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Getting the most out of your 401(k) investments

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Since their inception in 1978, 401(k) plans have become one of the most popular tax-advantaged investment vehicles that Americans use to save for their retirement goals. For good reason, they are the foundation for many investors' retirement strategy.

However, not all investors take full advantage of the significant benefits that these employer-sponsored savings plans can offer. Are you getting the most value out of yours?

As you evaluate how to make the most of your 401(k), here are seven questions to ask yourself:

1. Are you maximizing your employer match (and spouse's match)?

As a form of compensation, many employers will match the money that an employee contributes to their 401(k) up to a certain amount. This contribution from the employer is known as an employer match and, if available to you, it's a benefit you'll want to take full advantage of.

Action to take: Make sure you're contributing enough to reach your employer match, and work with your spouse to do the same. While you're reviewing your contributions, be aware of the vesting schedules. Many companies require employment for a certain period (typically 3 to 5 years) before the matches are 100% yours.

2. Did you know that a traditional 401(k) contribution lowers your taxable income?

You fund a traditional 401(k) account with pre-tax dollars. And because your contributions are withdrawn from your paycheck before you've paid any taxes, your taxable income will be lower, thus potentially reducing the federal taxes you owe for the year. (For example, if you earned \$85,000 in 2022 and you contributed \$10,000 toward your 401(k), your taxable income will be reduced to \$75,000.) Moreover, your contributions grow tax deferred in a 401(k) account until they are eligible for withdrawal after age 59.5 years.

Action to take: Consider how your 401(k) contributions can strategically help you save on your taxes for the given year.

3. Can you meet the IRS contribution limit?

There are IRS limits on how much an employee can contribute to their 401(k). For 2023, the annual limit is \$22,500 for those under the age of 50 and \$30,000 for those 50 and up. If it's feasible for your situation, contributing the maximum amount is a goal worth striving for.

These thresholds increase over time, so it's important to keep track of these limits to capture additional retirement savings. Additionally, those near retirement should know that, starting in 2025, there will be an additional amount that individuals ages 60–63 can contribute.

Action to take: Consider increasing your contributions to meet the IRS limit. If this isn't possible, consider increasing your contribution percentage each year; many 401(k) plans allow you the option of setting an automatic annual increase.

4. Are you eligible to save after-tax dollars within your employer's plan?

If it's available as part of your 401(k) plan, you may be able to save after-tax dollars with a Roth 401(k), which can help diversify your tax treatment when it comes to withdrawals. You'll owe ordinary income taxes on withdrawals of 401(k) funds that are saved pre-tax, but because you have already paid taxes on contributions into a Roth 401(k), withdrawals will be tax-free.

Here are two additional considerations to be aware of:

Backdoor Roth conversion: High-income earners who are not eligible for Roth contributions may also want to consider converting pre-tax 401(k) funds to a Roth IRA via a backdoor Roth IRA conversion if their plan allows for an in-service distribution.

Catch-up contributions: Effective in 2024, SECURE Act 2.0 requires catch-up contributions for participants earning \$145,000 in the prior year from the sponsoring employer to be made on a Roth basis under 401(k), 403(b), and governmental 457(b) plans.

Action to take: If eligible, consider the above strategies to diversify the taxability of your investments in retirement.

5. Is your old 401(k) still working for you?

When you change jobs, there are a few ways to handle your previous employer's 401(k):

- Keep your savings with your previous employer's plan
- Transfer the money from your old 401(k) plan into your new employer's plan
- Roll over your 401(k) into an IRA

Each of these options have pros and cons, but if you've opted to keep your old 401(k) with your employer, you'll want to keep an eye on how these investments are serving you. For example, the account fees may be significant, or the investing options may be more limited.

Action to take: If you have a 401(k) that is still with a past employer's plan, consider whether it makes sense to roll it into an IRA or transfer it to your new employer's plan. The primary benefit of an IRA rollover is having access to a wider range of investment options, since you'll be in control of your retirement savings rather than a participant in a company plan. Our rollover evaluator calculator is a good place to start.

6. Are you routinely reviewing your investments?

While it may be tempting to "set and forget" your 401(k) investments, doing so may cost you in the long run. Every year, you'll want to actively review your 401(k) in tandem with all other investments to ensure you're comfortable with your investment mix and asset allocation.

You might leave things as they are, or you may decide it's time to rebalance and strategically move assets to different allocation amounts. Regardless, this check-in will allow you to finetune your investments for the long run.

Action to take: Plan to schedule an annual review with a financial advisor at S&T Financial Services, a financial advisory practice of Ameriprise Financial Services, LLC — they can assess your 401(k) and ensure it's aligned to your retirement goals.

7. Are you aware of the implications of an early withdrawal?

While there are certain scenarios where you can withdraw funds from a 401(k) before retirement, these withdrawals come with implications that can offset the account's tax-advantaged benefits.

Taxes: The cash you withdraw from your account is considered income, and you may incur local, state and federal taxes.

Loss of potential growth: You will lose the benefit of giving your account's investments time to grow, and you may need to work longer to make up the difference.

Possible penalty: You may have to pay a 10% early withdrawal penalty, in addition to taxes, if you make a withdrawal before the age of 59 ½.

Action to take: Generally, avoid taking early withdrawals or a 401(k) loan. By staying continuously invested, you'll be able to maximize the potential for investment growth and returns.

Work with a financial advisor to help optimize your 401(k).

For many investors, their 401(k) is the cornerstone of their retirement income strategy. Work with a financial advisor to help make sure that your retirement portfolio is positioned to help you reach your financial goals.

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A Roth IRA is tax free as long as investors leave the money in the account for at least 5 years and are 59 1/2 or older when they take distributions or meet another qualifying event, such as death, disability or purchase of a first home.

Be sure you understand the potential benefits and risks of an IRA rollover or transfer before implementing. As with any decision that has tax implications, you should consult with your tax adviser prior to implementing an IRA rollover or transfer.

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