Five ways to make your 401(k) work for you

An employer sponsored retirement plan has replaced the traditional pension for most Americans. Proper attention to both the contribution limits and management options of these plans can ensure their effectiveness and allow investors to retire with confidence. While these tips specifically address the 401(k) plans, many can be applied to other plans like the Simple, SEP, 403 (b) or 457.

1. Know your employer's match policy

    Many employers offer to match your contribution up to a certain level. Some base their matches on a fixed percentage or dollar value of the contribution. Research your company's match policy and maximize your contribution accordingly. Employer match funds are essentially free money and you don't want to waste this opportunity.

2. Understand your risk tolerance level.

    This is the key to selecting the proper allocations within your plan. In general, your risk tolerance will decrease as you age, but the level remains unique to each investor. Take a risk tolerance survey and pay careful attention to the number you receive. With that number you can decide whether you should be invested conservatively, moderately or aggressively.

3. Make your investment choices carefully

Understand both the investment options available and the fees charged to you within your plan. Most plans offer Large-Cap Equity, Mid-Cap Equity, Small-Cap Equity, International Equity, Emerging Market, Diversified Bond and Stable Asset/ Money Market options. It is your responsibility to select the appropriate allocation.

4. Diversify your retirement portfolio

It is a good idea to invest outside your plan. Maximize your contributions to your 401(k), and then invest in a supplemental plan. The limited investment options available within most employer sponsored retirement plans make it essential for investors to round out their retirement portfolios with additional options.

5. Hire an independent advisor

To help sift through the allocation options available to you within your plan, and to suggest investment options outside your plan, it is well worth your money to hire a registered independent advisor. Independent advisors have a fiduciary responsibility to make suggestions that are in their clients' best interest. They are compensated based on a percentage of their clients' investable assets, so their goals are directly in line with their clients'. They do not sell commissionable products.

Education continues to be the most effective component of any retirement plan. The time you spend to research the investment options available to you and to understand the fees and restrictions hidden within them will be well spent.

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