

Making the most of your 401(k)



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401(k) plans remain the primary source for building retirement assets for millions of workers. Here are some ways to make the most of your 401(k):

JOIN!! One-fourth of those eligible do not participate. Start early and contribute as much as you can for maximum potential for growth.

Make the match – At the very least, contribute enough into your 401(k) to obtain any available company matching money as **THIS IS FREE MONEY** so you do not want to pass it up!! Many companies match your contributions up to 3-6% of

your pay.

Reduce taxes now – By making pre-tax contributions into your 401(k), you reduce your taxable income, decreasing the amount of taxes you owe for that year. This money will then be taxable later when you withdraw the money in retirement.

Or reduce taxes later – Some plans now offer **Roth** contribution options where you pay taxes now on the money you are contributing, but then are able to withdraw that money tax-free later, when the tax rates may be higher. It is generally a good idea to have a mix of pro-tax and post-tax investments in your retirement portfolio since no one can predict future tax rates.

Hold steady or increase your contributions – Many reduce contributions when markets fluctuate due to fear. Times when the markets are down are actually the best times to increase contributions and “buy low”. A *New York Times* article early in 2003 profiled a 401(k) investor who cut his contribution from 15% to 5% due to market fluctuations. By the end of 2003, the markets had rallied and he missed out on the additional gains he would have seen. This same thing happened in 2008. Make sure you don't, however, have money invested in stocks/mutual funds that you will need in the next few years, as these investments are designed for long term growth.

Most people don't realize they can contribute up to \$18,000 a year in 2017 to their 401(k) plan, and another \$6,000 catch-up contribution (\$24,000 total) if they are age 50 and older. Contribute at the highest level possible to maximize this very effective investment tool.

Diversify – If most of your investment portfolio is tied up in your 401(k), it's even more important to diversify within your account. Many concentrate their investments in only one or two options, usually large-cap stock mutual funds, fixed income funds, or even their employer's company stock. We recommend a much wider range of diversification to help increase the odds of growth on your money and to help lessen overall risk. Some plans have a very limited fund selection. If you have one or more 401(k) accounts sitting with a former employer, especially if you have limited fund choices, consider contacting a financial professional about rolling your account(s) into an IRA with a more diverse fund selection and the assistance of professional management.

Don't overload on company stock – As Enron illustrated, having most of your money concentrated in your employer's company stock can be disastrous as both your job and your retirement are then riding on a single employer. It is generally recommended to keep company stock below 10-20% of your account's value.

Know your investment costs – There are fees and costs involved in all investments, including your 401(k). See your plan disclosures for fees and the costs of funds available. Consider cost when choosing your investment funds. If rolling over a 401(k) into an IRA, compare the costs and benefits of the 401(k) versus the IRA to assess the value of making that change. IRAs are sometimes more expensive, so review the pros and cons carefully.

Avoid taking money out – Most plans include features that allow for loans and hardship distributions with certain stipulations. Be aware, however, that borrowing will likely reduce the ultimate size of your 401(k) nest egg, because you are hurting the opportunity for your money to grow and compound. If you leave an employer prior to repaying a loan, you run the risk of facing taxes and penalties if unable to repay the loan in full. Hardship distributions are generally available for some emergency situations, however, they come with a tax penalty for early withdrawals for those under age 59½. Most plans allow for a distribution for the down payment on your primary residence, and there are times when this does make sense. We recommend you discuss your plans to take a loan or distribution with your financial advisor before you act.

Changing jobs can hinder growth – Fidelity data finds that 1/3 of 401(k) investors have cashed out of their plan before reaching age 59½, often when changing jobs. This normally results in taxes, possibly penalties, and definitely the loss of tax-deferred growth. Consider leaving your money in the 401(k) plan or rolling it into your new 401(k) plan into an IRA if you leave your current employer – but keep the money invested!

Additionally, many 401(k) plans have eligibility waiting periods of 3-6 months to begin participating and then 6-12 months to begin receiving any company matching money. This means those who switch jobs often may find themselves lagging behind those who stay with one employer and maintain continuous contributions and match, and the compounded growth associated with both. This doesn't mean you can't change jobs, it just means you need to be aware of this and try to bridge at least some of the savings gap by contributing, if eligible, to an IRA or other investment account during the waiting period when you cannot contribute to a 401(k). You could also save more when you can't contribute, and then increase your contributions when eligible to catch-up on missed contributions.

Create an investment plan – An overall financial plan and a formal plan for your retirement will help you stay on course with your investments, without getting caught up in the temporary ups and downs of the market. Planning now will help you ensure you are on course for the retirement you desire. Call us at 770.931.1414 to schedule a free consultation to review your overall retirement planning or sign up for one of the retirement planning classes I've been teaching since 1997. Go to www.rogersgreen.com for more information.