Doron F. Eghbali Business Law Blog on Lawyers.com

How To Maximize Your Retirement Savings

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These are some tips on how to make the most of your retirement savings:

401(k) or Roth 401(k)

Roth401(k) - similar to Roth IRA - is invested with after-tax dollars. This means it makes sense for people expecting their income to rise in later years in life to consider seriously Roth 401 (K). The reason is when your income is less you pay less taxes and when the time to collect your Roth 401(k) arrives, you do not pay taxes on the compounded interest you receive.

However, if you are unsure as to what income bracket you will be in 40 years, then seek to invest both in 401(k) and Roth 401(k), if you can afford it and your company offers one. In fact, by investing in both 401 (k) versions you diversify in terms of your tax perspective and hedge against bets.

Develop and Stick with Your Investment Plan

Devise an investment plan and stick with it even though the market falters. Do not panic. It will pay off in the long run.

Do Not Pay for Investment Advice While Starting to Save

Most employers offer free calculators and guidelines to get you started with your retirement savings. So, do not pay for investment advice when you have just started to save for your retirement. This is because paying a percentage of your portfolio to have an adviser guide you when one has limited resources and portfolio at the start of one's career leaves you,practically, with nothing.

Do Not Touch Your 401(k) Savings Before You Retire

The reasons for not touching your investment savings before retirements are as follows:

1. Payment of extra fees and taxes as penalty for early withdrawal;
2. Loss of compound interest. Put it simply, instead of earning interest on the principal only year after year for 30 years; compound

interest makes it possible to earn interest on the principal and interest every year. For instance, if the principal is $100 at a fixed annual return of 5% for 30 years, then simple interest means every year you earn a paltry $5 on the $100 principal. This means after 30 years on the $100 you earn $150, that is $250 in total. However, when you earn compound interest on $100 at 5% annual fixed return, at the end of 30 years you will earn in total $432.19. This might look like a small difference. But, in the long run as you add to your principal and the amount of money increases, it could make a substantial difference.

Roll Over Your 401(K) when You Leave Your Job

It might be tempting to ask your former employer to write you a check, when you leave your job, but it will cost you a lot in taxes and penalties. The alternatives are:

- Stay with the administrator of your plan, as long as possible.
- If your employer fires you and you must take your funds somewhere else, roll the funds into an IRA or 401(K) at your new job. However, make sure you talk to plan administrators to adhere to rules and avoid penalties.