MENNINGER & ASSOCIATES
Financial Planning

TRICKS OF THE TRADE

MAXIMIZING COMPANY 401K MATCH & UNINTENDED PITFALLS

Prepared by Michael Menninger, CFP

July 2020

Most companies offer their employees the benefit of a retirement savings program, and in most cases, the employers provide a company match. The purpose of this article is to present the topic, but more importantly to share the unintended consequences that we've experienced, and to hopefully prevent you from the doing the same.

Countless times, we have seen individuals fail to take advantage of the company's matching program for the following reasons:

1. The individual is not contributing to the 401K plan, or not contributing enough to maximize the match.
2. The individual reaches their limit early in the year, and foregoes matching contributions later in the year.
3. The individual reaches their "normal" limit early in the year, and proceeds to contribute to the catchup contribution (for individuals who have attained age 50) and the company doesn't match catchup contributions.

Scenario 1: In many cases, individuals feel they can't "afford" to make contributions, but if the company matches dollar-for-dollar, then that's the equivalent of an immediate 100% rate of return on your money, or better yet, I refer to it as "free money". And who doesn't like free money? What is more common is that the participant is mistaken in their understanding of the 401k matching rules, and that they are not taking full advantage of those rules.

Scenario 2: Many individuals feel compelled to get their entire amount of contributions in early, in an attempt to maximize their investment growth. So, let's assume the individual contributes 20% of their pay, and they fulfill the $19,500 limit by September. In this case, how much is the individual contributing in the final months of the year? Yes, 0%. So, if the company provides a matching amount and you are contributing 0%, then the company is providing NO matching contributions for the final few months of the year.

2605 Egypt Road, Suite 205, Trooper, PA 19403 | **O:** 610.422.3773 | **F:** 484.290.0113 | www.maaplanning.com
1035 B Mill Creek Drive, Feasterville, PA 19053 | **O:** 215.355.3426 | **F:** 215.355.5036 | www.jmefinancial.com

Scenario 3: Similar to Scenario2, and individual may contribute his / her $19,500 in the first nine months, and then switches (possibly automatically) to the catchup contribution of $6,000 for the final three months. Many companies do not match the catchup contribution, so this individual also failed to receive a match in the final three months of the year.

Solutions: With regard to Scenario 1, we encourage the 401K participants to periodically review their company's 401K matching program to ensure they are not losing free money. In the cases of scenarios 2, the individual should carefully calculate the amount that is being withheld from their paycheck, and then calculate it so that they continue to contribute throughout their final pay check in December, while still also reaching their match. In the case of Scenario 3, the math remains the same; however, one would stretch out the $19,500 over the entire year, and can then contribute to the catchup portion over any desired period of time during the year. Of course, Scenarios 2 and 3 can get tricky if individuals receive a raise or bonus during the year, but it's fairly basic math, so it can be calculated.

If you have any specific questions about your company's retirement plan matching program, you may contact your HR representative, or feel free to call us for advice.