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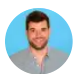
Your 401(k) match is 'free money'—but you might not be able to take it with you when you leave

Published Fri, Jun 23 2023•1:50 PM EDT



Ryan Ermey

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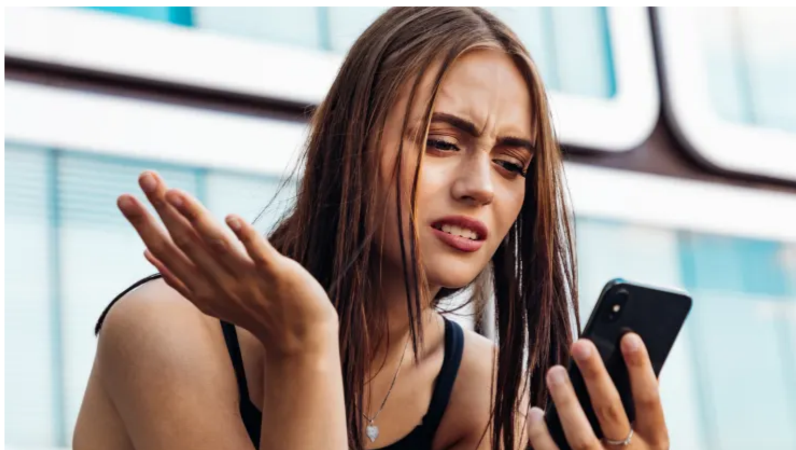

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If you're making ends meet, have stashed away money in case of emergencies and have funds left over to put toward your financial goals, such as saving for retirement and tackling debt, congrats!

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workplace retirement account to receive any matching contribution available. "It truly is free money," Kevin Brady, a certified financial planner and vice president at Wealthspire Advisors in New York City, told CNBC Make It.

But depending on how long you've worked for your employer, it may not be your money. Not yet anyway.

That's because your employer's contributions to your account come with a vesting schedule, which means if you leave the firm before working a certain number of years, you may not be able to take some or all of the matching money with you.

If this is news to you, you're not alone. While companies may be quick to advertise their generous 401(k) matching program, the not-so-generous caveats stipulating when you're actually entitled to

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the money can be harder to find, says Catherine Valega, a CFP with Green Bee Advisory in Winchester, Massachusetts.

"Our industry is broken. We make things way too difficult for the mere mortal to understand," says. "As an employee, you need to understand that there is something called a summary plan description, but no one knows that."

Here's what she and other financial pros say you should know about your 401(k) match.

How a 401(k) match works

First, a quick reminder of how 401(k) matches work and why financial planners love them so much.

If your company offers a 401(k), they may contribute to workers' accounts as an added benefit and a way to incentivize participation in the plan. Companies may offer a blanket contribution to all employee plans or match up to a certain dollar amount, but most commonly, they agree to match an employee's contributions up to a certain percentage of their salary.

Financial planners like to call this "free money," but you can also think about it in terms of a return on your investment. If your employer matches your entire

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contribution up to 6% of your salary per year, by contributing that 6%, you theoretically earn a 100% return on that investment.

That can make earning a match even more attractive than paying down credit card debt, which currently comes with an average interest rate north of 20%, according to Bankrate.

"I would invest enough to get the company match first, before paying off high interest rate loans," says Jeremy Finger, a CFP and founder of Riverbend Wealth Management. "You're making 100% on your money if you stay through the vesting schedule."

What is a 401(k) vesting schedule?

Any 401(k) match you receive from your employer likely comes with some strings attached. Namely, if you leave before spending a certain amount of time with the company, some or all of the contributions will fail to vest, or become your property.

"Employers want to offer a match, but they also want to reward loyalty," says Valega. "They want their employees to love coming to work, to feel good about it and to stay."

Under the Internal Revenue Code, companies looking to minimize what they pay out can generally offer one of two vesting models:

1. **Three-year cliff:** Under this vesting schedule, employees receive 100% of the company match once they've worked at the firm for three years. Leave the firm before that, and you'll get 0% of what your company contributed.
2. **Six-year graded:** With this plan, you don't get 100% of your match until six years of service. Under a common model, you get 0% after one year, 20% after two, 40% after three and so on.

Firms can offer more generous terms than these if they want. Maybe your match vests fully after one year. Maybe it's a sliding scale shorter than six years. To find out, you'll have to go to your plan's website and read your plan document or summary plan description.

How a vesting schedule affects your finances

If you're reviewing the terms of a 401(k) before starting a job, consider the odds that you'll be there for the long term, says Finger. "If you fully vest at six years and you think you have about a 50-50 chance

of getting that far, that's a 50% expected return," he says.

If you're already at a job, the timing of the vesting schedule could contribute to when and if you decide to leave. If you're a few months away from reaching a three-year cliff, it might be worth the difference between 0% and 100% of your match to stick around for a bit longer.

But while understanding your vesting schedule is important, the details of when you get your match shouldn't deter you from investing enough to get it. After all, some free money is better than none.

Even if you end up with none, your contributions to a 401(k) are yours whether they're matched or not. And deducting money from each paycheck to put toward a tax-advantaged retirement savings account is just about always a good idea, says Amy Miller, a CFP and senior vice president at Wealthspire Advisors.

In doing so, you get into the habit of investing regularly and automatically employing a strategy known as dollar-cost averaging: investing a set amount of money at regular intervals. In doing so, she says, you guarantee that you buy more shares when the market is down and fewer when stock prices are higher.

"It's just a great recipe for growing your retirement portfolio over time," Miller says.

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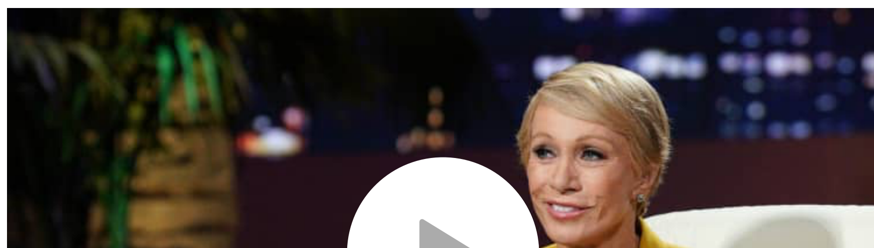

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