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Marc A. Hebert's 'Money Sense': Make a habit of giving your 401(k) a close review

By Marc A. Hebert Dec 7, 2019 Updated Dec 7, 2019

HAVE YOU LOOKED at your 401(k) recently? Not just a cursory glance, but a deeper review of the details.

First, one statistic that might interest you: The average balance for a 60- to 69-year-old is $195,500, according to Bankrate. Also noteworthy is that there are 100.2 million participants in 401(k) plans, according to the American Benefits Council, based on the 2016 Form 5500 Annual Reports. The total assets in these plans are about $5.7 trillion.

Even if you do not receive an employer match, it is usually a good idea to contribute to your 401(k) because you will still benefit from the pre-tax contribution and the tax deferral. Try to save extra to make up for the lack of a company match. If your company does match, it is like receiving free money. By putting money into the plan regularly through your paycheck, you are also doing what is called "dollar cost averaging." Sometimes the contribution will buy more shares and sometimes less — it will all depend on the share price. Your average cost per share can be lower.

If you have a new job with a waiting period before you can join the 401(k), save the money you would have contributed anyway in your personal accounts. Try a swap — build up funds in your personal account and use this money to live on later while making larger 401(k) contributions once eligible.

Retirement is expensive. Thankfully, the maximum contribution amounts may change from year to year. It is a good idea to check at the beginning of the year just to be sure you are making the maximum contribution allowed. For 2019, the elective deferral limits are the lesser of $19,000 or 100% of the participant's compensation. For people age 50 or older, there is an additional “catch-up” contribution of $6,000 available.

It is important to know how your 401(k) plan functions. It is also a good idea to review your investments and contributions periodically. Most companies will have educational resources available, and some basic knowledge will go a long way. It is a good idea to match your investments to your needs, such as when you are planning to retire, for example.

It is also important to diversify your investments and consider your entire portfolio. For example, you should view both your retirement and after-tax accounts with the big picture in mind. Due to market changes, are you over-allocated to one type of investment? Are you underweight in others? In either case, you might consider making some changes to keep your portfolio where you wanted it. Develop that rebalancing plan.

Another tip to keep in mind is to not just buy company stock. If your company takes a downturn, both your job and your 401(k) could be in jeopardy.

On a similar note, try not to borrow from your 401(k). You lose the tax deferral and could potentially have to pay income taxes and penalties if you don't repay the loan. It is a better course of action to build up an emergency fund to withdraw from during hard times.

For those who change jobs, try to keep your 401(k) money in a retirement account. If you withdraw the funds, you might face taxes and potential penalties. If you have changed jobs several times, you might have other 401(k)s out there. Consider consolidating these in one retirement plan or IRA.

Don't rely on 401(k) savings alone unless you start at a very young age. Outside savings is a must. Maxing out your 401(k) might not give you the retirement you are looking for. If saving becomes overwhelming, consider getting some help. A certified financial planner might provide you the insight you need to tie your goals together with an action plan.

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