

Your 401(k): 10 things to find out



Starting a new full-time job? If your company offers you a 401(k) plan, you may have decisions to make. If you don't know the answers to these 10 key questions, check your plan documents. Or, ask your HR representative or plan administrator.

1 When can I start contributing?

Not every 401(k) plan allows new employees to begin contributing right away. Some companies might make you wait two, three or even 12 months after you're hired. Your plan administrator can tell you whether a waiting period applies.



2 Will I be enrolled automatically?

An increasing number of companies—more than two-thirds as of 2014, according to HR consulting firm Towers Watson—automatically enroll you in a 401(k) when you join the company. Automatic enrollment is designed to encourage you to save by making it easy to join. Ask your HR representative whether this is the case at your company, because if you're automatically enrolled, you participate unless you specifically opt out.

3 Is there a company match, and if so, what are the rules?

Many employers offer incentives for employees to contribute to their 401(k) plans by matching contributions up to a certain point. For instance, some companies may match every dollar you contribute with 50 cents of their own, up to a certain percentage of your salary. But individual plans vary widely, and there may be restrictions on qualifying for the company match. Ask your plan administrator for the rules that apply to your company's plan.

4 How much can I contribute?



The IRS sets a contribution limit each year. In 2016 you can contribute up to \$18,000 (up to \$24,000 if you're 50 or older), provided your contribution doesn't exceed your earned income for the year. (Employer contributions don't count toward that limit.) You can stay current with contribution limits at irs.gov.

5 Can I sign up for automatic increases to my contribution?

One of the easiest ways to contribute more is to make the process automatic. As your salary increases, you may be able to boost your 401(k) contribution accordingly. Some 401(k) plans allow you to specify automatic contribution increases even if your salary doesn't increase, and some employers automatically enroll employees in auto-escalation plans. Ask your plan administrator whether your plan offers automatic increases, so you're prepared.

6 What investment options does the plan offer?

401(k) plans offer investment options chosen by the plan administrator. Having choices allows you to find investments that make sense for you. Remember, though, that investments carry different levels of risk, including potential loss of principal; and no guarantee of return, which is why you may want to seek advice from a professional.



7 Is there a Roth 401(k) option?

Some plans allow you to contribute to both traditional and Roth 401(k)s. A traditional 401(k) offers you a tax break now by letting you contribute pre-tax money. But you pay taxes when you withdraw the money. Roth 401(k)s work in reverse: You contribute after-tax dollars but don't have to pay federal taxes when you withdraw the money in retirement. Putting some contributions into a Roth 401(k) may benefit you if you expect to be in a higher tax bracket in retirement than you are currently. A tax professional can help you figure this out.

8 What are the maintenance costs and fees?



Participating in a 401(k) plan entails certain fees and expenses, which vary by plan and can reduce your overall return. Some fees cover administrative costs associated with running the plan. Others cover the cost of managing the particular investment vehicles you choose.

9 What happens if I withdraw the money early?

According to IRS rules, typically if you withdraw money from your 401(k) before age 59½, you have to pay a 10 percent penalty, as well as income taxes. (There are a few exceptions; see the IRS website for details.) But some plans allow you to borrow from your account. Those loans often involve fees and, as with any loan, you have to pay interest—though in this case, generally you're paying yourself. You don't have to pay the early-withdrawal additional tax if you repay the loan within the designated period.

10 What happens to my money if I leave the company?

Some employers let you keep your money in your 401(k) plan after you leave. Others, however, require you to take your funds with you. You may be able to roll your money to an Individual Retirement Account or into a new employer's sponsored plan. Or you could cash out via a distribution, though penalties may apply. Knowing the rules helps you avoid surprises and develop the best plan. Each choice may offer different investment options and services, fees, expenses and rules. These are complex choices, so take time to compare options.

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