An Overview Of 401(k) Plans

A 401(k) plan is an employer sponsored plan. The employer makes direct contributions to the account that are deducted from the employee's paycheck. Most companies will match the paycheck contribution up to a certain percentage. In general, the contributions are before tax dollars and grow tax deferred until they are withdrawn. After-tax contributions are also allowed.You should contribute as much as you can to your 401(k). Don't overextend yourself, but you don't want to waste the opportunity to deposit tax free, tax deferred money and have it matched. The amount the company matches you for is free money. Don't let it go.
In 2005, the maximum before tax annual contribution that an employee can make is $14,000. If the employee is over 50 years of age, he or she can contribute $16,000. The limit is set to increase by $1,000 in 2006.

Your 401(k) is simply an account; you chose the investments within the account. There is usually an array of mutual funds presented to you, but you must decide the allocations. There is no one to advice you when it comes to role fees and expenses that will affect your overall returns.

First, decide how much risk you are willing to assume. How much volatility within the portfolio can you stand?

If you are in your 20's and early 30's you have the time to be aggressive with your investments. The time factor allows you to recover from slumps in the stock market. As you age, your investments should become more conservative to protect your earnings.

Many 401(k) plans have tools, such as online calculators and worksheets, which help you in determining how much risk you should accept. The best tool is often to seek the advice of a competent financial planner. It is worth it to hire a planner to evaluate your assets and earning ability if the end result is a comfortable retirement.

If you find that you are in need of money, most plans will allow you to borrow up to 50% of your vested balance, but not over $50,000. You usually have to repay the money with interest within five years. The interest payments go into your account, so you are paying yourself the interest. There are downsides, though.

The money you have withdrawn as a loan isn't appreciating. The original contributions were made with pre-tax dollars, but the money you payback is after-tax. If you don't pay back the money it will be considered a normal distribution, and taxed and penalized.

If you leave the company, in most cases you will want to take your 401(k) with you. You can role it over into another company's 401(k) plan program or into your own IRA at a brokerage. With an IRA, you will have more control over your account, and better investment options.

Whatever you do with your IRA, make sure that you follow all procedures to the point. You don't want to accidentally withdraw your money and have to pay the taxes and penalties. This is a very costly mistake.

If you are an entrepreneur, you can open an individual 401(k). This gives you the option of investing thousands of dollars more than in other kinds of self-employment retirement accounts. An individual, or solo, 401(k) is available to businesses that only have the owner and spouse as employees. This means that if you work for someone else and have a business on the side, you can open an individual 401(k).