

**AS THE NEW YEAR BEGINS,
MAKE SURE YOU'RE NOT MAKING MISTAKES WITH YOUR
401(K)**

The temptation of a company 401(k), like any passive investment, is to let it sit for years without a checkup. But it makes sense to set a time each year when you can look over your retirement investments and make sure they're still right for you.

This is particularly important now that the Pension Protection Act of 2006, signed earlier this year, will allow "qualified" fiduciary advisers to deliver personally tailored investment advice in person, by phone or electronically for 401(k)s, IRAs, Archer medical savings accounts, health savings accounts and Coverdell education savings accounts. While that rule remains controversial since it will allow companies who provide the investments to also provide guidance on their selection, it signals an era where more help might be available to 401(k) investors in choosing and realigning their investment choices over time.

In the meantime, though, it's a good idea to make sure you're not making the most common mistakes people make with their 401(k)s:

Failing to join: According to 2006 data from the Profit Sharing/401(k) Council of America, more than 22 percent of eligible workers don't participate in available 401(k) plans. Since many employers match employee contributions, those who fail to sign up are essentially passing up free money.

Failing to save while waiting to join: A significant number of companies don't let you join the 401(k) until you've been working there a year. If that's the case, get in the habit of putting money away for retirement anyway. Either start an individual IRA with the funds you would put in the company plan, or set aside money in a savings account so you can supplement your cash flow so you can put the maximum amount into your 401(k) once you're allowed to join.

Failing to contribute the maximum: Not every employee can afford to contribute the maximum allowed by the plan, but try. In 2007, the maximum 401(k) contribution will be \$15,500, and for those over 50, you can make an additional catch-up contribution of \$5,000.

Letting the company do everything: More companies are automatically enrolling their workers in their 401(k) plans, but some workers fail to take charge afterward. They don't know how much they're allowed to contribute and they don't discuss or review the types of investments they have in relation to their age or retirement plans. It might make sense to connect with a financial planner to review those choices with you.

Poor diversification over time: It's necessary to do a yearly checkup on all your retirement savings – 401(k)s, individual IRAs and other investments fueling your retirement goals to make sure you're on track.

Relying on the 401(k) alone: The dwindling number of traditional pension plans and the growing number of 401(k) plans can't be relied upon as a single source of retirement dollars. You must invest outside your company plans, period.

Over-investing in company stock: The Enron debacle is becoming a distant memory for many, but it's an important event to remember for what it did to thousands of employees who put

all their retirement eggs in one basket. Most financial planners advise that you put no more than 15-20 percent of your whole 401(k) portfolio in company stock.

Borrowing from the 401(k): The Employee Benefits Research Institute (EBRI) reports that employees contribute more to plans that let them borrow. Don't be fooled. A 401(k) shouldn't be a house fund or a source of emergency cash. You're taking money out of the account that otherwise would grow tax-deferred, and if you fail to pay back the money you could face income taxes and penalties. Instead, build an outside emergency fund of three to six months of living expenses you can draw on.

Cashing out: Some workers think it's a great idea to treat a 401(k) as a windfall for when they quit a job. Don't do it. You'll pay huge penalties and lose your retirement savings momentum.

"Losing" your old 401(k) accounts: Maybe you've changed jobs several times and never got around to moving older, smaller 401(k) accounts from past employers to current ones or into a self-directed retirement account. Always get advice about 401(k) funds when you leave an employer.

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