What's So Special About 401(k)s?

Should you care about National 401(k) Day? Celebrated on the Friday after Labor Day (symbolizing the transition from labor to retirement), this year (2025), it's Friday, Sept. 5.

Because 401(k)s are special to me personally, I'm all for a celebration. The first time I gave 401(k)s some real attention was decades ago when a client of mine, a lawyer, told me he was not participating in his 401(k) at work, even though the plan had a dollar-for-dollar match.

We talked, and I realized I needed some ammunition to convince him that he could not do as well saving for retirement on his own, no matter how capable he was as an investor -- you can't beat that dollar-for-dollar match. I walked over to the local bookstore to make an appropriate purchase and found not a single 401(k) book on the shelf.

You can guess where that led me. My very first book was "You and Your 401(k): How to Manage Your 401(k) for Maximum Returns," which was published by Simon & Schuster in 1996. The book compared a 401(k) contribution to an investment someone could make on his own outside of a 401(k).

I sent the manuscript to the then-president of the Profit-Sharing/401(k) Council of America just for fun. He came back with this quote, which appeared on the cover: "Americans must take control of their financial futures using tools like 401(k) plans. 'You and Your 401(k)' offers excellent practical ideas about how to maximize the benefits of saving and investing through 401(k)s."

The point is that Americans who work for companies offering 401(k)s do need to understand how 401(k)s work simply because these plans can do more for you than you can do on your own. That's why 401(k) Day exists, to "engage plan participants in retirement planning," according to the Plan Sponsor Council of America (tinyurl.com/4zbzx66z).

Getting back to my client, although he was a senior executive in a major company, he did not take the time to do the studying on his own. If we hadn't talked, he may not have taken advantage of the immediate compounding that a dollar-for-dollar match offered.

So, let's celebrate 401(k) Day together by asking yourself some important questions: Do you need to save for retirement? Are you participating in your company's 401(k)? Are you taking full advantage of your company's matching contribution? Are you maximizing your salary deferral? If you just started working at a new job, have you checked out eligibility requirements? Do you understand how pre-tax contributions affect income taxes? What about income taxes, especially when you start to withdraw funds?

Everyone who works for a company that sponsors a 401(k) plan needs to know the answers to these questions. You owe it to yourself to participate and maximize the benefits your plan offers.

After you do your initial homework, you'll find enrolling in the 401(k) easy enough. Your human resources department will help.

When you enroll, you'll have contributions made automatically through payroll deductions (salary deferrals). Just focusing on pre-tax contributions (as opposed to after-tax contributions), the dollar amount that you defer escapes your W-2. If you compare your W-2 before and after enrolling, you'll see your taxable income decline by the amount of your salary deferral. That translates into tax savings.

You'll choose investments from a menu offered by the plan. The 401(k) provider will offer information about the options available. If you have limited or no experience as an investor, consider target date funds if they are offered by the plan.

The idea is to have your 401(k) give you years of tax-advantaged and matched (potentially) savings for retirement. After retirement, withdrawals, after taxes, will help pay your bills.

Because I am a fan of 401(k)s as a tool to help fund retirement, I go one step further in my support of 401(k) education by sponsoring the national 401(k) Champion ® Essay Competition. Winners are announced on 401(k) Day. These are 401(k) participants who "love" their 401(k)s. If you are curious, check out the announcement of this year's winners at 401kchampion.com. And if you want to assist with this educational cause, let me know. I can always use help in spreading the word about how to take full advantage of the benefits 401(k)s offer.

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