



Private Wealth
Management

The Bellehumeur,
Buday & Yost Group

Glossary of Financial Terms

401k and Employer Benefits

Employer Benefits

- **Employer Match**
 - A type of contribution an employer chooses to make to his or her employee's employer-sponsored retirement plan. The employer's contribution is based on how much in contributions were made by the employee.
- **Flex Spending Account (FSA)**
 - An account that allows employees to contribute a portion of their regular earnings to pay for qualified expenses, such as medical expenses or dependent care expenses. Typically, it is per year and if the employee does not use the dollars allocated, the funds will be forfeited.
- **Health Savings Account (HSA)**
 - An account created for individuals who are covered under high-deductible health plans (HDHPs) to save for medical expenses that HDHPs do not cover. Contributions are made into the account by the individual or the individual's employer and are limited to a maximum amount each year. The contributions are invested over time and can be used to pay for qualified medical expenses (includes most medical care such as dental, vision and over-the-counter drugs).
- **Employer Retirement Plan**
 - Plan that allows an employee to choose between taking compensation in cash or deferring a percentage of it to an account under the retirement plan. The amount deferred is usually not taxable to the employee until it is withdrawn. Examples: 401K and 403B plans.
- **Roth vs. Traditional**
 - A **traditional retirement plan contribution** comes out of the individual's paycheck without being taxed and would be taxed when the funds are removed from the account at a later date. A **Roth contribution** would be made after taxes have been paid. When the money has been removed from the account at a later date it would not be taxed. Here's a hypothetical example of how investing in each account may work:

| | Traditional | Roth |
|---------------------------------|--------------------|--------------|
| Gross Income | \$1,000 | \$1,000 |
| - Traditional Contribution | \$100 | \$0 |
| Taxable Income | \$900 | \$1,000 |
| - Income Taxes (20%) | \$180 | \$200 |
| - Roth Contribution | \$0 | \$100 |
| Take Home Pay | \$720 | \$700 |
| Starting Account Balance | \$100 | \$100 |
| + Growth of 50% | \$50 | \$50 |
| Final Account Balance | \$150 | \$150 |
| - Taxes on Withdrawal (20%) | \$30 | \$0 |
| Final Amount Distributed | \$120 | \$150 |

This chart is hypothetical in nature, does not necessarily reflect any current or future tax rates and is for illustrative purposes only. Please consult with your financial and tax professional prior to making any investment decisions. Robert W. Baird & Co. does not provide tax advice.