What is a 401 (k)? What is it Not?	What's Really Happening and Other Notes:
A 401(k) plan or 401 (k) account itself is *not* an investment. The plan comes with a list of investment options plan participants (you) can purchase within your individual 401 (k) account using pretax earnings.	Your employer purchased a 401 (k) plan from a plan administrator (such as Vanguard or Fidelity). This plan usually includes **an array of investment** options (e.g., stock funds, target-date funds, blend-fund investments, bond funds and money market funds) *. After you opt in on the plan and created an individual 401 (k) account, you can start funding your account using pretax money. The account's starting balance is $0. Once there's money in the account, you can pick investment options that are available through your employer's plan.
Your employer automatically enrolls you in the 401 (k) plan once you become an employee.	Some set up **automatic** enrollment and others need employees to **opt in**.
You are eligible to participant in the plan on day 1 of employment.	Your employer worked with the plan administrator to establish the **eligibility and entry requirements** at the time the plan was set up. Some employers allow employees to start contributing once an employee has a paycheck. Some require a 30- or 90-days waiting period. You should be able to find this information in the plan documents or go to your HR or employer directly.
Your employer handles all the paperwork, requests and money transactions associated with your 401 (k) account.	When your **employer** delivers your enrollment form to the plan administrator, the **administrator** sets up an individual 401 (k) account for you. Once you received notification that the account is ready (either by mail or email), go ahead and set up an Online account through the administrator's website. From there, your HR and/or employer can still answer many of your questions relating to the plan. You can also reach out to the administrator directly. In terms of money transactions, your **employer** deducts your contribution from your paycheck pretax and that portion goes directly into your 401 (k) account. It's the **administrator** that handles the buy/sell transactions. If you need to change your 401 (k) investment choices, you do this through the **administrator**. If you need to change your contribution amount, you go through the **administrator**, too. In addition, let your **HR/employer** know about this as well so that your future paychecks reflect the changes. The **administrator** usually alerts your employer regarding the change to your contribution amount, however, there can be a gap between when that message gets to your employer and when your pay gets processed. This happened to me and my next contribution didn't reflect the amount I updated on the administrator's website. When my HR received the message, payment was already processed.
Your 401 (k) account is set up through your employer. You must invest in company stock.	You control how your money is invested. You make your own investment choices from what's available within the employer's plan. Many employers offer an option to invest in company stock. This is not typically recommended. You want to diversify your investments. **Your paycheck already depends on your employer. Don't become too invested in any single company**.
You can pick any investment option that's available through the plan's administrator.	Your employer usually worked with the plan administrator to come up with a list of investment options for the specific plan purchased. As a plan participant, you're only allowed to purchase investment options that are available in that specific plan.

Your employer automatically picks investment choices for you. You don't need to do anything once your account is set up.	**You make your own investment choices**. You decide how you want to build your investment portfolio by picking the funds that you want based on your risk tolerance, your age and other personal factors. Some employers may set a default in your account once it's set up, and your contributions likely go to either money market funds or just sitting in cash. Money sitting in money market funds or cash has little to no growth. As soon you received notice that your account is set up, login to the administrator's website and take a look at how your contributions are allocated. **Customize the allocations to reflect the portfolio that fits you**.
My employer wants to help me with my retirement savings. All investment options within the plan must be good ones (e.g., low risk and high yields).	Not necessarily. Your employer pays for the plan. Many try to get the best investment options they can offer so that they won't lose you to their competitors. Depending on the number of employees your employer has, **your employer might not be able to negotiate as good a deal as they would have liked**. Larger companies typically have an advantage over smaller ones because they bring in more assets to the plan administrator. My husband works for a large company. His investment options have much lower expense ratios than mine and he is also offered more options. Make sure you read the plan documents and understand what the investment options are. Invest smartly.
There's no limit in the amount you can contribute to your account.	The IRS sets a contribution limit each year. You cannot contribute over the limit.
The contribution limit is the same each year.	The IRS adjusts the amount based on inflation. Make sure you look it up early in year and adjust your contribution amount per pay period accordingly.
You should max your annual 401 (k) contribution limit in the beginning of the year so that you won't have to think about it.	Employers have different ways of doing the 401 (k) match. Most do it on a payroll basis. They contribute a little bit with each paycheck. However, **depending on the match formula your employer uses, you could be missing the match if you max the contribution limit early in the year**. Find out how your employer does the match. If is on a payroll basis, plan your contributions carefully. Leave room in your account so that you can continue to get the match all the way through the last paycheck for the year.
Most employers offer employer match.	Read the plan document or talk with your HR/employer to find out how much you need to contribute to get the full match. Some employers offer 50% match up to 6%. Some offer 100% match up to 3%. Others offer 100% match up to 6%. **Always contribute at least enough to get the full match from your employer**. This is not free money. It's part of your employee benefits. If your match is weak, discuss with your employer for a higher match.
As your earnings increase, your contribution amount automatically adjusts to reflect the higher pay.	This is typically true if you designate your contribution by a certain percentage of your earnings, and not by a fixed amount. For example, if you designate 15% of your pretax earnings to go into your 401 (k), then your contribution amount will be bigger as your earnings increase. However, if you allocate $500 to fund your account, then $500 will continue to go into your account until you make the change.
You can only make changes to your account during open enrollment or if you have a life event change.	Most plans allow you to make changes **as frequent as you need or on a payroll period basis**.

Your account is tied to your employer.	This account is **yours to keep**. When you're no longer with your current employer, you have the option to roll it into a traditional IRA if it's to your advantage to do so.
You can leave your employer anytime and take with you all the money in your account.	Not so fast. Read the plan documents to learn what the vesting schedule is for your employer's plan. A **vesting schedule** is the amount of time you must stay with your employer before the employer match is 100% yours. For me, it is three years, which is very typical. It is all or none (aka cliff). My husband's vesting schedule is different. His is 100% vested after four years. He gets 25% vested for each year he stays with the company (aka graded).
Your 401 (k) account is free.	**There are fees and expenses associated with your account**. Read the plan documents to find out what the various fees are for each fund. **The lower the fees/expenses, the more money from your investment you get to keep.** My husband and I always try to go with funds that have expense ratios below .25%. When two funds are very similar in terms of growth, risk and value, we pick the one with the lower expense ratio.
Putting money in your 401 (k) significantly reduces your taxes.	The money that you allocate to fund your 401 (k) account are taken from your paycheck before taxes are deducted. That means that **when you fund a 401(k), you lower the amount of income you pay taxes on**. For example, if you put $100 into your 401(k) each pay period, your paycheck might only get smaller by about $65-$80. The exact amount will vary depending on your earnings and tax bracket. When you receive your W-2 form at the end of the year, you will notice that **your wage subject to federal income tax is lower because of your 401 (k) contributions**. With that said, your contributions are still subject to Social Security and Medicare.
Your employer and government want you to save for retirement. The investments must have no risk.	**All market investments are subject to risks**, including possibly losing the contributions you put in. Thus, read and analyze and invest diligently, always.
It's not a piggy bank.	Your 401 (k) is a retirement savings account. **With few exceptions, you cannot access the money in your account until 59 and 1/2 without paying early withdrawal penalty.** The government and your employer want to help you save for retirement. The incentive is that you get to **invest with pretax money and the money that you gain within the account also grows tax free**. In other words, your contributions and earnings are not taxed until you begin taking distributions. This deferred tax break is the government's way of encouraging you to save as much as you can today, so that you benefit over the long term.
It's not an emergency fund.	You can withdraw money from your 401 (k) to pay for qualified medical bills or when you become disabled (the penalty is avoided, but the distribution is still subject to income tax) **. However, if you can, **make it a goal to only begin accessing money in your 401 (k) once you've retired**. Once the money is taken out, you can't put it back later. You need to follow the contribution limit for the year. You'd also miss out on potential dividend growths.

*http://investorplace.com/2013/07/a-beginners-guide-to-picking-401k-funds/
** https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions