How big does your 401k need to be?

**It depends on (among other things) the kind of lifestyle you hope to have in retirement. Here are 5 factors to consider in setting a 401k savings goal.**

For 2011, the maximum annual 401k contribution is $16,500, not including [**employer-matched contributions**](http://www.bing.com/search?q=401k+employer+match&FORM=MSMONY). If you are at least 50 years old, you can contribute an additional $5,500. Your plan may impose lower limits, so check with your plan administrator.

If you're older than 40 and haven't started saving for retirement, even these relatively large annual contributions may not be enough to reach your retirement goals. Here are five questions to help you decide whether your 401k plan will be sufficient to fund your retirement needs:

**1. What kind of lifestyle do you want in retirement?** You'll find rules of thumb indicating you need anywhere from 70% to more than 100% of your pre-retirement income during retirement. How much you will actually need depends upon your individual circumstances.

**What Not to Put in Your 401K**



For example, if your mortgage will be paid off and you plan to stay close to home mostly, 70% of your pre-retirement income may be sufficient. But if you plan to travel extensively, you may need 100% or more of your pre-retirement income. Also, the amount needed may change over the course of your retirement.

**2. How much can you expect from Social Security?** Social Security benefits were never designed to be the sole source of retirement income, but they still are a valuable source of income. Those with lower incomes will find that Social Security replaces a higher percentage of their pre-retirement income than those with higher incomes. For 2011, the maximum Social Security benefit for a worker retiring at age 66 is $2,366 per month.

**3. How much does your employer contribute to your 401k plan?** The $16,500 maximum contribution to your 401k plan does not include employer contributions. Employer-matched contributions vary by plan, but a typical match is 50 cents for every dollar contributed, up to a maximum of 6% of your pay.

Over the past several years, many employers have reduced or eliminated matching contributions. As the economy has emerged from recession, many of these companies have restored the company match to pre-recession levels. If your employer offers a match, make sure you take full advantage of it even if your company's plan is not great. A generous match can contribute substantially to your retirement savings. In addition to a direct match on your 401k contributions, your employer may make contributions to a [**profit-sharing plan**](http://www.bing.com/search?q=profit-sharing+plan&form=msmony) on your behalf.

**4. How much are you contributing to your 401k plan?** While earning solid returns on your 401k investments is important, studies have shown that the amount contributed is a bigger determinant of your ultimate plan balance. Be sure to contribute as much as you can, and try to increase your contribution percentage each year.

**5. What other sources of income can you count on in retirement?** If you already have other retirement assets, you might not need to count as heavily on your 401k plan. Other potential sources of retirement income might include a [**defined-benefit pension plan**](http://www.bing.com/search?q=defined-benefit+pension+plan&form=msmony), [**individual retirement accounts**](http://www.bing.com/search?q=individual+retirement+account&form=MSMONY), an inheritance or your spouse's retirement plan. If you have other investments, it is important to have a strategy that fully uses all of these retirement vehicles, both taxable and tax-deferred.