Written by Betsy Blevins
Friday, 18 March 2011 11:07 -

March 10, 2011 - Your 401(k) offers tax-deductible contributions, tax-deferred growth of earnings potential and a variety of investment options -- so it's a great tool for building retirement savings. Yet like all tools, your 401(k) must be used properly to get the best results. That's why you should review your 401(k) at least annually and make whatever adjustments are needed.

Depending on where you work, you may get some 401(k) review help from your plan provider. But if that assistance isn't available, you might want to consult with a financial professional to make sure you're getting the maximum benefit from your plan.

As you begin to review your 401(k), your first question should probably be this:

"How much should I contribute?" At the very least, try to put in enough to receive your employer's matching contribution, if one is offered. If you don't earn this match, you are essentially walking away from "free money." Beyond this, though, the amount you put into your 401(k) might depend on what other retirement savings vehicles you have available. For instance, if you're eligible, you may also want to contribute to a Roth IRA, which offers tax-free growth potential, provided you've had your account for five years and don't start taking withdrawals until you're 59.

Of course, it's not only how much you put into your 401(k) that determines its success -- it's also how you choose to allocate your investment dollars. (Keep in mind that asset allocation does not guarantee a profit or protect against loss.) Your 401(k) may have a dozen or more investment choices, such as stock funds, bond funds and money market funds. To choose the right investment mix, you'll need to consider a variety of factors, including these:

Your age -- Generally speaking, the younger you are, the more aggressive you can afford to be with your 401(k) investments, because you'll have decades in which to potentially overcome the inevitable down periods of the market. As you get older, you may wish to invest somewhat more conservatively, but you'll still need some growth potential in your 401(k) portfolio.

Your goals -- Everyone has different goals for retirement. You might want to retire early and travel the world, while your co-worker desires to work as long as possible and then, upon retirement, stay close to home and pursue hobbies. Because you each have different goals, with different income needs, you also may need to follow different investment strategies within your 401(k).

Your other retirement income sources -- If you have a variety of retirement income sources -- a pension from another job, an IRA, a spouse with generous retirement benefits -- you may need to invest differently, perhaps less aggressively, than if you had fewer options for retirement income.

Apart from putting away as much as you can into your 401(k) and choosing the right investment mix, what else can you do to get the most out of your plan? Here's a suggestion: If you have worked at various jobs and acquired multiple 401(k)s, consider rolling them over into one account. You might save money on fees and reduce paperwork, but more importantly, you'll be able to concentrate your resources and pursue a unified investment approach, with your investment dollars working together toward your ultimate retirement goals.

As you can see, a 401(k) review and rollover can reward you in many ways -- so do whatever it takes to maximize your 401(k)'s performance.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.