

# 401(k)s – Might be the Best Thing since Sliced Bread

## Answers to Questions about One Great way to Grow Financially Secure

By:

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“What makes a 401(k) such a good program?”

While it certainly is not perfect, the 401(k) is very good platform for the average American to accumulate substantial resources for retirement.

A 401(k) allows employees to receive a number of valuable benefits from their participation:

- Contributions are tax deductible
- Assets grow tax deferred
- Contributions are “dollar cost averaged” into selected investments
- Most plans offer a diverse menu of investment selections
- Contributions are made on a payroll deduction basis – it doesn’t get any easier
- Many companies make matching contributions – “free” money to the employee

In sum, this is very good stuff!

“How much of my pay should I contribute to my 401(k)?”

That depends – what are your goals and what can your cash flow afford?

The maximum contribution to a 401(k) this year is about \$18,000 – this minimum is zero – so your decision of how much to contribute will fall within that range. If your goal is to accumulate the maximum number of dollars possible then your choice is easy – you go for the max. If your cash flow does not permit you to maximize your contributions, contribute what you are able and then “grow” into higher contributions as your income increases.

If your goal is not the “max”, but some target income in retirement, you will need to (or have done for you) calculate the appropriate contribution that will likely reach your goal.

Keep in mind, if you choose not to contribute enough to collect some/all of your company match – you are walking away from free money. That doesn't sound like an intelligent choice to me.

**“What should I do with my 401(k) that's still with my old employer?”**

You have at least three options – leave it where it is; roll it to your current employer's 401(k); or roll it to an IRA.

Of these three options, the one I find most suitable for 93% of my clients is rolling the assets into an IRA. One of the primary advantages of an IRA rollover is that you may select from nearly the entire available universe of investments for your money. If you stay in your former employer's plan or go to your current employer's plan you will always be selecting from a limited number of investment options chosen by someone other than you.

**I don't work for a company with a 401(k) plan, I am self-employed. Am I left out of all this good stuff?”**

Not now. In recent years, many investment firms have created plans designed specifically for self-employed individuals, sole practitioners, independent contractors etc. Though the plans go by many brand names, they are all intended to serve the 401(k) needs of the individual. I believe you will find most of these plans very cost effective for your needs and very attractive in the dollars you will be able to tuck away for your financial future.

**“My company's plan's investments really stink. Isn't there some law about the number and quality of investment options they have to give us?”**

Unfortunately, no. As the law is currently written, your employer doesn't have to give you any options at all.

Having said that, keep in mind that your employer should really want you to be happy with your 401(k). He/she is putting some considerable effort into providing you with this employee benefit and they would certainly wish to gain some goodwill from their employees for their efforts. It will cost your employer no more (maybe even less) to provide you and your fellow employees with an outstanding plan with wonderful offerings. Your employer might not know that.

You might try suggesting to the HR Department that they check with a financial advisor and obtain some new ideas. Remember the folks in HR are in the same plan you are – they want it to be as good as it can be.

“How do I know what investments to choose?”

To be honest, I am not sure how you will know without a little help.

I would guess that less than one percent of the “self chosen” plan allocations I have seen are even close to being appropriate. In other words, everybody needs some professional guidance in setting up and monitoring their 401(k) investment selections. I believe a qualified financial advisor to be the best choice, but it is by no means the only choice.

Many 401(k) sponsors provide written material to guide employees; others offer on-line guidance, and some contract with internet based software packages to provide assistance. It is very important that you create a sound strategy appropriate for you – no matter where you get that advice.