

Cramer discovers a big, fat flaw that could be lurking in your 401(k)



Many investors consider a 401(k) to be the holy grail of retirement investing, but Jim Cramer thinks it has some serious flaws.

"Your 401(k) is important, but it has its downsides — plenty of them," the "[Mad Money](#)" host said.

While Cramer does think that it is important to contribute to a 401(k), he is not part of the crowd that thinks you should max out the limit.

The biggest benefit to a 401(k) plan is that an employer will match at least some percentage of contributions up to a certain point. That's free money, which only a fool would not take advantage of.

However, a few downsides of a 401(k) are that some people complain about high management fees and administrative costs. For Cramer, the worst part about the 401(k) is the lack of control over his money and lack of choice in what he can invest in.

"I believe that the best way to invest, as you know, is to buy a diversified portfolio of individual stocks and do the homework on each one of them — ideally one hour per week

per stock — so you know when it is time to buy more, when it is time to sell something, and when it is time to sell everything," Cramer added.

The problem is that most 401(k) plans don't give you the option. Instead it will let you choose between a couple of stock and bond funds, and Cramer is generally not impressed with the selections.

But then there is this benefit of a company matching contributions to a certain point.

So, what the heck do you do?

That is why an individual retirement account (IRA) is so important. An IRA doesn't have the high management fees that many 401(k) plans do, and it will let investors invest the way they want.

Cramer's recommendation is to contribute as much money to your 401(k) that is needed to get the full company match, and then stop. At that point, the rest of retirement savings should go into an IRA until that is maxed out.

So, while a 401(k) plan has a lot going for it, Cramer wants investors to be aware that they can be deeply flawed. That is why he only recommends contributing the amount that allows you to get the full match from your employer, and then everything else should go into an IRA that has lower fees and more flexibility.

Questions for Cramer? Call Cramer: 1-800-743-CNBC

Want to take a deep dive into Cramer's world? Hit him up!

[Mad Money Twitter](#) - [Jim Cramer Twitter](#) - [Facebook](#) - [Instagram](#) - [Vine](#)

Questions, comments, suggestions for the "Mad Money" website? madcap@cnbc.com