

# Jump-Start or Refresh Your Planning This September

## Happy National 401(k) Day!

Bookending the first week of September with Labor Day is a less recognized holiday that may not get much national attention but should if you are planning for your future: National 401(k) Day.

Though we are in an era of overall declining economic confidence, many Americans are still somewhat upbeat about their retirement savings. However, how you feel about your 401(k) account may not reflect what is actually in it. National 401(k) Day is an ideal opportunity to take stock and ensure that your plans keep pace with your expectations—for both yourself and your loved ones.

### The State of the 401(k) in 2025

The 401(k) has become one of the most essential tools for building and transferring wealth in America.

As a product of late 20th-century tax policy that shifted the responsibility for retirement savings from employers to individuals, today roughly 6 out of 10 Americans say that they have a 401(k) or similar employer-sponsored defined contribution plan.<sup>1</sup> In 2025, the average 401(k) balance for Americans across all age groups is \$315,820, but that number varies widely.<sup>2</sup>

Vanguard data shows that people earning \$75,000–\$99,999 annually have a median balance of \$53,112 in retirement savings—nearly double the median for those earning \$50,000–\$74,999 (\$27,528).<sup>3</sup> Age matters too: Empower reports that workers in their 40s tend to have more than twice the savings of workers in their 30s (\$158,093 versus \$77,546, respectively),<sup>4</sup> underscoring the power of compounding growth and the importance of saving early and consistently.

### Why Long-Term Planning Is So Hard—and So Important

If you have struggled to prioritize long-term savings or estate planning, you are not alone, and it is not simply a discipline issue. Poor planning is inherently human. Well, sort of.

A major reason that many people find it difficult to plan for the future is that we are just wired that way.<sup>5</sup> We have all sorts of cognitive biases that reward short-term wins over long-term gains. The further away the goal, the more abstract—and harder to act on—it becomes.

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<sup>1</sup> *What Percentage of Americans Have a Retirement Savings Account?*, Gallup (June 2, 2025), <https://news.gallup.com/poll/691202/percentage-americans-retirement-savings-account.aspx>.

<sup>2</sup> Paul Deer, *The Average 401(k) Balance by Age*, Empower: The Currency (July 15, 2025), <https://www.empower.com/the-currency/life/average-401k-balance-age>.

<sup>3</sup> Vanguard, *How America Saves 2025*, at 51 (June 2025), [https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/2025/has/2025\\_How\\_America\\_Saves.pdf](https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/2025/has/2025_How_America_Saves.pdf).

<sup>4</sup> Deer, *supra* note 2.

<sup>5</sup> George Michelsen Foy, *Humans Can't Plan Long-Term, and Here's Why*, Psych. Today (May 12, 2025), <https://www.psychologytoday.com/us/blog/shut-up-and-listen/201806/humans-cant-plan-long-term-and-heres-why>.

Experts call this the “time horizon problem,”<sup>6</sup> and it helps explain why estate planning lags even further behind than retirement saving. About twice as many Americans have a retirement account (6 in 10)<sup>7</sup> as have an estate plan (1 in 3).<sup>8</sup>

And while retirement savings concepts, such as tax-deferred growth, employer contributions, and spending goals, may feel familiar and straightforward, estate planning can seem daunting, time-consuming, and filled with legal jargon.

### **Passing on Your 401(k): Directly or Through a Trust?**

For most people, a retirement account and their primary residence are among the most valuable assets they will ever own.<sup>9</sup> However, the rules for passing them on to loved ones are very different.

You may have named a beneficiary when you first opened your 401(k) account, but is that designation still what you want? If your life has changed since then (think marriage, divorce, birth of children, estrangement, etc.), your current beneficiary form may no longer reflect your wishes. In addition, leaving the account outright by beneficiary designation to that person may not be the most secure or protective way to pass on an inheritance.

If your 401(k) passes directly to a beneficiary, that person receives full access to and control over the account immediately and with no restrictions. That may be fine for a financially responsible adult or spouse with no creditor concerns or divorce risk, but what if your beneficiary is a minor, has special needs, or is irresponsible with money?

Instead of naming individuals directly as beneficiaries of a retirement account, you can protect your loved ones by naming a revocable living trust as the beneficiary in your estate plan. Not just any living trust will do; there are specific things to consider when using trusts for retirement planning so your beneficiaries remain protected.

### **Conduit and Accumulation Trusts for 401(k)s**

If you designate a trust (such as a revocable living trust or a standalone retirement trust) as the beneficiary of your retirement account but the trust does not meet certain Internal Revenue Service (IRS) rules, the entire account usually has to be paid out within five years—which often means a bigger income tax bill. A trust that does follow the IRS rules is called a *see-through trust*. This type of trust allows the IRS to “see through” the trust and treat the trust’s beneficiaries as if they were named directly as beneficiaries of the retirement account. This type of trust often results in a 10-year payout term, which often means a smaller income tax bill. For this reason, if

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<sup>6</sup> Brad McMillan, *The Time Horizon Problem*, Commonwealth (Sept. 16, 2016), <https://blog.commonwealth.com/independent-market-observer/the-time-horizon-problem>.

<sup>7</sup> Gallup, *supra* note 1.

<sup>8</sup> D.A. Davidson Survey Finds That Two-Thirds of Americans Do Not Have an Estate Plan, DADavidson, <https://www.dadavidson.com/Perspectives-Insights/Perspectives-Insights-Article/ArticleID/1391/D-A-Davidson-Survey-Finds-That-Two-Thirds-of-Americans-Do-Not-Have-an-Estate-Plan> (last visited Aug. 26, 2025).

<sup>9</sup> Rakesh Kochhar & Mohamad Moslimani, 4. *The Assets Households Own and the Debts They Carry*, Pew Rsch. Ctr. (Dec. 4, 2023), <https://www.pewresearch.org/2023/12/04/the-assets-households-own-and-the-debts-they-carry>.

you plan to name a trust as your retirement account's beneficiary, it is crucial that you work with an experienced attorney who will ensure that the trust qualifies as a see-through trust.

Once you know you have a see-through trust, the next key decision is whether it will be structured as a conduit trust or an accumulation trust, each of which handles retirement account distributions differently.

### ***Conduit Trust: The Pass-Through Option***

You may find that a conduit trust best aligns with your goals and your beneficiaries' needs. Here are some of the main features of a conduit trust:

- The withdrawals that your trustee takes from your 401(k) must be distributed to the trust beneficiaries within the same calendar year.
- Distributed funds are taxed at the beneficiary's personal income tax rate.
- Once distributed, the funds are no longer protected by the trust—meaning less control and limited protection from the beneficiaries' creditors.
- Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, most nonspouse beneficiaries must withdraw all the funds from the account within 10 years. While this requirement could create a large taxable lump sum in year 10, a conduit trust allows the trustee to choose when to take the withdrawals instead of leaving the decision in the hands of the beneficiary, enabling distributions to be spread over the 10-year period while potentially reducing the tax impact.

### ***Accumulation Trust: The Discretionary Option***

If you do not want retirement account withdrawals to be immediately distributed to your trust beneficiaries, you may find that an accumulation trust best aligns with your goals and your beneficiaries' needs. Here are some of the main features of an accumulation trust:

- The trustee must withdraw all funds from the retirement account within 10 years, but in contrast to a conduit trust, is not required to distribute them to trust beneficiaries right away; rather, they can choose to retain the funds in the trust.
- Retirement account withdrawals that remain in the trust beyond the calendar year in which they are taken are taxed at the trust's compressed income tax rates; if funds are distributed during that year, the beneficiary pays income taxes at their personal rate.
- Funds retained in the trust remain protected from creditors, lawsuits, or reckless spending, which may align with your overall estate planning goals.
- The trustee can spread withdrawals over the 10-year period to better manage taxes and preserve the inheritance without being required to immediately pass those withdrawals to the beneficiary. Such flexibility can make accumulation trusts a better choice for minor children, beneficiaries with poor financial habits (spendthrifts), or beneficiaries with special needs.

## **Take Some Time to Reflect on (and Look Ahead to) National 401(k) Day**

National 401(k) Day may not bring fireworks or parades, but as Labor Day festivities wind down and summer fades into fall, it is a day worthy of pause and reflection.

While you are out with your family enjoying summer's final days, remind yourself of the hard work and sacrifices that have brought you to this place. You may be still contributing money into a 401(k) or finally enjoying its fruits. Either way, you want it to last as long as possible. You and your family may be enjoying good times now, but what about 10, 20, or even 50 years down the line?

The trust structure you choose today can help ensure that your 401(k) not only supports your own future but also protects and provides for your heirs after you are gone. However, trust-based 401(k) planning is not as simple as filling out a beneficiary form. An attorney can help you avoid earlier-than-expected distributions, unnecessary tax bills, and missed opportunities for protection.

Time may not actually be moving faster, but you do not have forever to work on your estate plan. To discuss all your planning options for a 401(k) and your other accounts and property, schedule a time to talk.