Don't Leave Money On The Table

(NAPSA)—You think you wouldn't turn down free money, yet, according to a recent study, nearly three in 10 workers do just that. That is, they don't contribute enough to their 401(k) to get the full employer match.

"Even in tough economic times, employees still need to prepare for retirement. Taking full advantage of a company's 401(k) match is a no-cost way for workers to boost their retirement savings," said Gerri Walsh, FINRA vice president of Investor Education. "Employees who contribute less than their employers are willing to match are walking away from free money."

The Value of a Corporate Match

One of the most common matches is dollar for dollar up to 3 percent of the employee's salary. Taking full advantage of this literally doubles your savings, even assuming no increase in the value of your investments. If you're 30 years old, make $40,000 and contribute 3 percent of your salary ($1,200) to your 401(k) each year until you are 65, you'll have contributed $42,000 in 35 years. With a match, you'll have set aside $84,000—$42,000 in free money and a no-cost way for you to increase your contributions by 100 percent.

Tax Advantages

In addition, your contributions, any match your employer provides and any earnings in the account (interest, dividends, capital gains) are all tax deferred. You won't owe any income tax until you withdraw from your account, typically after you retire. This offers the potential for tax-deferred compounding of the larger sum over time.

Making the most of your employer's 401(k) match could literally double your savings.

Matches and Roth 401(k)s

While employers can match Roth-directed contributions, IRS rules require that all matched funds reside in a pretax account, just like employer-contributed matching funds in a traditional 401(k) account. As a consequence, the matching funds your employer contributes to your Roth 401(k)—and any earnings on those funds—will be taxed as ordinary income when you withdraw them. If you contribute to both a Roth and a traditional 401(k), the match is applied first to the traditional 401(k), then, if necessary, to any Roth-directed funds.

The bottom line: Take full advantage of your company match. It simply makes no sense to pass up free money.

Learn More

For more information, visit FINRA's Smart 401(k) resource center at www.finra.org.