

# Getting the Most Out of Your 401(k) Plan

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Social Security benefits are up in the air, and traditional pension plans have been in decline for years. We are becoming increasingly responsible for saving for our own retirements. Unfortunately, more than 70% of workers with the option to invest in 401(k) plans either don't participate in them or don't fully understand them. Here are some tips for getting the most out of your 401(k) plan:

**Participate.** Find out if your employer has a matching program for 401(k) contributions and if so, up to what level of contribution. Then make sure you're contributing, at a minimum, that amount. There's nothing like an instantaneous, tax-deferred 50 or 100% return on your investment.

Even contributions that aren't matched are tax-advantaged. They are withheld from your pay before tax is deducted and any earnings accumulate on a tax-deferred basis. This year, you can contribute up to \$14,000 and those older than 50 can contribute as much as \$18,000.

**Choose.** Choose the funds to which your contributions are allocated. In many plans the default investment choice, if a participant fails to choose, is the stable value or money market option, which in this environment is barely keeping pace with inflation.

**Diversify.** Make sure your investment choices result in a diversified portfolio. One way to wring returns from a portfolio is to be in a position to weather the storm when the market takes a turn for the worse.

Diversification means more than choosing many different investment options. Putting your money in half a dozen different domestic large-cap funds isn't going to provide you with much diversification. You want to include low- or non-correlating investments if those choices are available. Your plan provider, human resources department, (or a financial adviser) may be helpful in educating you here.

Many plans offer the company stock as an investment option. For the same reason, limit your allocation to a fairly small percentage of your total retirement assets, say 10%.

**Rebalance.** Every year or so, rebalance your 401(k) holdings to offset the under- or outperformance of various asset classes. There are no tax consequences, and this process will keep you from chasing past performance.

**Investigate.** Do a little homework to find out the fee structure of the plan. Smaller plans, in particular, can be subjected to excessive expenses levied by consultants, administrators, and other third parties. If this is the case, raise the issue with your benefits department. Fees and expenses are increasingly important to investment results in a low-return environment, and employers are becoming more and more sensitive to the cost-efficiency of their plans.

**Take Charge.** If you feel your investment options are too limited to allow you cost-efficient access to a variety of asset classes, raise the issue internally – it's your money. Many 401(k) plans now offer a self-directed brokerage account as an alternative investment choice. This may be an opportunity to gain exposure to asset classes not otherwise available in the plan and/or to lower mutual fund management expenses.

401(k) plans can be fantastic wealth-building tools. Use yours to full advantage, and start building toward a brighter financial future.

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### **About Paul Winter**

Paul Winter is an eighteen-year veteran of the financial services industry and is frequently quoted in the local and national media. He has a wide variety of experience, including trading bonds and money market instruments on Wall St., trading stock index futures, managing stock portfolios, and now managing Five Seasons Financial Planning. Five Seasons is an independent, Fee-Only financial planning and investment advisory firm headquartered in Holladay, UT. Paul has two business degrees that aid him in this career, including an MBA from Columbia University in New York City, where he was named a Dean's Scholar and granted membership in the Beta Gamma Sigma honor society. He is also a candidate for CFP® certification, having passed the CFP Board of Standards examination in March of 2004.

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