Understanding the Benefits of Your 401(k) Plan

Many companies offer a 401(k) plan to empower their employees to save for retirement. If you're not taking advantage of this powerful retirement savings vehicle, now is the time to start.

Why Start Saving Now?

On average, Social Security will only cover about one-third of your retirement income needs, which means you'll need to make up the difference through personal savings. The earlier you start, the more opportunity you'll have to grow your investments.

The Key Benefits of a 401(k) Plan

Your company's 401(k) is a simple, convenient and flexible retirement planning vehicle that can help you start investing early, and automatically. It offers a number of important benefits to help you prepare for retirement:

- ***Employee contributions.*** You contribute salary deferrals on a pre-tax basis (or, if your plan permits, Roth contributions or after-tax contributions). Pre-tax contributions may reduce your current taxable income.
- ***Tax-deferred growth.*** You can defer taxation on any potential earnings until you actually receive the funds.
- ***Professionally managed investment options.*** You have access to a number of investment options that are managed by professional money managers.
- ***Diversification.*** When you invest in multiple investment options, you spread your assets among different investments, which may help reduce volatility.
- ***Portability.*** You typically have the ability to transfer your 401(k) assets on a tax free basis to eligible retirement plans or individual retirement plans, if you switch employers down the road. You also have other options available (see Rollover Distributions from Your Plan at the end of this material).
- ***Discretionary matching contributions.*** Many employers offer a matching contribution within their 401(k) plans to encourage employees to invest for their futures.
- ***Convenient payroll deductions.*** Your contributions are automatically deducted each pay period and deposited by your employer into your 401(k) account. This means you never have to worry about writing checks, remembering to make a deposit or spending money you intended to save. A commitment to making regular, ongoing contributions can have a huge impact on the total amount you accumulate for retirement.

Will You Have Enough Money in Retirement?

Only 31% of non-retired adults think their retirement saving is on track[1]

28% do not have any retirement savings[1]

The average monthly Social Security benefit for retired workers was $1,837 as of June 2023[2]

1. Federal Reserve. Report on the Economic Well-Being of U.S. Households in 2022 — May 2023. Available at https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-retirement-investments.htm

2. Bankrate. What is the average Social Security check? Published July 13, 2023. Available at https://www.bankrate.com/retirement/average-monthly-social-security-check/

How to Optimize Your 401(k) Plan

Consider these important strategies and factors to get the most out of your 401(k) plan:

- ***Diversification.*** The goal of portfolio diversification is to create the best possible combination of stocks or other assets based on the expected returns and the expected volatility (or fluctuations) of those returns over time.
- ***Asset Allocation.*** This strategy is the process of combining various asset classes in varying proportions — such as stocks, bonds and cash — into your portfolio to meet your unique risk tolerance and potential return goals.
- ***Revising Your Investment Objectives Over Time.*** As you near retirement, you may want to shift your investment objectives from saving enough for a comfortable retirement to providing the income you need to enjoy your retirement. You may also have additional or competing goals for your assets — such as helping with college expenses or leaving money to your beneficiaries — which must be considered alongside your retirement goals, as they may have an impact on your investment choices.
- ***Risk Tolerance.*** Knowing your tolerance for risk — that is, how comfortable you are investing through market cycles that may produce negative returns — will help you determine the investment strategy that's best for you. There is generally a fundamental trade-off between risk and return — the higher the risk, the higher the expected potential for return. For this reason, it is important to assess the risks involved in an asset class or a security when comparing returns among different investments. Risks to consider include:
  - ☐ Market risk
  - ☐ Business risk
  - ☐ Business cycle risk
  - ☐ Credit risk
  - ☐ Currency risk
  - ☐ Inflation risk
  - ☐ Interest rate risk
  - ☐ Political and legislative risk
- ***Time Horizon.*** If your retirement is many years away, you can usually be more aggressive in your investment choices since you'll have more time to ride out periods of volatility in the markets. Conversely, if retirement is right around the corner, you'll generally want to favor investments with moderate risk and volatility.
- ***Target Date Funds.*** Many 401(k) plans offer these types of mutual funds, which are designed to achieve an investment objective by a certain "target date." This date is typically the approximate date when you plan to start withdrawing your money. The risk and return of the portfolio is balanced and seeks to achieve the investment objective by the target date. The asset allocation is adjusted as the target date draws near.
- ***Automatic Account Rebalancing.*** This feature, available in many 401(k) plans today, keeps your asset allocation in balance according to your most recent investment elections. It is done automatically so you don't have to continuously review and update your allocations.

The Bottom Line: Your 401(k) Plan Offers a Great Way to Save

At Morgan Stanley, we are here every step of the way to help you prepare for retirement. We look forward to answering your questions and developing tailored strategies to help you make the most of your company's 401(k) plan.

Content is for educational purposes only. Investing involves risk, including risk of loss.

Asset Allocation and Diversification do not assure a profit or protect against loss in declining financial markets.

Investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance is not indicative of future results.

Rollover Distributions from your Plan — Typically, as a retirement plan participant who may be receiving an eligible rollover distribution from the plan, you have the following four options (and you may be able to engage in a combination of these options depending on your employment status, age and the availability of the particular option):

1. Cash out the account value and take a lump sum distribution from the current plan subject to mandatory 20% federal tax withholding, and an additional 10% on certain early distributions from certain retirement plans; distribution is included in taxable income and may be subject to federal, state and local income taxes,
OR continue tax-deferred growth potential by doing one of the following:
2. Leave the assets in your former employer's plan (if permitted),
3. Roll over the retirement savings into your new employer's eligible retirement plan, if one is available and rollovers are permitted, or
4. Roll over the retirement savings into an IRA.

Each option offers advantages and disadvantages, depending on your particular facts and circumstances (including your financial needs and your particular goals and objectives). Some of the factors you should consider when making a rollover decision include (among other things) the differences in: (1) investment options, (2) fees and expenses, (3) services, (4) penalty-free withdrawals, (5) creditor protection in bankruptcy and from legal judgments, (6) required minimum distributions or "RMDs", (7) the tax treatment of employer stock if you hold such in your current plan, and (8) borrowing privileges.

The decision of which option to select is a complicated one and must take into consideration your total financial picture. To reach an informed decision, you should discuss the matter with your own independent legal and tax advisor, and carefully consider and compare the differences in your options.

Investments in target date funds are subject to the risks associated with their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a target date fund is not guaranteed at any time, including on or after the target date. These funds are based on an estimated retirement age of approximately 65. Should you choose to retire significantly earlier or later, you may want to consider a fund with an asset allocation more appropriate to your particular situation.

Investors should carefully consider the investment objectives, risks, charges and expenses of a target date fund before investing. The prospectus contains this and other information about the target date fund. To obtain a prospectus, contact your Financial Advisor or visit the fund company's website. Please read the prospectus carefully before investing.

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CRC 5878766 08/23 SEM8861793 CS 804397-3666932 08/23