



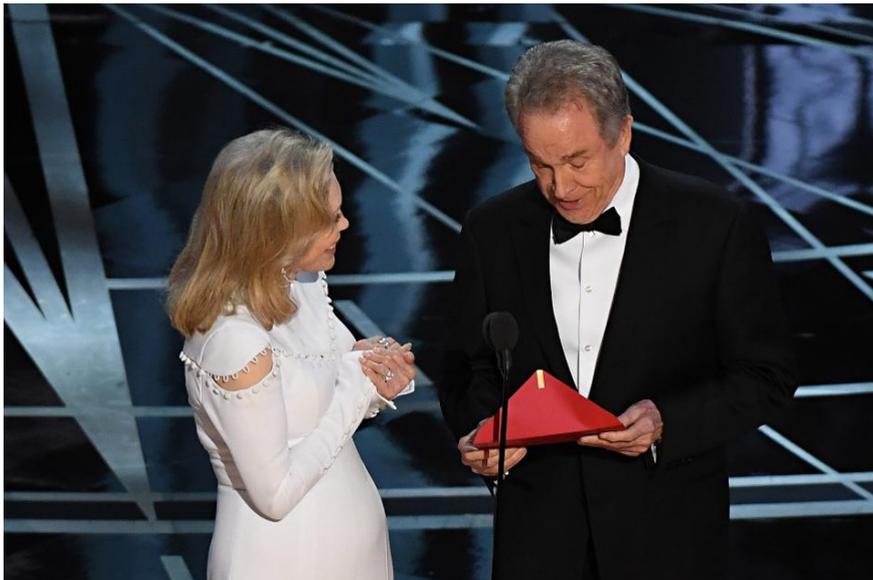
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## The Biggest Mistake You Are Making With Your 401(k)

Forbes

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*Are you making this huge 401k Mistake? This is as big as the Oscars Best Picture flub with Faye Dunaway and Warren Beatty (Photo credit MARK RALSTON/AFP/Getty Images)*

We are facing a retirement planning crisis in America. Boomers, GEN X and even millennials are not saving enough to comfortably retire and the average person is leaving more than \$30,000 of retirement income on the table. Here is how they are messing it up and making the #1 401(k) mistake.

Would you be more likely to contribute enough to your 401(k) in order to get your full employer match if you knew how much that match would grow by the time you're ready to retire? Perhaps you might be more motivated if you realized the tens of thousands of dollars you'd be losing during your retirement years by not getting the full employer match. Not maximizing your employer match could cost millions of dollars over the course of your working lifetime and typical retirement.

Nearly one in five workers is making this mistake. How much you should contribute and the best retirement investment allocations are debatable. However, there is no arguing that you are leaving free money on the table if you fail to get the full employer match. Over time, this can drastically reduce your income in retirement. This is why missing the full employer match is the number one biggest mistake people make in their 401(k) retirement plans.

### **Is the employer match really worth that much?**

On average, employees leave \$1,336 in matching funds on the table each year by not saving enough into their retirement accounts. This is according to a



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2015 study by Financial Engines.

You may think this is no big deal. What does \$1,336 mean for your retirement security, which may be decades away? How much could that really add up to? A mistake would be to believe that number would add up to \$60,000 (\$1,336 multiplied by 45 years of work).

### **Cost of Skipping full 401(k) Match over your Career**

Leaving \$1,336 of company match on the table over your working career from 22 to 67 would total more than \$60,000 in lost money from your employer. You would also end up paying more state and federal income taxes over your working the years. But these numbers pale in comparison to what you are giving up in retirement security. Invested wisely, that money would grow exponentially over time.

For example, putting that \$1,336 into your 401(k) each year, from 22 to 67, and assuming an average return of 10% per year, how much do you think you would have at retirement? The \$1,336 per year, with an average return of 10%, would grow to more than \$960,000 by the time you were 67. That number alone is well beyond what the average person has saved for retirement.

### **How much income does \$960,000 translate into for retirement?**

Using the 4% rule for the sake of simplicity, how much income would \$960,000 mean for your retirement? The 4% rule basically means withdrawing 4% from your retirement account each year. In this case, you could take out \$38,400 per year in retirement.

Yes, you read that right, just giving up the average employer match over your working life could cost you \$38,000 per year in retirement income.

Additionally, there are other retirement income strategies that could make skipping the employer match look even worse. The bigger the retirement income the bigger the mistake of skipping the employer match. Either way, I think we can agree having more money in retirement is better than having less.



Would you Rather Have more or less money in retirement? Avoid the #1 biggest 401k mistake. So have you can have a beach party in retirement. (Photo by Erin Schaff for The Washington Post via Getty Images)

### **Employer Match and your Retirement Contributions**

Capturing all of your employer matches throughout your career can help you get closer to financial freedom in retirement. If the average person is losing out on \$1,336 of employer match each year, that individual is also likely not

contributing much. Broken down over the course of a year, \$1,336 is only \$111.33 per month.

Now, let's assume you start working at the age of 22 and remain with the same employer until you retire at the age of 67. That, coupled with the facts that your employer offers a 100% match and you save \$111.33 each month throughout your career, you could have roughly \$1,920,000 in your 401(k) at retirement.

While very few employees remain with the same employer for their entire career, it's probably not unrealistic for anyone making \$50,000 per year or more to put \$111.33 into a retirement account each month. The money goes in pre-tax and you get a match from your employer. Compound interest does its thing overtime and, before you know it, you are left with more money than you ever thought possible.

### **Getting Started is the most Important Thing**

I started my first retirement account with a whopping \$25 per month and increased my monthly contributions overtime. The most important thing was to get started. Whatever your financial situation, it's important to start saving whatever you can and no amount is too small. Soon that \$25 will grow to \$111.33 and beyond. You may even get that employer match and double your money right off the bat.

It's never too late to improve your retirement security. The longer you wait the harder it will be to achieve total financial freedom. Given the choice, I hope you will opt for more retirement income rather than less.

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