Retirement Goals

How to slay your 401(k)

Weekend getaways. Trying the newest restaurant in town. Discovering the latest tech gadgets. Enjoying the comforts life has to offer may seem second nature when you're a young millennial and new to the professional world. But as you age, how can you ensure those comforts are still within reach? Even after you retire, you don't have to give up the lifestyle you are building. All you have to do is save.

What is a 401(k)?

This employer-sponsored retirement account can help build and create choices for your future self by saving money — tax-free — from your paycheck. The sooner you participate in a 401(k), the better.

Cool. So now what?

Research your employer's 401(k) plan and find out what your options are. Some companies match the funds you contribute, but only up to a certain amount.

IRA

Not all companies offer a 401(k) plan. For those who do not have that option or are self-employed, an Individual Retirement Arrangement (IRA) may be the option for you. Traditional IRAs are tax-deductible, but Roth IRAs are taxed.

%

Determining which percentage of your income to contribute to your account is the first step. Aiming for 12% to 15% is a good start, but keep in mind this percentage depends on each individual's financial situation. Also remember your employer's match, if available, counts toward your annual contribution max, which is set by the IRS each year.

Regardless of which retirement account you choose or how much you contribute, it's important to think of it as a long-term strategy. Dipping into the account early will jeopardize the quality of your retirement and rack up penalties from the IRS.

Why do you need a 401(k)?

As times change, it's important to ensure future stability. While your grandparents may have been able to fall back on pensions and Social Security, today's generations need to be more self-reliant. 401(k) accounts can provide that extra cushion to fully or partially supplement any government-issued payments.

What about the investing part?

Investing can seem intimidating, but in today's world it has become easier than ever. Many companies offer predetermined investment options for 401(k) accounts, including Target Date funds or Asset Allocation funds. These can be "set it and forget it" funds. This type of diversified investment option allows you to set things up once and not get bogged down by the ups and downs of the stock market — freeing you up to focus on long-term gains.

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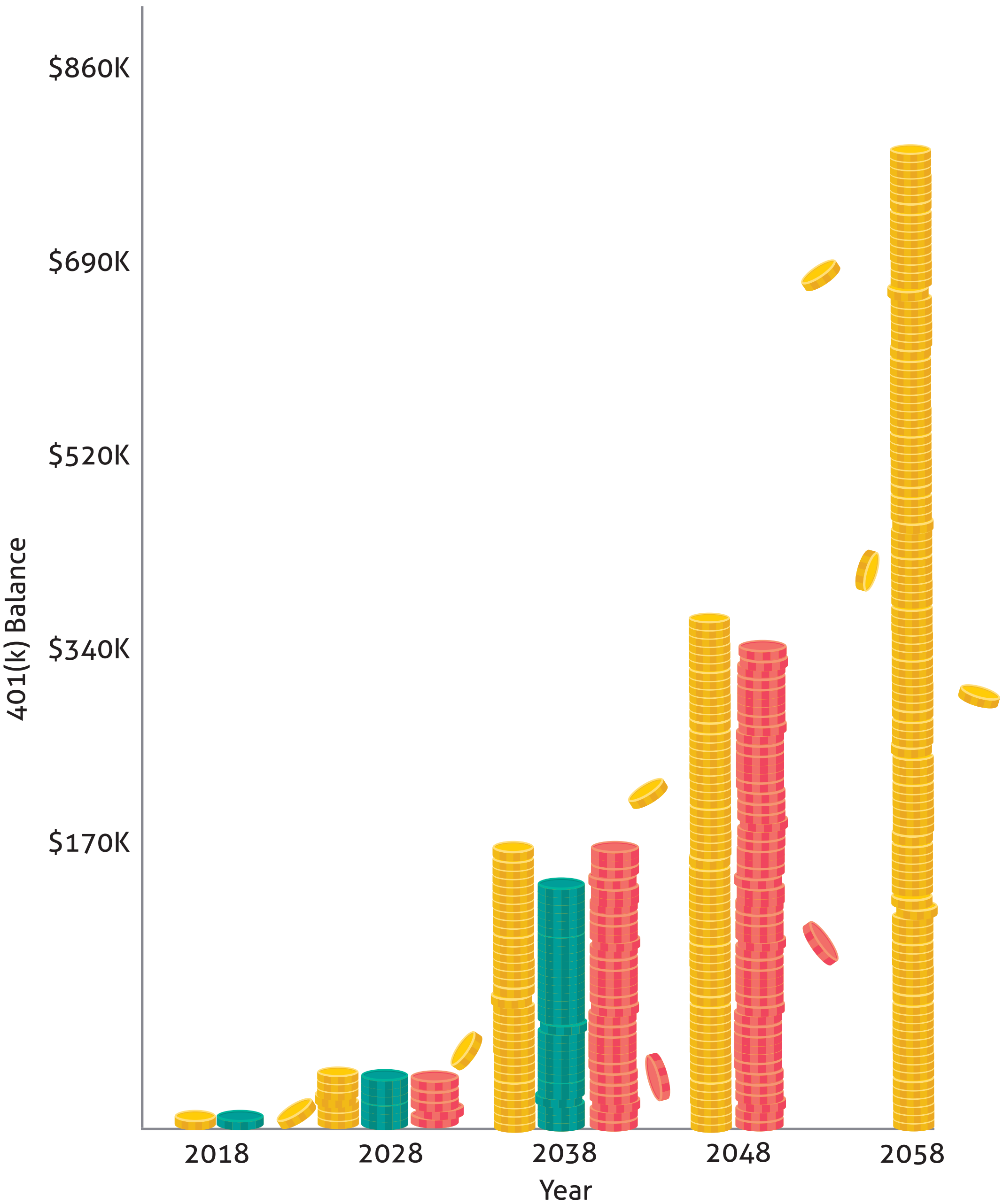
To discover more about 401(k)s or investing, visit your 401(k) plan administrator's website. To find out how much you should save, visit www.nerdwallet.com/investing/401k-calculator.



Please note this graph is inclusive of employer match, was constructed with a 6% rate of return, and balances will vary depending on salary and employer contribution amounts.

The chart to the left describes three millennials' approaches to retirement savings and outlines the importance of starting early.

Ashley

Ashley starts her 401(k) at the age of 22. She contributes 6% of her salary every month and her employer offers a 100% match on her 6%. When Ashley retires at age 62, the total balance in her 401(k) is $783,000.

Michael

Michael starts his 401(k) at age 22 as well. He also contributes 6%, which his employer matches. However, Michael stops contributing at age 42. His total 401(k) balance at retirement is $163,000.

Samantha

Samantha is a late contributor. She starts her 401(k) at age 32. She contributes 6% like Ashley and Michael, and her employer also matches her contribution. When she retires at the age of 62, her total 401(k) balance is $419,000.