INDEPENDENT
401(k) ADVISORS

5 COMMON 401(K) MISTAKES MADE BY THE EMPLOYEE

1 TOO LATE

- Are you currently enrolled in your company's 401(k) plan?
- Did you recently leave a previous job, and have not rolled over your 401(k) to your current job?

Putting off saving for retirement is a common mistake among employees. Starting sooner rather than later (even if it's not a lot) is better than not saving at all.

Ask your employer about plan eligibility! If your employer has auto-enrollment as a plan feature, then once you are eligible you will be automatically enrolled in the plan at the default deferral rate. In the market, time and compounding interest can work to your benefit; the more time you have to grow your retirement savings, the more time returns might work in your favor.1

2 TOO LITTLE

- Do you know what percentage of your paycheck goes to your 401(k) plan?
- Most employees aren't saving enough, especially with the national average deferral rate of only 8%.2

If you are unsure what percentage of your paycheck you put away, take the time to sit down and assess how much you can actually put away based on monthly income and financial responsibilities. Ask about plan features such as auto escalation and employer match – these can help increase your retirement savings over time.

3 "MAXING OUT THE MATCH"

If you save 4% of your paycheck into your 401(k) plan and your employer matches the first 4% of your income, you might limit your contribution to 4% because that is receiving a 100% match of your contribution. Make sure to contribute above and beyond the bare minimum to get the match; you should strive to save more than just 4% and also opt into the auto-escalation plan feature. Auto-escalation increases the contribution rate 1% to 2% every year until it reaches a present maximum.3

1 RIA, John Barringer CFP. "The 7 Most Common 401(k) Mistakes to Avoid."www.kiplinger.com, Kiplingers Personal Finance, 31 July 2017, www.kiplinger.com/article/retirement/T001-C032-S014-the-7-most-common-401-k-mistakes-to-avoid.html.

2 "America's Savings Rate Improves, but Fidelity® Study Finds More than Half of Americans at Risk of Not Covering Essential Expenses in Retirement." America's Savings Rate Improves, but Fidelity Study Finds More than Half of Americans at Risk of Not Covering Essential Expenses in Retirement, Fidelity., 7 Jan. 2016, www.fidelity.com/about-fidelity/individual-investing/americas-savings-rate-i mproves.

4

IGNORING TAX SAVINGS

• Did you know you could save a little over $200 a month on tax withholdings? Your paycheck won’t lessen quite as much as the entire contribution to the plan because there will be less tax withholding. You can set aside income for flexible spending accounts such as transportation (TSA) or health (HSA). Your starting deferral matters, so make it enough.

5

REVIEWING YOUR INVESTMENTS

A study by the National Bureau of Economic Research found that as many as half of employees who had been in a 401(k) for more than two years still held only the default fund choice in their plan.4 However, spreading contributions over a range of funds can help minimize risk and optimize returns.

Remember, don’t set it and forget it. Once you have an allocated portfolio, it’s important to commit to periodically reviewing and rebalancing your holdings.5

“Auto-Escalation.” NARPP, National Association of Retirement Plan Participants, 3 Nov. 2014, www.narpp.org/fiacademy/auto-escalation.
4 “Three Keys to Boost Savings.” Principal.com, Principal Financial Group, 2017, https://secure02.principal.com/publicvsupply/ GetFile?fm=PQ12306&ty=VOP&EXT=.VOP.

5 RIA, John Barringer CFP. “The 7 Most Common 401(k) Mistakes to Avoid.”www.kiplinger.com, Kiplingers Personal Finance, 31 July 2017, www.kiplinger.com/article/retirement/T001-C032-S014-the-7-most-common-401-k-mistakes-to-avoid.html.

Have additional questions? Contact us to open a conversation.

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