

Should I start a 401(k) plan even though I just got my first job?

By Matt Starns

You'll face a flurry of financial challenges as you start your career. Earning an entry-level salary, making your first student loan payments, and taking on the full burden of living costs for the first time — all of these can make it seem like you have far more immediate concerns than saving for retirement. But knowing how your retirement plan works and making early, regular contributions can be an integral step to ensure financial security down the road.

Simply put, a 401(k) is a workplace retirement savings plan wherein your employer puts aside a portion of your paycheck to grow until you retire. Depending on the plan, your employer may match your contributions (up to a certain percentage of your income), a practice designed to further incentivize you to save for retirement.

There are two simple best practices when starting your 401(k):

1. Start saving now

You should begin contributing to your 401(k) as quickly as you're able.

"Contributing to your company's 401(k) plan is the single biggest factor in saving enough for retirement," says Janice Wells, a financial planner based in New York City. If you don't start contributing early, you run the risk of running out of money in your retirement — or worse, having to continue to work through the age of retirement.

A recent study showed employees who begin contributing to their 401(k) plans at age 25 accumulate, on average, a total of \$1.7 million by the time they retire. In contrast, those who waited until age 35 to start saving accumulated an average of just \$600,000.

This means that ten additional early years of saving yield, on average, a nearly three-fold increase in total retirement savings.

2015 college graduates will need to have a minimum of \$1.36 million in order to retire at age 75, based on an estimated future cost of living, taking into account food and health care costs. If eating out and other "fun" expenditures (think: vacations with your grandkids) are accounted for, that minimum estimate rises to \$2 million. **Saving early is your key to ensuring you have enough money to survive — and thrive — for the duration of your retirement.**

2. Max out your monthly contributions

Make sure you're saving the maximum amount possible each month in order to take advantage of the (practically) free money your employer is offering when they match your 401(k) contributions.

Even if your 401(k) is non-matching, it is still a good idea to start saving early and contribute as much as you can. In addition to getting a jump on your retirement nest egg, you'll start to establish responsible personal finance habits — something that, much like your new 401(k), will prove to be very valuable in the future.