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Fact Sheet

PENSION ACTION CENTER, GERONTOLOGY INSTITUTE

JOHN W. McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

Getting the Most Out of Your 401(k)

Planning for your retirement is an active and ongoing endeavor. It requires a certain amount of diligence and knowledge to ensure you have an adequate amount of financial stability at retirement. In order to safeguard your economic security, it is important to know if you are getting the most out of your 401(k) retirement savings account.

This factsheet provides basic information about enrolling in a [401\(k\)](#) retirement savings account and important items to keep in mind once you are enrolled.

How to Participate

First, determine if your employer offers a 401(k) retirement savings account for employees. Some employers automatically enroll employees into a 401(k). However, in some retirement savings programs employees must sign-up on their own and agree to have a certain percentage of their salary withheld.

How Much to Contribute

- The 2015 maximum limit on contributions is \$18,000 for employees under age 50 and \$24,000 for those ages 50 and over. This amount changes every year based on inflation (Inflation causes the value of the dollar to decrease over time; therefore, as the value of the dollar decreases, more money is needed to provide financial security in the future). Be sure to check this figure yearly; more information can be found on the [IRS website](#).
- How much money will you need to live comfortably once you retire? This is an important consideration to take into account when deciding how much money to contribute to your 401(k). Many 401(k) financial statements only provide a lump sum balance of the account and do not provide an estimate of what a monthly payment would look like at the time of retirement. It is critical to understand how the lump sum amount in your 401(k) will translate into a monthly paycheck.
- AARP and the Labor Department provide retirement calculators to help determine if you are saving enough for your retirement. [Click here to try the AARP retirement calculator](#). [Click here to try the Labor Department retirement calculator](#).
- Do not contribute more money than you can afford to live without. The money put

into a 401(k) is meant for retirement. If you withdraw the money prior to age 59 ½ you will be subject to a 10% extra tax as a penalty for early withdrawal.

- Does your employer match employee contributions? You can maximize the benefit of your 401(k) by contributing enough of your salary to receive the maximum employer benefit.

For example, your employer matches 50% of the first 4% of your salary...

If you are contributing 2% of your \$30,000 salary (\$600) you likely are not maximizing the benefit of your employer match. Your employer will contribute only \$300 for a total contribution of \$900. However, if you contribute 4% (\$1,200) your employer will contribute \$600, for a total contribution of \$1,800. Once you are vested in the retirement plan your employer's matching contribution is yours!

The employer's contribution is like getting a raise. Don't pass it up!

What Information Do You Need?

Certain documents and financial statements are available to help you make the most of your 401(k)

- After enrolling, make sure you receive a copy of your employer's [Summary Plan Description](#) (SPD). Employers are required to provide a copy of the SPD to new participants within 90 days of enrollment. Take the time to review this document because the SPD contains information such as how long it takes to vest in employer contributions, payment options, your spouse's entitlement to a portion of the benefit, whether or not loans are permitted, and other vital facts about how the plan operates. Keep this and any other pension-related documents with your important papers. [For more information about what documents to keep and for how long to keep them, click here.](#)
- Different fees are associated with the management of your 401(k). It is important that you understand the fees involved with your investment choices. Information about investment fees can be found in the Plan Document or SPD.
- Your Individual Benefit Statement should be provided to you at least once a year if the account is [not-self directed and quarterly for self-directed accounts](#). Review this statement carefully. It generally includes, among other things, your home address, marital status, your salary level, and years of service with your employer. The statement also shows the performance of your investments, your account balance, and the amount of employer contributions that have vested. Carefully review this statement, make sure you understand it, and contact your employer if any information is inaccurate.

- Remember to check your account statement to determine that the amount withheld from each paycheck corresponds with the balance in your retirement account. If the amount in your account does not reflect the amount withheld from your paycheck, please contact the US Department of Labor, Employee Benefits Security Office at 1-866-444-3272.

Do you have any questions about this fact sheet? Call the Pension Action Center at 888-425-6067 or visit us online at pension.umb.edu

About This Fact Sheet

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Disclaimer

This fact sheet is intended to provide general information about pensions and other retirement benefits and should not be used as a substitute for a consultation with an attorney or other legal professional. Individuals should always consult a legal or financial advisor to discuss the facts and circumstances of their specific situations.

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