Should I Contribute to my 401(k) Plan at Work?

A 401(k) plan is a qualified employer-sponsored retirement savings plan. Employee participation is up to each individual employee. There are definite benefits to both the employer and the employee.

For an employer, a 401(k) helps retain good employees at a relatively low cost. The plan is simple to set up and maintain and has modest administration costs. The plan is flexible both in the design and in the choice of investment choices. Employees discuss their plans and it can boost employee morale and loyalty.

If your employer has a plan available and you are not participating, you might want to reconsider. The contribution that you make reduces your taxable income so that so pay no federal tax, social security tax, Medicare tax, etc. (The government sets a maximum contribution amount each year...check with your plan administrator at work.) Your contributions are 100% vested immediately. If you leave the company, you are entitled to all of your own deposits plus interest, if applicable. When you leave a company, you can roll your 401(k) money into another qualified retirement account and incur no penalties. Your money is invested how you choose (within the parameters of the plan) by professional investors.

Many employers will match the contributions that you make with additional money. This makes the plan even more attractive! Check with your human resource representative to see what choices are available. If you are an employer, check with your insurance agent to see if your agent can set up a 401(k) plan.