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Artemis Brief

Should You Front-Load Your 401(k) Contributions?

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Maximizing your 401(k) contributions is a smart financial move, but have you considered the timing of those contributions? Some people choose to front-load, contributing the maximum amount early in the calendar year rather than spreading it out evenly over 12 months. While this strategy has clear benefits, it also comes with a big potential drawback—missing out on employer matching.

There are two primary benefits of front-loading your 401(k) contributions:

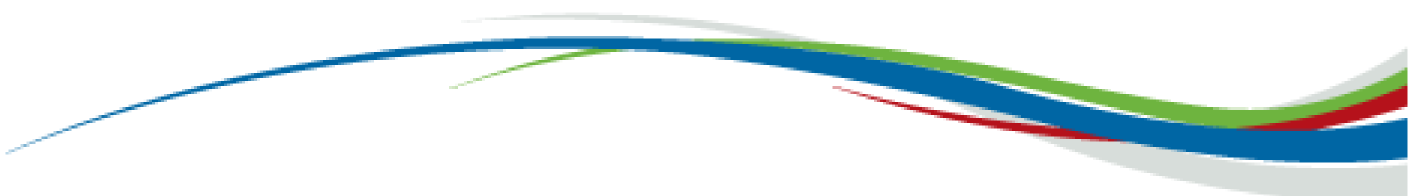
Maximize the Tax-Deferred Growth Potential. By contributing more at the beginning of the year, your investments have more time for tax-deferred growth. This may not seem like much in a given year, but do it every year for a few decades and you will notice the difference. The earlier you invest, the longer your contributions can take advantage of **compounding returns**, potentially boosting your retirement savings over time.

Peace of Mind. Maxing out your contributions early can give you peace of mind knowing you've hit your savings goal. This ensures that no matter what happens later in the year—like an unexpected layoff or changes in your income—you've already secured your full annual contribution.

The potential drawback of front-loading your 401(k) contributions is that you may end up missing out on the full employer matching contribution—here is why: many employers match 401(k) contributions **per paycheck** rather than offering a lump sum match at year-end. For example, an employer may match 50% of your contributions up to 6% of your salary—but only for the pay periods in which you contribute.

Example: Let's say you earn $100,000 annually, and your employer offers a **50% match on up to 6% of your salary** per paycheck (a typical matching program). Normally, if you contribute 6% each month ($500), your employer would contribute 3% each month ($250), giving you a total contribution of $750 per month or $9,000 over the full year ($6,000 of your own money and $3,000 from employer match). Effectively, you gave yourself a 3% raise in the form of additional retirement savings that you would not have received had you not contributed in the first place.

However, if you front-load your 401(k) contributions and max out early, say half-way through the year, you've stopped contributing for the rest of the year. For the second half of the year, your employer would not be able to match any contributions since you're no longer contributing. This means you would miss out on half of the matching dollars ($1,500 in the above example). You have left free money on the table.



The 'True-Up' Match: A Potential Solution

Some employers offer what's called a true-up match to ensure employees don't miss out on any employer contributions. A true-up match works by reviewing your total contributions at the end of the year and calculating how much the employer would have contributed if you had spaced your contributions evenly throughout the year. If you front-loaded your contributions and missed out on some employer matching in individual pay periods, the employer will make up the difference.

For example, if you front-load your contributions and max out by June, an employer with a true-up match would calculate what the total match would have been for the entire year and contribute any shortfall at year-end. This ensures you still receive the full match, even if you contributed unevenly throughout the year.

Conclusion

Front-loading your 401(k) contributions can be a great way to maximize investment growth and turbocharge your savings. However, it's essential to understand your employer's matching policy. Without a true-up match, you could miss out on a significant portion of your employer's contributions, leaving money on the table. Always check with your HR department or plan administrator to clarify how your company handles matching.

Lastly, you should consider your own cash flow needs. Front-loading your contributions early in the year can dramatically reduce your net take-home pay during these months. This might strain your cash flow and could leave you with less disposable income for living expenses or other financial priorities. On the flip side, if you max out your contributions early in the year, you'll have that much more net take-home pay later in the year when you're not contributing. Some people like this extra cash flow boost, especially knowing they've already met their 401(k) savings goal for the year.

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