

Timing Is Everything: What to Know About 401(k) Vesting



A 401(k) isn't just a tool for your own savings. It can also help you access additional retirement support from your employer. Many plans include employer contributions, including employer matching or discretionary employer contributions.

To make the most of this added benefit, it helps to understand how and when those contributions become fully yours – that is, when you become “vested.”

How Vesting Works

Vesting determines how much of those employer contributions you're entitled to keep if and when you leave your job. (The money you defer from your paycheck is always 100% yours.)

There are three common vesting structures:

- **Immediate vesting.** You have 100% ownership of employer contributions as soon as they are made to your account.
- **Cliff vesting.** You become completely (“fully”) vested all at once after a set period of time (e.g., after three years of service).
- **Graded vesting.** Your ownership increases incrementally over time, typically in stages, such as becoming 20% vested after two years and each year after that until you reach 100% or fully vested status.

So, now you may be asking, “What happens if I leave my employer before I’m vested in some or all of my employer contributions?” That’s an important consideration, because in that scenario you would likely forfeit those unvested amounts, and those forfeited amounts could reduce your savings balances down the road. As you think about managing your career and saving for retirement, then, be sure you factor in the impact of your vesting status.

Exceptions, Key Differences, and Where to Learn More

Vesting schedules vary by plan, and different types of employer contributions (e.g., matching dollars vs. profit sharing) may follow different schedules. That means you could be fully vested in one type of

contribution while still earning ownership in another.

Your plan's "summary plan description" document is a good place to find details about your vesting schedule. You can also see your vested and unvested balances on your retirement plan statement or website.

If you have questions, speak with your human resources department or your retirement plan recordkeeper or advisor. Understanding how your employer contributions work – and maximizing the value of those contributions – can help you take full advantage of one of the most important features of your retirement plan.

Sources:

<https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-vesting>

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