

# SIX COMMON MONEY MISTAKES

## AMAZON EMPLOYEES MAKE WITH THEIR RETIREMENT SAVINGS PLAN

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Is the American financial dream out of reach? At Frame Wealth Partners we believe it's all about making plans in the "PRIME" of your life. With the markets, tax laws, and investment options changing all the time, it's now more important than ever that you understand what's offered through Amazon and the six common mistakes employees make that can potentially put their retirement at risk. If you want to frame up the right picture for your financial future after reading our white paper, please go to [FRAME WEALTH](#) to set up a no obligation meeting today.

1

**ERISA Section 402(a)(1) – The Self-Directed Brokerage Account.** Sure, you have lots of choices and like doing a term paper in high school, some people choose their 401(k) funds in a few minutes with a click of a button when they enroll. However, you have an option that Frame Wealth can help with in your 401(k) called a Self-Directed Brokerage Account. While the funds do not leave your 401(k), essentially you can pick from several investments rather than the handful of choices most Amazon employees use in their 401(k). This strategy may allow you to have more fund-family choices, pick individual stocks, and have a much wider choice with your overall asset allocation.

2

**The Mega Back Door Roth IRA.** Executives at Amazon can be narrowly focused on the pre-tax options in the 401(k) plan, and forget to look at the after-tax investment option within the 401(k). Why? Well, quite frankly once someone has optimized the maximum contributions (and catch-up contributions) in their 401(k), they automatically assume there is little to no value of saving more money into the 401(k).

You have an IMPORTANT CLAUSE in your benefits manual. Specifically, the Summary Plan Description document states the following noted below when it comes to distribution events.

Although you may withdraw your rollover contribution Accounts and After-tax Contribution Accounts at any time, certain events must occur before you may withdraw your other Accounts from the Plan. Generally, Elective Deferral Accounts may not be withdrawn prior to the earliest of the following:

- termination of employment;
- becoming Disabled;
- attaining age 59 1/2;
- death;
- incurring a financial hardship;
- meeting the requirements for a qualified birth or adoption distribution;
- meeting the requirements for a qualified reservist distribution or a deemed severance distribution; and
- termination of the Plan.

This means even though you may still be working at Amazon beyond the age of 59 1/2, you could roll your 401(k) into your own Individual Retirement Account (IRA) which could give you more options that are not available within the 401(k) altogether. You may also look at the back door Roth IRA strategy as another way to accelerate more savings and tax-free income in retirement. This strategy can be an incredibly powerful strategy from a tax and estate planning perspective and one that Frame Wealth Partners can show you how to plan for in your retirement.



3

**Net Unrealized Appreciation Under Section 162 For Amazon Stock.** At Amazon, you could buy (or you are buying) company stock in your retirement plan. When you leave your employer, there is a crucial tax Partners decision on what you should do with the company stock. In essence, you have an opportunity to pay ordinary income tax on your cost basis of the company stock but pay capital gains tax on the growth if the election is done successfully. This could result in tax savings. Once you rollover your 401(k) to an IRA (which is what most financial advisors will tell you to do), this election will no longer be available. If you have worked for a long period of time for Amazon, you may want to sit down and discuss with your financial advisor the implication of missing out on Net Unrealized Appreciation.

4

**SKIP THE QDIA.** What's a QDIA? It is a Qualified Default Investment Alternative and it's the plan's default investment. A QDIA may be a life cycle or target/retirement date fund. If you don't make the choice on what funds to choose or self-direct the funds yourself, you will automatically be put in the QDIA. The concept behind these funds is that the fund company will do the work and adjust the balances until you retire at the age of 65. We believe one of the biggest mistakes people can make with their old 401(k) plan is doing a strategy such as this or just leaving the current mix they have in their 401(k) and never revisiting it on a year-to-year basis.

First, the Target Based fund may not accurately reflect your own risk tolerance. Working with an advisor can be beneficial as you weigh the advantages and/or disadvantages of the use of the individual funds in your 401(k) or look to set up a self-directed brokerage account. (HINT: Talk to us at Frame Wealth Partners about this).

5

**Auto-Rebalancing.** If your car was drifting to the left or drifting to the right, you would certainly take it to the dealer or an auto shop to put the car in alignment. So many people invest money into their 401(k) plans and over time the original asset allocation they put into place gets out of whack because of normal performance over time. This means that one category may have too much weight or too little weight depending on your original allocation.

There is a simple and easy way to avoid this in your Amazon 401(k) by using the internal automatic rebalancing tool. By switching this tool to the on button, every 180 days the computer will automatically put your 401(k) back into its original alignment which helps you buy certain investments when they aren't performing as well and sell others after they have performed well. It may be one of the smartest things to do within your 401(k).

# 6

**Not analyzing the “In-Plan Roth Conversion”.** One of the most important fundamentals in helping to build a high-quality retirement plan is to consider what your “net income” will be in retirement and not your “gross income”. This means with the decisions you make around your 401(k) you will have to decide whether you pay tax now or pay tax later. One of the most interesting features of the Amazon 401(k) plan is that you can elect at any time to do an In-Plan Roth Conversion. Essentially this means you can take pre-tax contributions that you made and convert them within the Amazon 401(k) plan. You will have to consider the short- and long-term consequences for making this type of tax decision, but it’s always a good idea to really analyze whether it’s better to pay tax now or pay tax later. Based upon almost \$35 trillion dollars of debt, where will you guess tax rates will be 20 years from now?

Here's the clause for the In-Plan Roth Conversion:

A Participant, spousal alternate payee, or spousal beneficiary may elect to convert vested amounts from any Account (other than a Roth Contribution Account, qualified nonelective contribution Account, loan Account, or self-directed brokerage Account) to an in-Plan Roth conversion Account in such manner and subject to such rules as the Plan Administrator may establish. The plan permits conversion of any amounts permissible under the Code (including amounts that are distributable and amounts that are not otherwise distributable) from the vested portion of any Account other than the excluded Accounts described above. Amounts that are so converted will be subject to the taxation provisions and separate accounting requirements that apply to Roth Contributions and any distribution constraints applicable to such amounts prior to the conversion.

At Frame Wealth Partners, we’ve become extremely knowledgeable in all aspects of the financial lives of Amazon employees. Isn’t it time you get the right picture set up for the financial future for your family? Learn more about us and how we’ve helped many Amazon employees do the same.

Check us out at [www.framewealth.com](http://www.framewealth.com)

