

Tracking Retirement Readiness on National 401(k) Day

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Each year, on the Friday after Labor Day, the Plan Sponsor Council of America recognizes National 401(k) Day. On this day, we put retirement savings in the spotlight and assess how we are progressing toward our retirement goals. We also use this day to encourage business owners to sponsor retirement programs for their employees and educate employees on how to make the most of their company-sponsored benefits. However, we recognize that 401(k) plans can be confusing to understand, especially since each person has their own specific retirement goals to

work toward. In this blog, we discuss the common pain points of investing in 401K(k) plans and how to maximize your plan's benefits.

Common Pain Points

According to a 2023 survey conducted by CNBC, nearly 4 in 10 workers that have a 401(k) plan offered by their employer do not contribute to their plan.¹ This is a staggering figure because not contributing to a plan can prevent workers from having financial stability later in life when they want to retire. However, there are several reasons why workers may be hesitant or completely avoid contributing to a plan:²

- **Different rules for different employers.** When you change jobs, it's likely that your new company's 401(k) plan has different rules and options than a previous employer's. Some employers automatically enroll their employees into a plan while others require the employee to enroll themselves. Additionally, it can be laborious to rollover a 401(k) from one retirement savings company to another.
- **Uncertainty about contributions.** Many Americans are unsure about how much they should be contributing per paycheck in order to comfortably retire. This may be due to not knowing where to start in terms of creating a savings goal.
- **Cash constraints from the increasing cost of living.** In the past couple of years, inflation and high interest rates have caused many Americans to re-evaluate where they are spending money. As a result, many have opted to prioritize paying for non-discretionary expenses rather than saving.

Tips for Optimizing Your Retirement Savings

Start contributions early. It's best to start saving for retirement as soon as you start your first job out of college. If you're a parent and your child is working while in high school, review their benefits with them and see if they can begin making contributions as a teenager.

Take advantage of matching contributions. Most employers match their employees' contributions by a certain amount – for example, they may match 50% of your contribution up to 6%, which means if you contribute 6% into your 401(k) or 403(b) account, they will contribute 3%.³

Select personally compatible investments. When investing in a 401(k) or 403(b) plan, select investments that align with your personal risk tolerance and investment preferences.

Avoid early withdrawals. Withdrawing money from your retirement plan early can be costly due to taxes, fees, and penalties.

Check in periodically. Long-term investments like 401(k)s are easy to forget about. However, you should monitor your account periodically and make adjustments as needed.

We understand that understanding 401(k) plans can be confusing. However, you're not alone. If you have not yet taken advantage of your company's retirement benefits and want to get started, or would like someone to review your contributions to see if you are on the right track, please reach out to **your advisor**.

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Citations

1 Epperson, S., & Dhue, S. (2023, September 7). Is financial stress hurting retirement savings? 4 in 10 workers with a 401(k) don't contribute, CNBC survey finds. CNBC. <https://www.cnbc.com/2023/09/07/4-in-10-workers-with-a-401k-dont-contribute-to-plan-cnbc-survey.html>

2 Why are employees not participating in their 401(k)s? (n.d.). Principal. <https://www.principal.com/about-us/retirement-research-and-thought-leadership/employee-401k-participation>

3 Piburn, B. J. (n.d.). What is 401(k) matching and how does it work? Empower. <https://www.empower.com/the-currency/work/how-does-401k-matching-work>

E / contact@6meridian.com • P / 316.776.4601 / 855.334.2110 • F / 316.776.4620

WWW.6MERIDIAN.COM • 8301 E. 21st Street N. Ste. 150, Wichita, KS 67206

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