401K Accounts

US Retirement Savings Plan

SINCE 1986

BLACKTOWER

FINANCIAL MANAGEMENT GROUP

Who we are

The Blacktower Group has been providing independent wealth management advice and tailored financial services since 1986.

Over the years, the group has evolved into a global company covering UK, Europe, and The Cayman Islands via Blacktower Financial Management (International) Ltd (BFMI).

2017 marked a new frontier for The Blacktower Group as we made our entry into the US market with wealth management and financial advice for UK and dual-nationals who are resident in the United States.

If you are looking for proven professionalism and attention to detail to help you achieve your financial aspirations, consider Blacktower today.

What is a 401K?

A 401k is a company-sponsored retirement savings account that has tax advantages and company contribution.

Much like a UK pension, an employee can opt to have part of their paycheck paid into an investment account each month - the employee can match that percentage or part of it.

This money is tax deferred, meaning you don’t pay any tax on it until the money is withdrawn in retirement.

How does a 401K work?

You can contribute up to $20,500 per year to a 401k plan, taken from monthly pay-checks. Those funds can then be invested into various assets.

Employers can contribute in one of three ways: matching, non-elective, and profit-sharing.

Those who are 50 or over can contribute an additional $6,500 per year to their 401k account (up to $27000). You can withdraw this money once you reach 59½ or become medically retired. If you make withdrawals before this, you will have to pay a 10% penalty.

Types of 401K

Traditional	Roth
Sometimes referred to as a pretax 401K plan	Pay tax on savings when paying into your 401K plan
No taxes paid initially when contributing to the account	Withdrawals not taxed if you've had the account at least 5 years and make withdrawals after you've turned 59.
Tax paid on money when withdrawn.	

Which 401K is right for me?

Traditional	Roth
The traditional 401k might be a better option for you if you are in a higher tax bracket at the moment but anticipate being in a lower tax bracket in retirement.	If you are in a lower tax bracket now and expect to be in a higher tax bracket when you retire, it may make more sense to go with the Roth 401k plan. However, it is important to bear in mind that tax rates may increase.

Difference between 401k and IRA?

Whilst a 401k is a savings account set up through your employer, you can set up an IRA independently through a bank, investment firm or broker.
There is more choice when it comes to IRAs, with four different types available. You can only deposit up to $6000 a year in IRA, but they offer greater freedom and flexibility for things such as first-time property purchases, medical expenses, qualified higher education expenses and more.

Can I transfer my UK pension to the US?

As a British expat in the US, you are currently unable to transfer your UK pension into a 401k. This is due to the strict regulations held by both the HRMC and the American tax system.

Other options for managing your pension in the US include QROPs or keeping your pension in the UK. The best option for you will depend on your personal circumstances.

Contributing to a 401k as an expat

Despite not being able to transfer a UK pension into a 401k, you can still open and invest into one as a British expat living in the states.

Below we offer our top tips for managing your 401(k) as a British expat in the US.

Know your rollover rights

If you move home before withdrawing from your 401(k), you can move the funds to a retirement plan in the UK (at a cost). Opening an IRA account and then using it to roll over your 401(k) is a way to avoid the early withdrawal penalties.

Know when to cash out

If you are younger than 59½, not disabled and choose to cash out the funds from your 401(k), you'll be subject to a 10% penalty. This has obvious consequences and means that you can substantially erode the value of your retirement account.

Seek advice

If you have retirement funds combined with multiple investments and income, your situation could complex. To receive the right advice, it is imperative that you seek out a team which has full knowledge of the US rules and regulations.

Advantages

- Automatic savings
- Employer contribution
- Multiple options for tax benefits
- Option to make catch-up payments

Disadvantages

- Limited investment options
- You may end up paying more in taxes
- Potential fees
- Employer Limitations

Converting your 401k to an IRA

Once you leave a company you may want to consider rolling your 401k into an IRA. As with a 401k you can choose between a traditional or Roth IRA and you should take professional advice as to which one is right for you.

If you have chosen to leave the US for another country and have either 401ks or IRA accounts, you should consider reviewing how your existing custodians deal with nonresident account holders.

Recent changes in US legislation have led to multiple US based custodians apply restrictions for non-US residents who hold retirement account. This can lead to at best accounts being restricted from trading and rebalancing, which can be detrimental to long term performance.

In the worst-case scenario the account holders been told to close the account or find a new custodian for their accounts. This has potentially massive adverse tax consequences if a new custodian is not found. Tax and early access penalties could be in excess of 45% which would be highly detrimental to their retirement savings.

However, there are solutions that can help and Blacktower (US) LLC work closely with custodians who are happy to accept non-resident accounts.

US Retirement Planning with Blacktower

Blacktower (US) LLC is fully licensed and regulated by the SEC and has over 30 years' experience in the offshore and cross border expat market. We know the ins and outs when it comes to managing the US retirement accounts of British expats, including 401(k)s, IRAs and 529 education plans.

What you choose to do will depend on your individual circumstances and tax considerations but one thing is certain, deciding upon the right strategy takes time, knowledge and expertise.

Contact us

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