

Do you have a retirement savings plan at work? These are usually called 401(k)s. If you work for a government or at a nonprofit, your plan might be called a 403(b) or a 457.

The best way to get on your road to retirement is to contribute regularly to one of these plans. As with an IRA, a 401(k) offers tax incentives to save for your future. If your employer has a plan and you aren't contributing, sign up now. If you don't have a plan through work, set up an Individual Retirement Account (see AARP's "IRA" Tip Sheet for help).

These plans all generally work in the same way, but each has its own rules. Ask your human resources office for the Summary Plan Description to learn the rules of your plan. Here's what you need to do to get your 401(k) savings going:

Sign Up

Sign up for a 401(k) when you start a new job. The money goes from your paycheck into your account automatically.

Choose a Plan

Your employer may offer a traditional 401(k) or a Roth 401(k). Here are the basic differences.

- **Traditional 401(k) plan.** You don't pay taxes on the money in the year you put it into the account. But you'll have to pay income tax on your contributions and earnings when you take the money out.
- **Roth 401(k) option.** You pay income taxes when you put money into the account, but you usually won't be taxed on the contributions or the gains when you withdraw it.

Decide How Much to Contribute

Currently, if you are less than 50 years old, you can contribute up to \$16,500, depending on your salary and the company's rules. If you're 50 or older, you can make a "catch-up" contribution of an extra \$5,500 a year. The amount you can contribute may

change annually, so check with your plan or with a financial professional to learn about the maximum contribution. If your employer offers a Roth 401(k), you can split your contributions between it and the traditional plan, but the limit stays the same.

Save as much as you can. If you're starting in your 20s, save at least 10 percent of pay (count the employer match). Save more if you're getting a later start.

Take the Match

Many employers offer matching contributions to encourage you to participate in the plan. The match is generally cents on the dollar up to a certain percent of your salary. For example, your employer may also contribute 50 cents for every dollar you put into the account, up to six percent of your pay. But don't assume that "saving to the match" is enough. Put in as much money as you can, up to the annual limit.

Choose Investments Wisely

You choose your investments in a 401(k) from a range of stocks, bonds and mutual funds selected by your employer. Follow these helpful tips:

- Pay attention to each investment return. Is all your money in the "safe" option? If the return is less than the inflation rate, you're losing money.
- Diversify your investments. This simply means you should not put all of your money into one class of funds or other investments. If you spread the money around, when one investment is down, there's at least a chance another one will be doing well.
- Limit your investment in employer stock. If the company falls on hard times—as happened with Enron and World Com—you could lose some or all of your retirement savings.

- Consider picking a life cycle or target date retirement fund that's based on your estimated retirement date. If you put all of your contributions into this option, they automatically go into a diversity of investments.
- Consider index funds. They are a simple but powerful way to reduce fees, and to improve and achieve diversification.

Beware of Fees

Mutual fund fees are subtracted from your account. If you choose a fund with a 1.5 percent fee, then it has to earn at least 1.5 percent for you to just break even. The lower the fee, the better. If you're not sure what fees you are paying, ask your employer.

Pay Attention

It's easy to just let the money roll into your account without paying attention to the results. Read your account statements and if you're concerned that an investment is not doing well, consider making a change.

Save Your Savings

The whole idea of a 401(k) plan is to save for retirement, so don't work against it. Taking a loan from your plan is not a good idea. Why? Because the money in your account won't grow if it's not there; you may pay loan fees; you have to pay it back in full if you change jobs; and if you default, you pay taxes and penalties.

Cash Out Wisely

When you leave a job, you're allowed to take the money out of your 401(k). Don't spend it! You'll have to pay a 10 percent penalty on the money and, in most cases, unless you're older than 59^{1/2}, and you'll also have to pay income taxes on it. You'll also sacrifice the potential for future earnings. Instead, ask your employer to roll over the money from your plan to your new employer's plan, or open a Rollover IRA.

Your 401(k) plan is a powerful engine in driving along your financial roadmap to retirement. Follow your "to-do" list to set yourself on the right path to your savings goal.

Keep an Eye on Your 401(k)

Consider these issues when you review your account statements:

- Am I increasing my contribution every time I get a pay raise?
- Do I have the right investment mix? For more information on how to figure this out, read about allocating your money at www.aarp.org/money.
- Do I need to rebalance my investments? For information on how rebalancing helps you stay on track, visit www.aarp.org/money.

Your To-Do List:

- If your employer offers a plan and you have not signed up, enroll now.** Contact your HR office and request the Summary Plan Description and an enrollment form.
- Use AARP's Retirement Planning Calculator** at www.aarp.org/moneytools to help decide how much to contribute to your 401(k).
- To learn how to roll money out of your 401(k) into an IRA** go to www.rolloveraid.com/401krollover.htm.
- To learn how 401(k)s work**, go to www.401khelpcenter.com.
- Read "A Look At 401(k) Fees"** on the U.S. Department of Labor website www.dol.gov/ebsa/publications/401k_employee.html to learn how fees can cut into your savings.
- Figure out how much of your own 401(k) savings go to fees.** Add them up using the mutual fund cost calculator at www.sec.gov.
- Find out if you are eligible for the Retirement Savings Contributions Credit** on your federal income tax. For 2008, you may qualify if your income is below \$53,000 (filing jointly), or below \$39,750 (filing single). For 2009, the limits go up to \$55,500 and \$41,625, respectively. Visit www.irs.gov/publications/p590/index.html to learn more.
- See how your savings can grow** with the AARP 401(k) Savings Calculator at www.aarp.org/moneytools.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

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