CINDY BROWN

2019 – Your 52 Weeks to Financial Freedom!

Week 4 – 401(k) Tips

At a time when most people don't have a traditional pension, growing and then protecting your 401(k) balance is essential for a secure retirement. Pay close attention to 401(k) rules to make sure fees, taxes and other mistakes don't unnecessarily reduce your 401(k) balance. Here are 10 ways to make the most of your 401(k) plan:

1. **Don't accept the default savings rate.** New employees are increasingly likely to be automatically signed up for a retirement account at work, most often by having 3 percent of their pay deposited in their company's 401(k) plan. But saving 3 percent of your salary, while certainly better than no savings, may not be adequate to maintain your current lifestyle in retirement. For a lot of people, that is not going to be enough. When you get a raise, save 1 percent more every year until you can get up to hopefully 20 percent of your pay.

2. **Get a match.** The most common 401(k) match is 50 cents for each dollar saved on up to 6 percent of pay. If your employer offers a 401(k) match, make sure you save enough to take advantage of it. Capturing a 401(k) match is one of the fastest and most painless ways to boost your 401(k) balance.

3. **Stay until you are vested.** You won't get to keep the 401(k) match from your employer until you are fully vested in the 401(k) plan, which can sometimes take as long as five or six years of service at the company. Some employers allow people who leave before they are fully vested to keep a portion of the match based on their years of service, while other companies require workers to forfeit the entire match. It can sometimes be

worth thousands of dollars to continue to work for a company until you are fully vested in the 401(k) plan. If you are in a miserable employment situation or have a life-changing opportunity to go somewhere else, maybe you have to sacrifice the unvested portion If you are considering a lateral move career-wise, you should definitely take that into account.

4. **Maximize your tax break.** Traditional 401(k) plans allow you to defer paying income tax on the money you save for retirement. The contribution limits for 401(k) plans, 403(b) plans and most other employer-sponsored retirement plans will be rising from $18,500 to $19,000. If you're 50 or older, you can continue to make an additional $6,000 in "catch up" contributions, bringing the total to $25,000. These numbers include only salary deferral; any employer matching or profit sharing is icing on the cake.

   If you're self-employed and contribute to a SEP IRA or individual 401(k), you can save a little more as well. The limits on these plans is being raised from $55,000 to $56,000.

   Let's put some numbers to it. If you're married filing jointly with your spouse and your combined incomes amount to $168,401 to $321,450, you're in the 24% tax bracket. So, if the two of you contribute $19,000 apiece to your 401(k) plans, that's $38,000 in savings safely deferred from the tax man. At the 24% bracket, that's $9,120 in tax savings.

5. **Diversify with a Roth.** A growing proportion of employers now offer a Roth 401(k) option in which workers can save after-tax dollars, and distributions are tax-free in retirement. A Roth 401(k) generally offers the biggest benefits to young and low-income workers who expect to be in a higher tax bracket later in their career, but it can also add tax diversification and flexibility to the portfolios of people closer to retirement.

6. **Don't cash out.** Most workers switch jobs several times over the course of their career, which means they need to decide what to do with the 401(k) balance at their former employer. It can be tempting to spend the cash, but workers who withdraw money from their 401(k) account before age 59 1/2 face a 10 percent early withdrawal penalty and must pay income tax on the amount withdrawn. Early withdrawals also cause you to miss out on valuable compound interest that is essential for building a large nest egg. "This money needs to be put away for retirement, and that's all it needs to be used for," says Carolyn McClanahan, a certified financial planner for Life Planning Partners in Jacksonville, Florida.

7. **Rollover without fees.** When you change jobs, you can generally leave your 401(k) balance at your former company or roll it over to an IRA or your new employer's 401(k) plan. If you decide to move your money, ask your former employer to directly transfer the balance to the new financial institution instead of cutting you a check, which will help you to avoid taxes and penalties.

8. **Minimize fees.** Investment options with high fees will significantly reduce your 401(k) balance over the course of your career. "Some 401(k) investments have very high costs, and you should pick the lowest-cost investment in your 401(k) plan that also matches you risk tolerance. If it's a high-cost 401(k) plan, then maybe consider saving in an IRA instead of the 401(k) after you get the match." The U.S. Department of Labor requires 401(k) plans to send each participant an annual fee disclosure statement that lists the costs of every fund in the plan. "If the funds are bad and the fees are high, start making noise to your human resources department and see about getting the plan changed.

9. **Diversify your assets.** Choose a mix of stock and bond funds that is appropriate for your risk tolerance, and periodically rebalance your portfolio to your target allocation. "As you approach retirement, shift a portion of your 401(k) to less volatile mutual funds to preserve your capital," But avoid making significant changes to your investment strategy on a whim. "The worst thing that you can do besides not participating is to attempt to time the market or change your investments every time you hear some economic news or story that could impact the market. Stay the course,"

10. **Remember required minimum distributions.** After age 70 1/2, you are required to take annual distributions from your traditional, but not Roth, 401(k). The penalty for failing to withdraw the correct amount is a stiff 50 percent of the amount that should have been withdrawn. Make sure you take required minimum distributions each year in retirement to avoid the penalty.