



## Helping Employees Make the Most of Their 401(k)/403(b) Plans

### Making the Most of Your 401(k)

After three straight years of losses in the stock market, many 401(k) participants are getting discouraged. Why save at all if you're only going to lose it? But now--more than ever--you need to resist that kind of thinking and, if anything, increase the amount you are saving in your company retirement plan.

Maybe you've learned something about your risk tolerance over the past few years. The stock market is not an all-or-nothing proposition. Why not put some of your money in stock funds and some in fixed income? A more moderate investing strategy will help you avoid some of the extreme volatility you've just experienced in the stock market.

If you find that you are now "behind" in your retirement-planning process, there's good news from the tax-law front. You can contribute even more in 2004. Here are six steps to making the most of your 401(k)--and securing your financial freedom in retirement.

#### **1. Focus on Your Goal**

Just what is it that you want your retirement dollars to do? As you get closer to your retirement goal, you may want to work on preserving your portfolio. As a result, you may find you no longer want to take on a lot of risk. So think about what you want your investments to do. And if you are now in a position to preserve your wealth, don't be afraid to shift more of your investments to bonds or cash.

#### **2. Contribute Money NOW**

Most of us have thought at one time or another, "I just don't have the extra money right now to contribute to my plan." Don't believe it! Even if you start by contributing just 1% of your pay, you must make your financial future a priority.

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### **3. Choose Investment Options Wisely**

What do people do when they don't know which investments to pick in their plans? They choose them all. Bad idea. This isn't like a smorgasbord where you can try a little of everything. It's important that you understand your investment choices and choose the ones that are right for you. If you are not confident with your investment knowledge, don't be afraid to seek professional help. Find an advisor who is reputable and knowledgeable on asset allocation and investments.

### **4. Think about Your Plan When You Change Jobs**

Most of us change jobs about every four or five years. There are a lot of things to consider when starting a new job. How much will I make? What insurance coverage will I have? Should I drive or take the train? But too frequently people forget to think about how a new job will affect their retirement plan. Even worse, some people just tell their previous employer to give them the cash in their 401(k) account. Big mistake.

### **5. Don't Borrow from Your Plan**

The ability to take a loan from your retirement account is often touted as a great feature of some 401(k) plans. But except for extreme circumstances, it's generally a bad idea. First of all, you are derailing your savings plan. With less money in the account, there is less that is compounding for your future. And if you are paying back your loan, it's going to be a lot harder to pay the loan *and* maintain your current contribution rate. Finally, you actually end up paying tax twice on the money you put back in your account.

### **6. Keep Beneficiary Information Up to Date**

One of the things we always do in financial planning is review your beneficiary designations. And that goes for your 401(k), too. People sometimes wind up with deceased parents, friends from college, or ex-spouses listed as current beneficiaries. Frequently this happens with accounts that were opened when the person was very young.

Source: Morningstar

**Call for a free half-hour analysis of your retirement account.**

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