

## THIS WAY FORWARD

## YOUR WEALTH



## 401(k) or BUST: Should Savings Plan Play a Continued Role in Your Future?

>>> *Don't be disheartened by negative news*

By Robert James Giordano

The recent unrest in the financial markets has completely shaken investor confidence. At hearings to study the impact of the financial crisis on U.S. workers' retirement security, U.S. Rep. George Miller, chairman of the House Education and Labor Committee, said, "In the past 12 months, more than half a trillion dollars have evaporated from 401(k) plans as a result of turmoil in the financial markets." While navigating through these times of uncertainty and volatility, should 401(k)s continue to play an integral role in the overall financial plan?

The answer is yes. The most obvious and overlooked benefit to utilizing a 401(k) is the tax deduction. Employees can elect to defer a portion of their salary or bonus up to a maximum of \$15,500 for 2008. Investors simply recapture tax dollars, and earnings accumulate tax deferred. In many cases, employers match contributions, offering incentives for additional retirement dollars. Investors who are considering selling positions and taking early dis-

tributions should also understand the ramifications. If money is withdrawn before age 59½, in addition to paying ordinary income tax, a 10 percent penalty tax may also be applied.

Most 401(k) plans are self directed which means the investment risk remains solely on the employee. This is where the average investor runs into problems. Many know very little about asset allocation, diversification and creating a portfolio that fits their needs. Investors should have a clear understanding of their goals and objectives before committing to their investment choices. Reviewing allocations is a task that should be completed annually.

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Bond and fixed income components are great alternatives as retirement draws closer. No matter the age of the investor, portfolios should be built for a certain time frame and based on the risk profile of the investor. Those who have little tolerance for large swings in the market should not be heavily invested in equities. On the contrary, those who can stand volatility should lean more towards stock positions. Diversification in most cases helps minimize risk in falling markets.

Also, 401(k) plans can vary significantly in the number of investment choices they offer. Some plans limit enrollees to one investment company, offering few investment choices and thus less diversification. However, the option to complete an in-force tax free rollover into a Traditional IRA can open a world of investment alternatives and the opportunity to better protect the investment as well. Depending on the situation however, leaving monies in a 401(k) may be advantageous. For example, assets are protected from creditors. Also, the employee may begin withdrawing money at age 55 instead of 59 ½ if he or she meets certain criteria.

We understand that the markets are delicate, but building a portfolio that is diversified with long-term objectives is practical. **NJB**

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