

What You Should Know About a 401k

A 401k is a good place to start in planning for your future retirement, no matter how far away you may be from the actual time. A 401k account is a special type of savings account that is funded directly through your paycheck each pay period. How it works is that you and your employer determine the amount that is to be deducted from each paycheck you receive, then the employer determines your pre-tax earnings and deducts your 401k funds from the paycheck prior to taxes.

Once deposited in the special savings account, the funds in the 401k are then invested into many different types of mutual funds, bonds, and stocks. The great thing about a 401k retirement plan is that all of these investments are completely free of taxes until the time comes for you to withdraw your money from the 401k account.

Beginning in the early part of the 1980's congress created the 401k retirement plan to allow people to begin saving money before they retire from their employment. It works as something of a financial net, ready for you when the time arrives.

There are several advantages with a 401k other than simply being a tax-exempt method of savings. Your employer may also have a match program. With this program, your employer would match part of your contribution into 401k. This means that whatever you contribute to your 401k, your employer will match a portion of it each pay period. Additionally, some employers raise the amount of their contribution when you have worked for them a certain number of years.

Another exciting aspect of 401k is that you have the option to determine where your funds will go when it is invested. To some, this is important and gives them the opportunity to maximize their retirement savings.

Furthermore, 401k has portability. If you should ever change jobs, you have many different options available in regard to your 401k. One of these options is to simply leave your 401k with your previous employer. This is the easiest option. However, you should be aware that the plan administrators could charge you for maintaining the account records. Another option is to roll the 401k over to the new employer's plan. This will allow you to continue to deposit money into your 401k to add to the money you have already earned and saved.

You may also be able to rollover the 401k into an IRA. This is a great option, especially if employers only offer limited investments. You would have greater control over where your money is invested. Last, you could opt to completely cash the 401k out. This option has a few drawbacks. When you cash out your 401k plan, you must pay the taxes on that money and you could also be accessed a penalty for early withdrawal.

It is extremely important that you fully understand all of your options. Weigh the results of each one prior to making any decision about your 401k. Being educated, practical and informed before making your decision will help benefit your 401k and retirement in the long run.

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About the Author

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