

How To Make The Most Of Your 401(k) Plan

Here Are Some Basic Guidelines To Help You Make The Most Of Your 401(k) Investments.



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With the future of Social Security uncertain and company pension plans being cut back, careful management of your 401(k) becomes even more important. Here are some basic guidelines to help you make the most of your 401(k) investments:

Start early. A 25-year-old employee who saves \$300 a month will accumulate over \$1 million by age 65 (assuming an 8% annual rate of return). By waiting ten years and still investing the same amount (\$300 a month), that employee would accumulate less than \$500,000 by age 65.

Be willing to take some risks. Over the long term, you aren't likely to beat inflation by placing all your money in ultra-conservative investments. If you are more than five years from retirement, consider putting at least a portion of your money into stock funds. A fund that mirrors the overall stock market, for example, is likely to beat inflation.

Don't invest too much in your own company's stock. Even if you're confident that your company will be profitable for years to come, it's seldom a good idea to tie your financial future to one firm. In some cases, employees are locked into their employer's stock, but if you have a choice, consider diversifying your 401(k) funds.

Don't be quick to borrow from your 401(k). Although you can repay principal and interest to yourself, dipping into your 401(k) will reduce its earning power. If it's available, a home-equity loan may be a better alternative, especially since the interest is generally tax-deductible.

Don't raid your 401(k) when you change jobs. Resist the temptation to deplete your retirement savings when you change employers. If it's allowed, leave what you have in your old plan or roll the money into your new employer's 401(k). Another option is to roll the funds into an IRA.

Review your portfolio at least once a year. If you've decided to keep 60% of your 401(k) in stock funds, a raging bull market can push the stock portion of your portfolio beyond the limits you've set. By readjusting your portfolio annually, you'll maintain the desired mix



If you'd like help in reviewing your 401(k) strategies, give us a call or send your questions to us at: edf@moneyful.com