

WHY YOU SHOULD KEEP CONTRIBUTING TO YOUR 401(k)

A down market is no time to pull your money out or cut contributions.

With the way the market is behaving, you may be tempted to pull money out of your 401(k) right now or greatly reduce your contributions. If you're considering such a move, please reconsider it.

Don't stop saving for retirement. Even if you think you're wealthy enough to forego putting money in your 401(k), you could end up seriously shortchanging your retirement savings potential by reducing your retirement plan balance or elective salary deferrals.

A 401(k) plan is a great retirement savings vehicle - and the fact is that most Americans have not saved enough for their retirement years. Additionally, if you withdraw money from a 401(k) plan before age 59½, you'll face a 10% tax penalty (with few exceptions) and you may end up spending money today that could have enjoyed tax-deferred compounding in the future.¹

Don't expose more of your money to taxes. Usually, contributions to a 401(k) are tax-deductible.² If you decide not to make those contributions, here's a consequence: the IRS and your state government will claim more of your income. So you'll wind up with less money in your wallet today and less money in your retirement account.

Don't lose out on a match. Will your employer match your contributions - say, a dollar-for-dollar match on the first 3% of salary? If you make \$60,000 per year, 3% is \$1,800. Would you throw away \$1,800 worth of free money each year? You shouldn't, especially given that this money will grow tax-deferred.¹

Do keep contributing steadily. It's a good idea to keep up the dollar cost averaging and continue to make steady month-to-month or paycheck-to-paycheck salary deferrals. In all probability, this is central to your financial plan - and how will you amass the retirement savings you need if you stop contributing? Sure, there are other ways to build retirement savings, but dollar-cost-averaged contributions to a 401(k) represent a consistent, recurring way to get that job done.

If you contribute to your 401(k) plan through a dollar cost averaging approach, your investment dollar is buying shares at a lower price in this down market - and it is also buying more shares for your money. That could put you in a really good position when the market rebounds.

It's a good idea to keep contributing even if you are falling behind financially. Should you pay down debts with your 401(k) assets? Only as a last resort. In fact, if you are looking at a bankruptcy or similar financial pressures, a 401(k) account is a really good place to put some of your money (the 2008 contribution limit is \$15,500, with a \$5,000 ceiling on additional "catch-up" contributions for workers 50 and older).³

Pension plan, IRA and 401(k) assets are protected in bankruptcy proceedings in most states.⁴

Do review your goals with your financial advisor. Look at your time horizon. Look at your overall financial plan. Whether you are nearing retirement or far away from it, you will see that your 401(k) is a vital tool for pursuing your financial objectives. So don't be discouraged by the short-term headlines; abide by the long-term plan created personally for you.

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Citations.

¹ irs.gov/taxtopics/tc424.html x [11/7/08]

² fool.com/personal-finance/retirement/2008/10/15/your-retirement-is-now-a-lot-more-complicated.aspx [10/15/08]

³ buffalonews.com/businesstoday/businessfinance/story/481670.html [11/2/08]

⁴ nolo.com/article.cfm/pg/2/objectId/1E5D82D5-6576-491F-B763445E2CB1BE60/catId/462A9501-9B21-4E09-A08C5A7B8AF51A79/213/161/CHK/ [11/7/08]