

401k Terms Word Search

Answer Key

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■ 10 Terms & Definitions

<p>VESTING</p> <p>Vesting is the process by which an employee earns full ownership of employer contributions to a 401k plan over time. Employer matching funds are often subject to a vesting schedule — you must stay at the company for a certain number of years to keep them. Immediate vesting means</p>	<p>MATCHING</p> <p>Employer matching is when your company contributes to your 401k based on your own contributions. A common match is 50% of your contributions up to 6% of your salary. This is often described by financial educators as one of the most straightforward ways to increase retirement savi</p>
<p>ROTH</p> <p>A Roth 401k allows employees to contribute after-tax dollars, meaning contributions do not reduce taxable income today but qualified withdrawals in retirement are completely tax-free, including all growth. Roth accounts are generally more advantageous for younger workers who expe</p>	<p>ROLLOVER</p> <p>A rollover is the process of moving funds from one retirement account to another — typically from a 401k at a former employer to an IRA or a new employer's 401k. Direct rollovers transfer funds directly between accounts and avoid taxes and penalties. Failing to roll over properly</p>
<p>PRETAX</p> <p>Pre-tax contributions to a traditional 401k are deducted from your paycheck before income taxes are calculated, reducing your current taxable income. Every dollar contributed pre-tax saves you money now at your current marginal tax rate. The tradeoff is that withdrawals in retire</p>	<p>WITHDRAWAL</p> <p>A 401k withdrawal is when you take money out of your retirement account. Qualified withdrawals after age 59½ are taxed as ordinary income but avoid the 10% early withdrawal penalty. Early withdrawals (before 59½) are both taxed as income AND subject to a 10% penalty — making them</p>
<p>LIMIT</p> <p>The IRS sets annual contribution limits on how much can be contributed to a 401k. For 2024, the employee contribution limit is \$23,000, with an additional \$7,500 catch-up contribution allowed for those 50 and older. Total contributions (employee plus employer) cannot exceed \$69,0</p>	<p>FUND</p> <p>Within a 401k, you choose how your contributions are invested among the fund options your employer offers. Most plans include index funds (broad market exposure at low cost), target-date funds (automatically adjusting asset allocation as you approach retirement), bond funds, and</p>
<p>BALANCE</p> <p>Your 401k balance is the current total value of your retirement account, including your contributions, employer contributions, and all investment gains or losses. Monitoring your balance — without obsessing over short-term fluctuations — helps you track progress toward retirement</p>	<p>COMPOUND</p> <p>Compound growth inside a 401k is the primary mechanism that builds retirement wealth. Every dollar earned through investment returns is reinvested and earns its own returns in future periods. Because 401k contributions grow tax-deferred, there is no annual tax drag on gains — all</p>