

What Is a 401(k) and How Can It Help Me Plan for Retirement?

A 401(k) is an employer-sponsored retirement plan that allows workers to take a portion of money from their paycheck before taxes are deducted, store it in a retirement plan account and earn interest on the money tax-deferred.

Tax-deferred means this saved income is not taxable until you withdraw it at the age of 65 or higher. Your company or employer may also offer some form of matching program, through which they will contribute money to your 401(k) based on how much you contribute yourself. If your company offers a matching program, you should contribute at least enough money to your 401(k) to take advantage of the match. The 401(k) match is free money to you.

If you terminate your relationship with an employer for any reason, your 401(k) retirement account is still yours. However, you may want to roll the plan over to one offered by your new employer, or you can opt to transfer it to an IRA (Individual Retirement Account) serviced by your local bank.

If you're thinking about retiring someday—and it's a goal most of us would like to achieve—then you should consider taking advantage of a 401(k) plan. And the younger you are, the more time you have to build yourself a really solid nest egg. You may think you can wait until middle age to start saving for retirement, but in most cases that does not allow enough room to establish the security you will need.