A 401(k) Checkup to Keep Your Retirement Savings in Shape

An annual check-up at a time that works best for you (it doesn't have to be in the fall) is a good way to do this. Whenever you do it, it'll probably be a lot less uncomfortable than being asked to "turn your head and cough."

Seven-step Checkup

1. Review Your Goals and Plans -- Ask yourself, are you on track to reach your retirement goals? Have you even thought about retirement? What would you like to do in retirement? Are your goals and plans realistic and up-to-date? The American Savings Education Council (www.asec.org) has a "Ballpark Estimate" worksheet that can help you determine how much income you might need in retirement.

2. Maximize Your Contributions -- If you're not contributing the maximum possible to your plan, increase your contributions by 1% each time your get a pay increase. Most of us adjust our spending to our available income. By coordinating a 401(k) contribution increase with a new, larger paycheck, the pain should be less severe than if you try to adjust after getting used to the additional money.

Be sure to contribute enough to get a full employer matching contribution, providing one is offered. In many cases employers will match half or more of your contributions, up to a certain percentage of salary.

By the way, if you aren't even enrolled in the 401(k) plan at work, join now -- even if you are only a few years away from retirement. Enrolling will at least give you some extra savings in retirement. It's never too late to start saving.

3. Review Your Investment Allocation -- Ask yourself if your asset allocation is proper for your stage in life. Have you had a major life change in the past year?

As major life events unfold, folks commonly consider changing their allocations because their priorities change. For instance, some folks nearing retirement and worrying about the loss of principal may decide to shift some of their assets into more conservative investments.

4. Rebalance -- Rebalancing is the process of adjusting your portfolio's investments so they match your original allocation. You should have set up this allocation by considering your risk tolerance and developing an investment strategy that would maximize your potential returns for your risk level. When your portfolio gets out of balance, you may stray from your original risk profile. Rebalancing keeps your portfolio risk within your tolerance limits.

5. Check Beneficiaries -- Your spouse is automatically the primary beneficiary of your 401(k) plan. But, if you are divorced, widowed or remarried, you might consider reviewing your beneficiary designations to make sure the correct person is named. Also, if you want to name someone else (such as a child) as your primary beneficiary, and you are married, your spouse needs to sign a waiver of rights to your 401(k) benefits.

6. Check on Retirement Plan Changes -- Does your retirement plan offer new investments, new plan features, or new contribution limits? What can you do to take advantage of these opportunities? Also, be sure you have a copy of the Summary Plan Description (SPD) for your plan. The SPD describes, in plain language, how your plan works and what its features are. You can get a free copy from your personnel department.

7. Keep a Long-term View -- Rather than focusing all your attention on the dollar value of your investments, look at the changes in the number of units or shares. You may notice, over time, that even though your account value is down, you are buying larger quantities of shares of each fund with each contribution. By default what you are doing is dollar-cost averaging. This also has the effect of loading up your portfolio in advance of a rally. So, when the rally comes, you will eventually make money.

In the same vein, every five years or so, review your investment returns. Compare your funds' performance to their benchmarks and their peer groups. If yours are underperforming and your plan offers similar, better performing funds, consider changing your investments to the better funds. If this is not an option, ask your employer if your plan could offer more (or different) investments.

Done in 60 Minutes

The first time you do this checkup it may take you an afternoon or weekend. But the next one should be easier -- after the first time, subsequent checkups shouldn't take more than an hour, experts say.