

401(k) - A Great Way To Save!

If you are not participating in your company 401(k) you really should ask yourself why. You say you can't afford to contribute to the plan? You feel you can't squeeze one more penny out of your take home pay.

What you probably don't know is the federal government will help you save by allowing contributions to the plan to be deposited before calculating federal income taxes. For instance, someone who earns \$500.00 in a pay period can deposit as little as 1% or \$5.00 to their 401(k). Their taxes are calculated on only \$495.00. You are not taxed on the \$5.00 you deposited to the plan or the interest you earn until you decide to use the money. Normally this occurs at retirement when you may be in a lower tax bracket.

You don't have to save much for it to add up quickly. Most plans only require a contribution of 1 to 15 percent of your gross wages. The trick is to start saving something. Most 401(k)'s allow you to select your own investments. You choose from conservative to very aggressive funds. And, you can move your money around between these accounts often. Question: Where can you invest as little as \$5.00 in an aggressive stock equity account that may average a 15% to 20% return? Answer: Your 401(k) plan.

One thing to remember is this money is earmarked for retirement. So, unless your plan allows you to exercise a loan option there is a federal penalty of 10% if you qualify for a hardship withdrawal before age 59 1/2. In addition you'll be expected to pay income taxes on the amount you withdraw from your account.

So, take advantage of your 401(k). There is no time like the present to get started. You say you don't have a 401(k) plan? Setting one up is easier than you may think. Call your pension specialist for details on starting one at your company.

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