

HOW TO MAKE THE MOST OF YOUR DEFINED CONTRIBUTION PLAN

Unlike a defined benefit plan, a defined contribution plan does not guarantee a specified amount for retirement. The amount you have available in the plan to help fund your retirement will depend on how long you participate in the plan, how much you invest and how well the investments do over the years. The federal government does not guarantee how much you accumulate in your account, but it does protect the account assets from misuse by your employer.

The following are the most common defined contribution plans:

- 401(k) Plan. This is the most common and popular type of plan. Employers often match employee contributions up to a certain percentage.
- 403(b) Tax-Sheltered Annuity Plan. Think of this as a 401(k) plan for employees of school systems and certain nonprofit organizations. Investments are made in taxsheltered annuities or mutual funds.
- SIMPLE IRA. The Savings Incentive Match Plan for Employees of Small Employers is a less complex employerbased retirement plan, which often appeals to smaller employers.
- Profit-Sharing Plan. The employer shares company profits with employees, usually based on the level of each employee's wages.
- ESOP. Under an Employee Stock Ownership Plan, employees share in ownership of the company.
- SEP. Simplified Employee Pension plans are used by small employers and the self-employed.
- Make the Most of Your Defined Contribution Plan
 - Study your employee handbook and talk to your benefits administrator to see what plan is offered and what its rules are. Read the summary plan description for specifics.
 - Join as soon as you become eligible.

- Put in the maximum amount allowed.
- If you can't afford the maximum, try to contribute enough to maximize any employer matching funds. This is essentially free money.
- Study carefully the menu of investment choices. The more you know about your options, investing and your investment goals, the more likely you will be to choose wisely.
- Many companies match employee contributions with stock instead of cash. Don't let your account get overloaded with company stock. Too much of a single stock increases risk.
- Plan fees and expenses reduce the amount of retirement benefits you ultimately receive from plans where you direct the investments. Learn as much as you can about your plan's administrative fees, investment fees and service fees.

Article adapted from the U.S. Department of Labor publication of the same title. www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/savings-fitness.pdf

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