

RETIREMENT 101, PART 4: UNDERSTANDING YOUR 401(K)

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In this installment of our Retirement 101 blog series, we'll talk about many of the features that your 401(k) may offer you. In our opinion, getting to know your plan is key to making the most of your hard-earned dollars. **Matching contributions** Does your plan offer matching contributions? Many plans offer some sort of a setup where they make "matching" investments. For example, they may match your investments dollar for dollar up to a certain point, or they may match 50% of the first 4%-6% you contribute, or any number of other methods. Regardless of the type of match your plan may offer, if it offers one, you should take advantage of it by investing at least the minimum you need to qualify for the match. **Vesting** Vesting means how much of an interest you have, or how much of your company's contributions you "own." In other words, while you always own – or are 100% vested in – the contributions you make to your 401(k), you may not always be 100% vested in the contributions your company makes on your behalf. There are a number of vesting schedules for your company's contributions:

- Some companies vest you 100% immediately
- Others may work on a 6-year vesting schedule, where you become 20% vested after your first year of service, 40% after your second year, and so on
- Still others may use a different schedule

 Your plan document can tell you how your plan's vesting schedule works. **Automatic increases** This program can enable you to automatically increase your contributions as your pay increases—creating a smart way to grow your contributions, and hopefully your balance, over time. And you may never even notice the difference in your paycheck as increases typically align with raises. **Automatic rebalancing** When you create an asset allocation, you are in a sense creating the ideal mix of asset classes and regions that you believe will help you reach your retirement goals. Over time, however, your asset allocation can drift. For example, your small caps could have excessive returns while your large caps might suffer a loss. If this were to happen, you would likely end up with more small-cap exposure than you would like, something known as being "over-weight," and potentially also with less large-cap exposure than you might like, or being "under-weight." While this may not sound like an issue, it can expose you to more risk than you may be comfortable with. Rebalancing is the process of bringing your asset allocation back to your initial, or "target," range. In other words, during rebalancing, certain assets may be sold and others may be bought to bring your portfolio back to where it was when you started, so you are not over-weight or under-weight in any particular asset class. With automatic rebalancing, your portfolio gets rebalanced on a regular schedule—perhaps quarterly or annually—helping to keep you on track to reach your goals. **Exchange-Traded Funds** Does your plan offer exchange-traded funds (ETFs)? ETFs can be smart investments that may be ideal for retirement plans. Consider that ETFs:

- Are available in a range of domestic, international and emerging market options from small caps to large caps, from municipal bonds to corporate bonds—and everywhere in between. There are many currency and other alternative ETFs as well.
- Traditionally track indexes, meaning that they typically offer broad asset class exposure, which may make them ideal for asset allocation.
- Have low fees that enable more of your investment to work for your retirement.

 If your plan offers ETFs, consider using them in your 401(k) plan. For more information on 401(k) plans, ETFs or other investment topics, please visit www.wisdomtree.com. In future installments, we'll discuss why it's important to keep your 401(k) invested, determining how much you need to retire—and much more. *Read our 401(k) series [here](#).*

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