Money Guide

by Sterk Financial Services

401(k) Strategies

When you envision retirement, you probably see yourself living comfortably and doing what makes you happy. Your dreams could be as lofty as traveling the world or as simple as spending more time with friends and family. Everyone's vision is unique. Fortunately, whatever your dream, your retirement accounts can help you make it a reality. Here are some tips to take full advantage of the benefits in your 401(k) plan.

1. Maximize the match. Many company sponsored retirement plans offer a match. Typically you have to contribute a certain percentage of your income to capture that match. Talk to your HR contact to determine what your companies match is and how much you have to contribute in order to earn the full matching amount. A company match is the fastest way to build your retirement dollars, so don't leave anything on the table!

2. Ratchet up your percentage each year. It's easy to set your 401(k) contribution and then forget about it. It's a smart move to create a reminder so that each year you increase what you are contributing by 1%. An increase in this amount is small enough to not cripple your cash flow, but significant enough to add up to larger dollars over your lifetime. Set a reminder in your phone, or make it an automatic habit when you get an annual performance review.

3. Evaluate Traditional vs. Roth. Many plans now offer two ways to contribute. Traditional contributions are pre tax when you contribute and taxable when you retire. Roth contributions are after tax when you contribute and tax-free when you retire (assuming you are past age 59.5 and have held the Roth account for at least 5 years). Determining which side to use depends on your personal situation. Talk to your financial advisor or accountant to discuss the pros and cons of each type.

4. Know your level of risk. Are you more aggressive and can stomach the ups and downs of the market? Or are you more conservative and content with a slower yet steadier growth pace? Either way, your own risk tolerance level should determine how you choose to invest the dollars within the plan. Most plans offer educational material so you can choose the right investments based on your personal comfort level with risk.

5. Take care of old 401(k) accounts. Often times people change jobs and leave their old 401(k)s ignored and unmanaged. Everyone has the same options with these accounts. You can leave them there (if over $5,000), roll them to a new 401(k) plan (if allowed), cash it out (beware of significant penalties!), or roll it to an IRA (which may offer more flexibility and choices but carries it's own set of unique expenses). Talk to your financial advisor about the pros and cons of each option, but don't ignore these accounts. Collectively they form the foundation of your retirement income!

The Sterk Financial Team has a specialized program for managing money. Our goal is simple – to help you protect and grow your investments to set yourself up for a successful retirement. Call us to learn how we take the complexity and uncertainty out of investing, and help create clarity and confidence as you move forward.

350 Oak Tree Lane, Ste 150 • Dakota Dunes SD 57049
Phone 605-217-3555 • Toll Free 1-866-800-2186 • Fax 605-217-3535