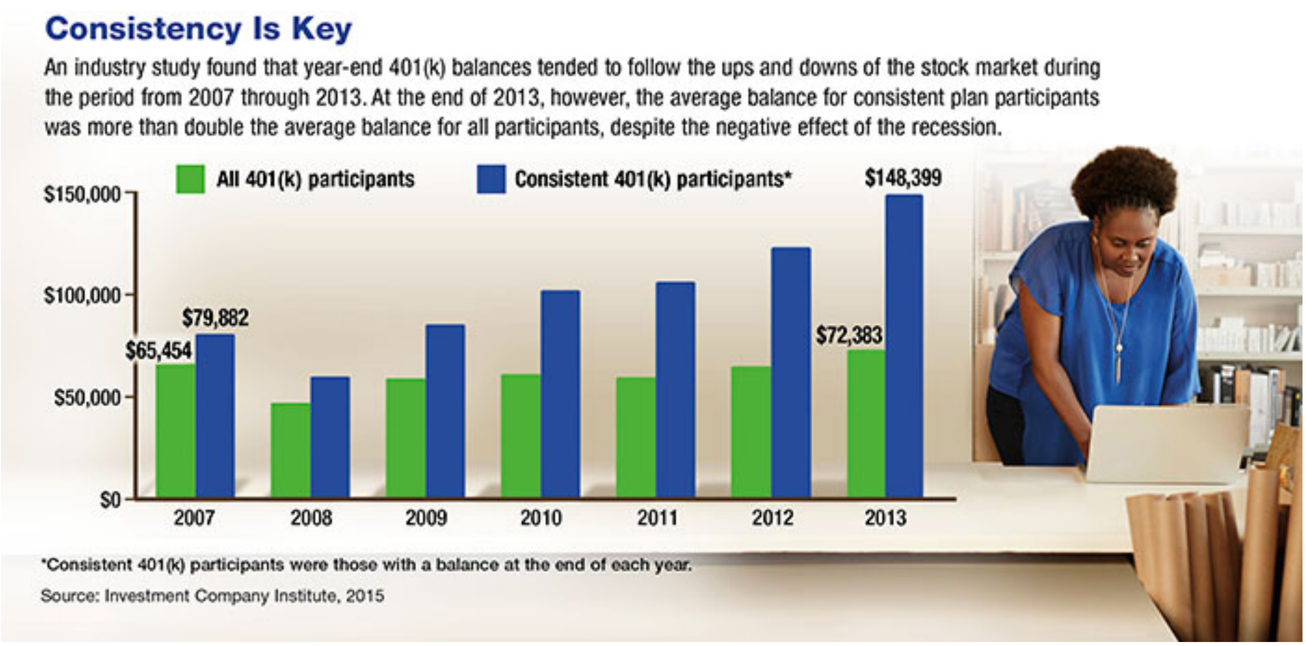
Managing Your 401(k)

More than 73 million Americans actively participate in employer-sponsored defined-contribution plans such as 401(k), 403(b), and 457 plans.[1] If you are among this group, you've taken a big step on the road to retirement, but as with all investing, it's important to understand your plan and what it can do for you. Here are a few ways to make the most of this workplace benefit.

Take the free money. Many companies match a percentage of employee contributions, so you may want to save enough to receive a full company match and any available profit sharing. Some workplace plans have a vesting policy requiring that workers be employed by the company for a certain period of time before they can keep the matching funds. If this applies to you, consider the effect of this policy when deciding whether to leave your current employer.



Bump up your contributions. Saving at least 10% to 15% of your salary for retirement (including any matching funds) is a typical guideline, but your personal target could be more or less depending on your income and expenses. A traditional 401(k) plan enables you to defer income taxes on the money you save for retirement, which could enable you to save more. In 2016, the maximum employee contribution to a 401(k) plan is $18,000 ($24,000 for those 50 and older).

Rebalance periodically. Your asset allocation — the percentage of your portfolio dedicated to certain types of investments — should generally be based on your risk tolerance and planned retirement timeline. But the allocation of your investments can drift over time due to market performance. Rebalancing returns a portfolio to its original risk profile. Consider reviewing your portfolio at least annually. Some workplace plans may offer automatic rebalancing. Asset allocation does not guarantee a profit or protect against investment loss; it is a method used to help manage investment risk.

Know your investments. Examine your investment options and choose according to your personal situation; some employer-sponsored plans may automatically enroll new employees in default investments. Many plans have a limited number of options that may not suit all of your needs and objectives, so you might want to invest additional funds outside of your workplace plan. If you do, look at the risk and balance of your whole portfolio, including investments inside and outside your plan.

Keep your portfolio working. Some 401(k) plans allow you to borrow from your account. It is generally wise not to use this option. But if you must do so, try to pay back your loan as soon as possible to give your investments the potential to grow.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Distributions from employer-sponsored retirement plans are generally taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

1) American Benefits Council, 2014