Rodger on Retirement

You said no to matching 401(k) funds?

According to Financial Engines, $24 billion was turned down by employees of 553 companies, covering 4.4 million employees last year.

Many, many people in this country are offered a defined contribution plan in which the employer, employee or both, make contributions on a regular basis. In case you are not familiar with the term, perhaps you know it by its nicknames: *401(k) plan, 403(b) plan, 457 plan, TSP*.

Take the time to understand the retirement plan that is being offered by your employer. It is their fiduciary responsibility to provide you with resources to make informed decisions.

Most plans are designed to allow your employer to reduce your take home salary by the amount you divert to the plan. The funds that you place in your account are invested and accumulate tax deferred over a period of time. The idea is that by periodically adding to the account through payroll deductions, and the invested funds potentially growing and compounding over time, you can accumulate a sizable balance by retirement time.

Now, let us get to the heart of the matter. Many employers offer matching contributions to those employees that contribute to the plan. This is commonly referred to as a *company match.* Employers commonly offer this as part of a package of benefits in order to attract and hire the best people they can. Here are two examples of a common matching formula that may be offered in a plan. Note that in each example, the participant has left money on the table:

Example 1: Henry Sparrow earns $60,000 per year as a project supervisor and has decided to contribute 7% of his salary to his 401(k) plan. His company, Ajax Construction, will match 100% of his contributions up to the first 10% of his salary.

Each year, Henry would contribute $4,200 (7% of his salary) to his 401(k) plan. Each year, Ajax Construction would contribute $4,200 to his 401(k) plan. The total annual contribution placed in Henry's 401(k) plan would be $8,400 ($4,200 from Henry + $4,200 from Ajax).

Had Henry decided to place 10% or $6,000 into his 401(k) plan annually, Ajax would have matched the entire $6,000 figure, resulting in $12,000 contributed to Henry's plan each year.

Henry said *no thank you* to $1,800 of free money offered to him by Ajax each year. Over a 10-year period, the extra $1,800 contributed each year, compounded at 8% would total $26,075.81. Henry left a lot of money on the table.

Example 2: Alice Hummingbird recently took a job with the Flintstone Granite Company. She earns $85,000 annually as a granite inspector. When offered a 401(k) retirement package, Alice declined to participate in the plan. Although Mr. Flintstone explained that they had a policy of matching all employee contributions up to 5% of salary, Alice declined, citing large expenses in assisting her brother Chet with college expenses.

Had she signed up for the plan and contributed even 2% of her salary, her employer would have matched the 2% and she would have had a 100% return on her money. In other words, she would have doubled her money before considering the effect of investment performance from her choice of funds.

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular account. Matching contribution from your employer may be subject to a vesting schedule. Please review your retirement plan documents or consult with your financial advisor for more information.