

## **401(k) What's It All About?**

According to the legal definition, a 401(k) is a retirement savings program provided by your employer in which your savings are not immediately subject to federal income taxes and in many cases state income taxes. But it is also much more. Your 401(k) plan is a great retirement savings choice that provides benefits no other program offers, making it the most successful retirement savings approach available today.

### ***Eight Reasons Why 401(k) Is Right for You***

1. *In a 401(k) plan, you decide how much of your paycheck to save.* You chose the contribution amount, up to the government's generous maximum. This maximum increases annually with inflation: In 2007, the maximum will be \$15,500 for regular savers or a \$20,500 maximum contribution if you are over 50 years old.
2. *401(k) saving is effortless.* Your employer will automatically deduct from your paycheck the amount you choose to put away, saving you the time and effort necessary to open an individual savings account.
3. *401(k) makes investing easy.* You invest your money in funds you choose from investment options prescreened by your employer, saving you time and expense, while reducing risk. Or your employer may invest your money for you, making it even easier.
4. *Your savings are increased by your employer's matching contribution.* The average employer matches 50 percent of your contribution, or 50 cents for every \$1 you save.
5. *Contributions to 401(k) accounts take place pretax.* This means you can invest much more because the government doesn't impose income taxes until the money is withdrawn. This also means the growth of your investments will be on a larger pool of money than in an after-tax plan, and you might reduce your income tax bracket as well.
6. *Earnings are also tax-sheltered.* Because 401(k) plan investment earnings are reinvested without immediate taxation, the account can grow at a considerably accelerated rate.
7. *Investments are long term.* By investing your money over many years, as you do in a 401(k) plan, you can receive a far greater rate of return than you could in any passbook savings account.
8. *Your 401(k) account belongs to you.* When you change jobs you take the money with you in the form of a rollover to your new employer's 401(k) plan or a rollover to another tax shelter, such as an IRA.

I can boil it down even further, to just one word: growth. 401(k) plans are the right choice for anyone who wishes to have a successful retirement because these plans allow for incredible financial growth. In fact, the growth opportunities of the 401(k) plan are so impressive that both the federal government and your employer support them.

## ***It's a Win-Win World***

You'd heard that 401(k) plans are a fast, efficient way to save for retirement, offering the most control and the best investment options. Now you know that it's true. 401(k) plans allow you to save money on a pretax basis at the highest limit available, your contributions will often be matched by employer funds, and your long-term investment horizon will really pay off. But you still wonder: What's the catch?

Before you start combing the fine print looking for strings, special clauses, and pitfalls, let me save you some trouble. The 401(k) plan is the genuine article, a saving and investing vehicle that your employer wholeheartedly supports. No matter when you start participating, how much you put aside, or how you decide to invest, the 401(k) plan can only help you with your retirement goals. And your company is doing its best to help as well. In fact, if your company offers a match, it is actually rewarding you every time you save.

Are you still suspicious? Perhaps you're wondering exactly why your company is so supportive and what they are getting from this deal. Well, you're right to think that there are employer advantages to the 401(k) plan. By offering a 401(k) plan, your company gets a huge benefit-satisfied, high-quality workers like you.

On one hand, your employer wants high-quality, dedicated workers like yourself because you ensure company success. On the other hand, high turnover leads to high costs in finding and training new employees. So your company is both saving money and improving company success when it keeps you happy. How can it do that? It does so by giving you what you want—a savings plan that provides more growth of your money, more control, and lowers taxes. 401(k) plans are a win-win solution.

It's a whole new world of employer-employee relations, with 401(k) plans as just one of the goodwill ambassadors now being offered by companies. These plans are part of an employer-employee partnership helping American workers build personal wealth and create a financially secure retirement.

## ***The Employer-Employee Partnership***

Since the industrial revolution, when work began moving from the farm to offices and factories, there have been two main theories of employee management. If you haven't experienced these directly, I am sure you can imagine how it felt to be working under each mind-set:

- Workers are components to be trained to perform in a standardized way, under strict supervision. This is the philosophy of hierarchy from the top down, where owners/managers expect workers to do what they're told.
- Workers and owners/managers are adversaries in a constant struggle for advantage, with strikes and power plays on both sides.

Today there's a better way - the employer-employee partnership.

Many companies have a history of partnership with their employees. Since 1904, the Procter & Gamble Company has offered some kind of employer-sponsored savings plan to empower workers. The result of such plans is a more satisfied work force, a stronger connection of workers to company goals, a more efficient work ethic, and a competitive edge for the company in the marketplace. The value of cooperation between employers and employees has been its own advertisement, and such plans are now widely used by employers to attract high-quality workers, motivate their already existing workers, and keep them on staff. In essence, 401(k) plans promote a win-win atmosphere for success.

In addition, the practice of offering 401(k) or other employer-based savings plans is about to explode onto the world economy. International competition has focused attention on quality, as well as price and quantity. Technology is increasing productivity, making each worker a bigger part of company success. The inefficient practice of limiting job responsibility and surrounding workers with expensive supervisors can't ensure success in today's rapidly changing marketplace.

The future is participation, cooperation, inclusion, partnership, self-management, individual responsibility, and shared decision-making. Thanks to your employer, you now have the freedom, opportunity, and information you need to achieve your retirement goals.

### ***The Employer-Employee Partnership***

So how do you use 401(k) to make your retirement dreams come true? These ten simple steps will take you where you want to be. Copy this list and post it on the fridge, near your desk, or anywhere it will remind you that you are in charge of your retirement future.

1. *Take control.* Only you can ensure that you'll have enough money saved for your retirement.
2. *Know what you'll need.* Experts estimate that you'll need at least 80 percent of your pre-retirement income to maintain the same standard of living once you stop working. Your retirement income will need to last many years. If you retire at age 55, you can expect to live at least another 25 years.
3. *Start now.* Time is on your side. The sooner you start, the longer your money has to grow. It's never too early to start saving for a secure retirement.
4. *Participate.* The employer-sponsored 401(k) plan is convenient, easy to use, and one of the best retirement savings deals out there. Join today!
5. *Contribute to the max.* The more money you put in a 401(k) plan, the more you'll get out—especially because many companies match part or all of their employees' retirement contributions.

6. *Invest pretax.* Saving pretax gives you more money to invest. Because taxes take a large bite out of each dollar you earn, you have to save more after-tax dollars to get the same impact as pretax saving. Plus, saving pretax lowers your taxable income, which means that you'll pay less to the IRS on April 15th. The government also offers an extra tax incentive for lower income workers: You may be eligible to receive a tax credit of up to \$1,000 when you save in a 401(k).

7. *Pay yourself first.* Out of sight, out of mind. You won't miss the money you're saving if it's deposited straight into your 401(k) plan, and the government, your employers, and your creditors won't be able to touch it.

8. *Keep your hands off.* Don't touch your retirement savings. You'll not only avoid tax penalties for using the money early, you'll also give your investments more time to grow. Don't take a loan or withdrawal from your 401(k) plan unless it's a real emergency. And if you change jobs, move your money into your new employers plan, leave it in your former employer's plan or rollover any amount you receive.

9. *Look long term.* Low-risk investments usually mean low returns and may put your retirement finances in danger down the line. For successful saving, choose investments that will beat inflation over the long haul.

10. *Be flexible.* As the years go by, life changes. So should your retirement savings strategy. Review it annually to ensure it still meets your needs as retirement approaches.