RetireReady

TO GET THE MOST FROM YOUR RETIREMENT PLAN,

Max Out Your Match

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You've probably seen promotions at your local bank that promise to reward you with $50 if you open a new checking account. Did you know that your employer may be offering a similar incentive, but with a greater financial reward?

The idea of "free money" probably sounds too good to be true. But if you're eligible to participate in a workplace retirement plan, such as a 401(k), your employer may pledge to match your elective deferrals (the money that you defer from your paycheck on a pretax basis). If that's the case, you'll want to be sure you aren't leaving valuable retirement savings on the table.

It's Time to Meet Your Match

Employer matching formulas come in a variety of different flavors. Your employer determines both if it will offer a match and how much of your pretax deferrals it will match. Here's the good news: it's likely that your company offers a financial incentive to contribute to your own retirement readiness. According to Deloitte and Touche, 94 percent of firms that provide a workplace retirement plan to their employees offer some form of matching or profit-sharing contribution. To be eligible to receive an employer contribution, you typically must meet some age and service requirements—for instance, you might need to be at least 21 years old and have at least one year of tenure at the company.

Your employer may also apply a vesting schedule to its matching contributions. Vesting is tied to how long you've worked at the company and determines how much of the employer match you're entitled to should you retire or leave the company. For example, with a five-year "graded" vesting schedule, if you leave the company to take a new job after three years of service, 60 percent of the employer contributions might be eligible to roll over to another workplace retirement plan or IRA; if you achieve the full five years, 100 percent of those funds would be yours to keep.

To find out if your employer offers a match, and what the eligibility and vesting requirements are, inquire with your human resources department.

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Enrollment Is Just the First Step . . .

You may already be familiar with how a retirement plan fits into the overall retirement savings puzzle. About 9 in 10 households with retirement plan accounts agree that these plans help them think about the long term and make it easier to save. And, close to half of retirement account-owning households indicate they probably wouldn't be saving for retirement if not for their workplace retirement plans. Although enrolling in the plan and beginning to save are great first steps, maximizing your benefits through a company match is another critical element in meeting your retirement goals.

How Much More Could You Save?

The following hypothetical example illustrates the potential boost to long-term retirement savings when an employee maxes out her match—and how much money she could be leaving on the table if she doesn't.

Example: ABC Company offers a 50 percent match up to the first 6 percent of an employee's pretax deferrals, a typical formula. A 35-year-old employee earns $50,000 annually and contributes 2 percent of her annual salary to the 401(k) plan ($1,000). If we apply the matching formula, the employee will receive an annual matching contribution of $500 (50% of $1,000 = $500). Assuming a 3 percent annual rate of return, annual salary increases of 3 percent, and retirement at age 65, the total value of her employer match would be $24,501.

Now, let's say the same employee elects to max out her match and contribute 6 percent annually through her retirement at age 65. Assuming the same rate of return and salary increases, her company's contribution would be $73,504—an additional $49,003 in the employee's pocket!

As the numbers show, capitalizing on the free money your employer is willing to put in your piggy bank is a valuable retirement savings strategy. Be sure to take advantage of all that your 401(k) plan has to offer by maxing out your match!

Smart Sarah (age 35)		Smarter Sarah (age 35)
2% contribution ($1,000)	**$50,000 Annual Salary**	6% contribution ($3,000
plus $500 per year	**Employer Match** (Half of employee contribution, up to 6%)	plus $1,500 per year
	Annual Rate of Return 3%	
$107,761	TOTAL RETIREMENT SAVINGS (After 30 years, age 65)	$323,283
	Total match difference = $49,003 Total account difference = $215,522	

This is a hypothetical example and is for illustrative purposes only. Actual results will vary. No specific investments were used in this example, and it does not take into account deduction of fees or taxes. Investments are subject to risk, including the risk of loss. Past performance does not guarantee future results.