

# Aga Khan Economic Planning Board for USA

## Key Points: What is a 401K and how does it work?

- Employer sponsored retirement savings plan for employees
- Employees can invest pre-tax dollars withdrawn directly from employers paychecks
- Many employers match funds (i.e., dollar-for-dollar match programs) as an incentive for employers to contribute to their plans
- Annual contribution limit for 401K in 2023 is \$22,500 (\$30,000 for those age 50 or older)

## What makes it different from an IRA?

- You get a 401K from your employer (if offered), IRA accounts are individual accounts that are opened and managed by you
- You choose the percent deduction from your paycheck you'd like to contribute to your 401K. The amount is taken pre-tax from your paycheck and put into your 401K savings account

## How do I maximize my 401K benefits?

- Enroll in the employer match program if they offer one! (For example, some companies may provide dollar-for-dollar matches; if you invest \$10 in your 401K, your employer will give you an additional \$10 in your account - Free money!)
- You are able to reduce your taxable income in the current year by making pre-tax contributions to your 401K.
- Seek financial guidance on how much you need for your retirements, to ensure you are contributing the right amount to secure your financial future

## What if I move companies, what happens to my 401K?

- Option 1: Keep your savings with your previous employer's 401K financial management institution (i.e. Fidelity, Vanguard etc)
- Option 2: Transfer your 401K assets to your new employers 401K plan (there may be a fee)
- Option 3: Roll over your 401K into an IRA

## Why is it important to start saving in my 401K immediately?

- Don't wait - Secure your financial future today! Ensure that your financial needs and standard of living are met during retirement and you can live your golden years with ease and comfort!

Employees whose companies offer a 401K retirement savings benefit should take full advantage of employer match programs (if offered) and contribute more than 10-30% of your paycheck to your 401K.



### 2023 Contribution Limits:

If under age 50, you can put up to \$22,500 in your 401K



If age 50 or older, you can put an additional \$7,500 in your 401K - called a "catch-up contribution"