

Understanding Your Company's 401(k) Options

A 401(k) plan is one of the most popular retirement savings options offered by employers. Understanding how your 401(k) works, and how to make the most of it, can have a significant impact on your long-term financial security. Here's a quick guide to help you navigate your 401(k) options.

1 What is a 401(k)?

A 401(k) plan is a retirement savings account that allows you to contribute a portion of your pre-tax income into investments, such as stocks, bonds, or mutual funds. The money grows tax-deferred until you withdraw it in retirement, typically at age 59 and a half or later. There are two main types of 401(k) plans:

Traditional 401(k): Contributions are made with pre-tax dollars, lowering your taxable income for the year. You pay taxes when you withdraw the money in retirement.

Roth 401(k): Contributions are made with after-tax dollars, meaning you pay taxes upfront. However, withdrawals in retirement are tax-free if certain conditions are met.

2 Employer Contributions

Many companies offer matching contributions to your 401(k). This means they will match a percentage of your contributions, often up to a certain limit. For example, a common match is 50% of contributions up to 6% of your salary. This is essentially "free money" from your employer, so it's important to contribute at least enough to take full advantage of the match.

3 Contribution Limits

For 2026, the IRS allows you to contribute up to **\$24,500** to your 401(k) if you're under 50. If you're 50 or older, you can make an additional "catch-up" contribution of **\$8,000**, bringing your total contribution limit to **\$32,500**. These limits apply to both your contributions and any employer contributions.

4 Investment Options

Most 401(k) plans offer a range of investment choices, such as mutual funds, index funds, target-date funds, and sometimes company stock. The goal is to select a diversified mix of investments that match your risk tolerance and retirement timeline. Target-date funds, for example, automatically adjust the allocation of stocks and bonds as you approach retirement.

5 Vesting and Portability

Some employers require you to stay with the company for a certain period before you are “vested” in their contributions. Vesting means you fully own the employer’s contributions. If you leave the company before becoming vested, you may forfeit their contributions. However, your own contributions are always 100% vested.

If you leave your job, you have several options for your 401(k) funds:

Leave the money in the old plan (if permitted).

Roll it over into a new employer’s 401(k) or an individual retirement account (IRA).

Withdraw the funds (although this may result in penalties and taxes if you’re under age 59½).

6 Withdrawals and Loans

While it’s best to leave your 401(k) funds untouched until retirement, some plans allow you to take loans or early withdrawals in cases of financial hardship. Be aware that loans must be repaid with interest, and early withdrawals may incur penalties.

7 Review and Adjust

Your financial goals and circumstances may change over time. It’s important to regularly review your 401(k) contributions and investment choices. Consider increasing your contributions as your salary grows or if you’re approaching retirement.

Final Thoughts

A 401(k) plan is a powerful tool for retirement savings, offering tax advantages and often employer contributions. By understanding the options available to you, making consistent contributions, and selecting appropriate investments, you can set yourself on a path to financial security in retirement.