payments are made from after-tax income, and interest paid on the loan is not tax deductible. Thus, other types of loans, such as home-equity loans, may be cheaper on an after-tax basis.

If you're seriously thinking about taking out a loan from your qualified retirement plan, it's important to assess its short- and long-term consequences and consider alternatives. Please call if you'd like to discuss this in more detail.

How Much?

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prefer to save in some other way, it still makes sense to at least get that free money.

But How Much Do I Really Need?

So you know how much the government will let you save and that you should be contributing enough to get your employer match. But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number, because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. But in the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

Some experts use a simple formula based on your age and salary to give people a rough idea of how much they need to save. Here it is:

By age 35, your savings should total at least your annual salary.

By age 45, your savings should total at least three times your annual salary.

By age 55, your savings should total at least five times your annual salary.

By age 67, your savings should total at least eight times your annual salary.

In other words, if you earn $75,000 a year at age 35, you should have at least that much saved in your 401(k) and other retirement accounts. If your salary hits $125,000 annually by age 67, you'll need $1 million. But if you're earning less at age 67 — say $80,000 a year — $640,000 might be enough. If you're married, also keep in mind you'll need to make sure your spouse is saving enough for retirement.

Another guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower, but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is that your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save 5% of your pay.

Again, these retirement savings rules are only guidelines. To really find out how much you need to save in your 401(k) plan and other retirement accounts, please call to discuss this in more detail.

Avoid These 401(k) and IRA Mistakes

When it comes to saving for retirement, many people take a set-it-and-forget-it approach. But not paying attention to what is going on in your 401(k) and IRA accounts could cause you to miss valuable savings opportunities. Avoid these seven mistakes:

- **Not contributing enough to get your full employer match**. If your employer matches your contributions to your 401(k) plan, you should try to stretch enough to at least meet their maximum match amount. Otherwise, you are essentially leaving money on the table.
- **Neglecting to maximize your contributions**. While you may not be able to save up to your 401(k) contribution limits (for most people, that's $24,500 in 2026 plus an additional $8,000 catch-up contribution for those over age 50), you should save as much as you are able. If there's any extra room in your budget or expenses that could be easily reduced, consider dedicating that money to retirement. Or when you receive your annual raise, allocate it to your 401(k) savings.
- **Playing it too safe by investing in an overly conservative way**. It can be really scary to take chances with your hard-earned cash, but if you only invest in safe investments like cash or CDs, you run the risk of the low returns being outpaced by inflation and thus being worth less over time.
- **Not reviewing your investment allocation regularly**. Your asset allocations will inevitably need to change as you age, as the risk you're willing to tolerate in your twenties will likely not be the same as when you're in your fifties. This means you should review your portfolio at least on an annual basis.
- **Not taking advantage of catch-up contribution options**. The closer you get to retirement, the more you may regret not maximizing contributions in the past. Fortunately, once you turn 50 years old, you have the chance to catch up a bit and your maximum annual contributions go up another $8,000 for a 401(k) and another $1,100 for your IRA.
- **Forgetting about old retirement accounts.** If you've changed jobs, there is a chance that you left an old 401(k) plan with your former employer's plan provider. There are four options for you to consider: 1) keep it there, 2) cash it out (there could be tax consequences), 3) transfer it to your current company plan or 4) roll it into an IRA.
- **Taking too much of a do it yourself approach**. Managing your own retirement planning can be confusing if you do not have the knowledge and skills to make the best choices. Seeking the help or guidance of a financial professional can remove the doubt and emotion from your investment decisions and ensure that you are really on track for the retirement you are working toward.

News and Announcements

From the Bolander Household

Fall is finally upon us. I truly enjoy the autumn weather – there is just a different feeling in the air with the sun glistening off the morning dew covering the ground. It takes me back to early morning high school marching band practice on the football field. After an hour, our shoes would be soaked and sometimes muddy from a junior high game that had been held the night before. If it had rained, the crawdad mounds would be piled high in the low-lying sidelines. When the band director wasn't watching, the younger boys in the band would fish out those smelly scavengers and chase us girls around with pinchers poised to grasp our hair. Terrifying, really!

Fall and football also meant homecoming, decorating the school halls and lockers, and painting the store windows with slogans supporting the home team; and of course, giant mum corsages larger than my fist. Our colors were black and "old gold" so the mums were a beautiful bronze color, accented by black and gold ribbons that seemed to be two feet long.

Now days, I enjoy the fall flowers that are perking up the flower beds after our recent rains – chrysanthemums (aka "mums") in every color and size, and we're starting to see pansies pop up everywhere. A few weeks ago, between decorating pumpkins I even got the grandkids to help me set out some pansies near our front driveway. So cheerful!

Have a wonderful fall!

Brenda C. Bolander, CFP®
CPA/PFS™
Executive Vice President

From the Peralta Household

I'm officially just a couple of weeks away from the Indianapolis Marathon, and I'm excited to see how it goes. I've set a big goal for myself of running under three hours. My current personal best is 3:28, so it would be a big jump, but after all of the training that's gone into this race, I really do believe it's achievable. Either way, I'm looking forward to getting out there, giving it everything I have, and hopefully seeing all those early mornings and long runs pay off.

After the marathon, I'm looking forward to slowing things down a little and spend more time making memories with friends and family. There are a lot of things to look forward to over the next couple of months, but I'm especially excited to visit New York City for the first time in December. I've always wanted to experience the city around the holidays, and it should be a fun way to wrap up a busy year.

I'm thrilled to see what these last couple of months of the year bring. There are some big goals still ahead, but also plenty of opportunities to slow down, enjoy the people around me, and make some great memories. I can't think of a better way to head into a new year.

Alexx V. Peralta, CFP®
Vice President

From the Client Services Team

As year-end approaches, our Client Services Team is here to help.

Qualified Charitable Distributions (QCDs)

If you are age 70½ or older, a Qualified Charitable Distribution (QCD) may be a tax-efficient way to support the charitable organizations you care about. A QCD allows you to transfer funds directly from your IRA to a qualified charity, and for those subject to Required Minimum Distributions (RMDs), QCDs can satisfy all or a portion of your annual RMD.

To be counted toward your 2026 RMD and tax year, the distribution must be completed by December 31, 2026.

Required Minimum Distributions (RMDs)

Your RMD must be withdrawn by December 31, 2026, and is calculated based on your account balance as of December 31, 2025.

If you are considering a QCD this year or need information regarding your RMD, please contact our Client Services Team at ServiceTeam@TheRetirementPath.com or (405) 842-3443 for assistance with the process.

The Client Services Team

