8 steps to a healthy 401(k)

Saving for retirement doesn't need to be complicated or painful. Check out these tips on how 401(k) savings plans work and take advantage of the savings offered by your employer.

1. Start participating in your employer sponsored plan now: Time is on your side. The sooner you start contributing to a 401(k), the longer your money has to grow. Even if you only contribute 2 or 3 percent, it's a start.
2. Know your rights: By law, you are eligible to start contributing to a 401(k) plan after one year of service; your employer can't make you wait longer than that.
3. Pay yourself first: Out of sight, out of mind. Your contributions are taken directly out of your paycheck and deposited straight into your 401(k) plan.
4. Contribute to the max: It's simple, but true. The more money you put in a 401(k) plan, the faster it will grow. Participants can contribute up to maximum of $11,000 annually, although some company plans limit the contribution to a percentage of your salary. These plans are portable and can be rolled over into an IRA or to another 401(k) if you change jobs.
5. Free money: Many employers offer matching contributions. Take advantage! It's like a tax-free raise.
6. Pre-tax benefits: 401(k) contributions are not taxed until you pull your money out. Saving pre-tax gives you more money to invest. Because taxes take a large bite out of each dollar you earn, you have to save more after-tax dollars to get the same impact as pre-tax saving. Plus, saving pre-tax dollars lowers your taxable income, which means you'll pay less to the IRS.
7. Keep your hands off your retirement savings: Financial advisers warn against borrowing from your 401(k), even if it's to get rid of credit card debt. Essentially, you're robbing your retirement. If you do borrow, the loan has to be paid back in five years or you will be slapped with a 10-percent penalty. Plus, in most cases, if you leave your job, you'll also pay the penalties and tax unless you repay the loan in full.
8. Be flexible and look long-term: As the years go by, life changes; so should your retirement savings strategy. Review your 401(k) plan quarterly, and definitely annually to ensure it still meets your needs as retirement approaches.