

Important 401(k) Terms to Know

Matching Rate:

This is the amount your employer will add to your contribution. For instance, a 50% match means your employer contributes \$0.50 for every \$1.00 you put in.

Matching Limitation:

The maximum percentage of your salary that your employer will match. For instance, if you contribute 7% of your salary to your 401(k) and your employer has a matching limitation of 3%, then they'll contribute, at their matching rate, just 3% of your salary. They don't match the remaining 4% you contribute.

Tax Deduction:

You fund your 401(k) with pre-tax dollars, meaning they are taken out before taxes are deducted from your paycheck. So, if you contribute \$4,000 this year to your 401(k) and you make \$50,000 per year, your adjusted gross income on your W-2 will be \$46,000.

Contribution Limit:

Since your contributions reduce your adjusted gross income, by law, you can only contribute up to a certain amount each year. This amount changes every year or so, depending on the inflation rate.

Vesting Schedule:

For companies that match a percentage of your 401(k) contributions, this schedule refers to the amount of time it takes for you to gain 100% ownership of your company's matching funds.

Hardship Withdrawal:

This is money you can take out of your 401(k) savings, given that you meet certain qualifying conditions. If you're younger than 59½, you'll have to pay 10% penalty for the loan, plus income tax, for the money you withdraw.

