Table of Contents

Introduction ................................................................. 1
About This Book ............................................................. 1
Conventions Used in This Book ........................................ 3
Foolish Assumptions ......................................................... 3
How This Book Is Organized ............................................. 3
Part I: Getting Started ...................................................... 4
Part II: Finding an Investment Strategy 
  That Lets You Sleep at Night ........................................ 4
Part III: Getting Your Hands on Your Money ................. 4
Part IV: Floor Plans of the Other Types 
  of “4” Plans .............................................................. 4
Part V: From the Employer’s Perspective: 
  Finding the Right Plan .............................................. 5
Part VI: The Part of Tens ................................................. 5
Icons Used in This Book ................................................... 5
Where to Go from Here .................................................. 6

Part I: Getting Started .................................................... 7
Chapter 1: Benefiting from Your 401(k) .................... 9
  Defining What a 401(k) Does for You ......................... 10
  Lowers how much tax you pay ................................... 10
  Gets you something extra from your employer .......... 14
  Saving Without Tears ................................................... 15
  Taking Your Savings with You When You Change Jobs .... 16
  Letting the Pros Work for You ...................................... 16
  Buying More When Prices Are Low ......................... 17
  Improving Your Chances of an Ideal Retirement .......... 18
  Protecting Your Money ............................................... 18
  Meeting minimum standards ....................................... 18
  Avoiding losses in bankruptcy .................................. 20
  Watching Out for Potential Pitfalls ......................... 20
  Withdrawing money while you’re working 
    is difficult ............................................................ 21
  Taking money out before 59½ costs more ............... 21
  Earning more may mean contributing less ............. 22
  Being at the mercy of your plan .............................. 22
  Telling the Employer’s Point of View ...................... 22
Chapter 2: Understanding the Important Features of Your 401(k)  ................................................................. 23

How Much Your Employer Contributes ........................................ 24
The match game: Employer matching contribution ......................... 25
A little something extra: Employer non-matching contribution .......... 27
How Much You Can Contribute .................................................. 27
What Uncle Sam allows (he’s extra generous if you’re 50 or older) .... 28
Percent-of-pay limit .................................................................. 29
Vesting: When Your Employer’s Contribution Is Yours to Keep ......... 30
Vesting of matching contributions ................................................ 31
Vesting of non-matching contributions ......................................... 32
Exceptions (You knew this was coming, right?) .............................. 32
When You Can Start Participating ................................................ 33
Accessing Your 401(k) Plan Money While Working ........................... 33
What Investments You Can Choose .............................................. 34
How Much You Pay for Plan Expenses ........................................ 35
Administrative functions ............................................................... 37
Investment management .............................................................. 38
Benefit transactions .................................................................. 39
Education and advice ................................................................ 40
Trying to Improve Shortcomings in Your Plan ................................. 41
Poor investment performance ...................................................... 42
Lack of available information .................................................... 42
Not enough funds or not the right funds ..................................... 45

Chapter 3: Signing Up for Your 401(k) ..................................... 49

Figuring Out Whether You’re Eligible ......................................... 50
Sometimes you play a waiting game ............................................. 50
Sometimes you can’t join at all .................................................... 51
Sometimes you’re automatically in .............................................. 52
Determining How Much of Your Salary to Put Aside ................. 52
Gauging the limits of the law ....................................................... 53
Measuring your plan’s maximums .............................................. 54
Estimating what your budget can afford ..................................... 57
Getting the most from your employer matching contribution ....... 59
Deciding How to Invest Your Money .......................................... 61
Naming a Beneficiary ................................................................. 62
Your spouse: The go-to person .................................................. 63
Your children ........................................................................... 63
Reviewing your choices .............................................................. 64
Part II: Finding an Investment Strategy
That Lets You Sleep at Night .........................65

Chapter 4: Developing a Savings Plan ............67

Setting a Target Date for Retirement .................68
Determine when you can access
retirement income .............................................69
Figuring out what you'll do when you retire .........72
Keeping the family gene pool in mind ..................73
Calculating How Big Your Nest Egg Should Be .......73
If you are retiring in the near future .................75
If your retirement is farther off .........................75
Using a retirement calculator ............................77
Developing Your Retirement Savings Plan ..........78
Cutting down on your expenses .......................78
Considering sample plans .................................80
Sticking with your retirement savings plan
for the long haul .............................................84

Chapter 5: Building Wealth by
Taking Reasonable Risks .................................87

Defining Some Investment Basics ......................87
Debt and equity .................................................88
Taking a dip in the mutual fund pool .................89
Return of the mummy ... er ... mutual funds ..........90
Diversification .................................................91
Classifying Different Types of Risk ....................93
The risk of losing more than you can stand .........93
The risk of losing your entire investment ..........94
The risk of owning too much company stock .......95
The risk of not having enough money
to live on during your retirement .....................97
Understanding the Risk-Reward Relationship ......98
Deciding How Much Risk You Can Stand ..........99

Chapter 6: Selecting Investments ...................103

Looking Over the Investment Menu ....................104
Money market funds: Show me the money ..........105
Guaranteed investment contracts and
stable value funds ............................................105
Bond funds: Single portfolio seeks
stable relationship ...........................................106
Balanced funds: One-stop shopping .................107
Stock funds: A feather in your cap ...................107
Company stock funds: Don’t get burned .....110
Brokerage window: Don’t fence me in ..........111
Different Strokes for Different Folks .............112
Baking Your Asset Allocation Pie ..................113
Check your ingredients and avoid these
common mistakes ...........................................115
Open the oven door once in a while to
check your progress .......................................119
Make sure that your pie complements
the rest of the meal ........................................120
Seeking Help from the Pros (and We Don’t
Mean Julia Child) ............................................121
Finding books and publications ......................121
Consulting a real live person .......................122
Going online for info ....................................122

Part III: Getting Your Hands on
Your Money ............................................125

Chapter 7: Putting Your Hand in
the 401(k)ookie Jar .................................127
Hey, Self, Can You Spare a Dime? .................128
Defining a hardship ....................................128
Withdrawing the money: How much? ............129
Calculating the tax you owe ........................129
Wait, there’s more: Anticipating
longer-term consequences ............................131
Dipping into Your 401(k) Money to
Buy Your First Home ................................132
Both a Borrower and a Lender Be ..................133
Give one good reason ..............................133
Figuring out how much you can borrow .......133
Determining how much interest you pay ........134
Paying the piper: Repayment rules ...............134
To Loan or Not to Loan (to Yourself, That Is) ....135
Deciding Whether to Take a Hardship Withdrawal
or a Loan ....................................................136
Using 401(k) Money for Other Things — Good Idea? ....137

Chapter 8: Weighing Your Options When
You Leave Your Employer .......................139
A Rolling 401(k) Gathers No Taxes ...............140
Account size matters ..................................141
Getting the skinny on IRAs .......................141
# Table of Contents

Rolling over into an IRA ..............................................145
Rolling over into another employer’s plan ..................147
Playing the waiting game ............................................148
Never Can Say Goodbye: Leaving Money in
Your Old Employer’s Plan .................................................149
Withdrawing the Money with a Lump (Sum)
in Your Throat ....................................................................150
Special Company Stock Considerations .........................151

## Chapter 9: Living Beyond the Gold Watch ...........153

Decisions, Decisions: What to Do
with Your 401(k) Money ....................................................154
Being older can save you money ..................................155
Foiling the dreaded early withdrawal penalty ...........156
Leaving money with your former employer ................157
Paying Uncle Sam His Due: Required Withdrawals ..........158
Developing a Strategy to Deal with the Tax Man ..........160
Which comes first: Plucking the chicken
or emptying the nest egg? ........................................160
More on that darned company stock ......................161
Managing Your Investments in Retirement .................162
Live long and prosper ................................................163
Be realistic about your expectations .........................163
Managing Risk and Maximizing Return ....................164
Living within Your Means for Your Lifetime ..........166
Row, Row, Row Your Boat, Gently Down
the Income Stream ......................................................169
IRA withdrawals .........................................................169
The annuity option ....................................................170
Your home is your asset ........................................171

## Part IV: Floor Plans of the Other Types
of “4” Plans .........................................................173

Chapter 10: Making Sense of the
Bizarre 403(b)azaar ................................................175
Different Name, Same Tax Breaks ............................175
Stashing Away As Much As You Can: Contribution Info ...176
Playing catch-up .......................................................177
Mix ‘n match: Combining a 403(b)
with other plans ...................................................177
Trekking Through Your Investment Options ..............178
Withdrawing Money: Watch Out for That Fee! ..........179
Taking Your 403(b) on the Road .................................180
Vesting ..............................................................180
401(k)s For Dummies

Understanding ERISA versus Non-ERISA 403(b) Plans ..... 180
ERISA: Employer + plan provider .................................. 181
Non-ERISA: You + plan provider .................................. 181
Finding Out Rules for Church Plans .............................. 183

Chapter 11: The Wonderful World of 457 Plans . . . . 185
The Scoop on Two Types of 457 Plans ............................. 186
Coughing It Up for the Coffers ....................................... 187
Approaching the retirement finish line?
  Get your second wind ............................................ 188
Employer contributions: A double-edged sword? ... 188
Combined plans: The sky’s the limit .......................... 189
Investing Your Money ..................................................... 189
Taking Money Out of a 457 ........................................... 189

Part V: From the Employer’s Perspective:
Finding the Right Plan ........................................... 191

Chapter 12: Meeting the Small Employer’s Challenge .... 193
Meeting Regular 401(k) Requirements Is a Pain in the Pocketbook ............................................. 194
  Dieting won’t help “top heavy” plans ....................... 195
  Sticking up for the little guy:
    Nondiscrimination tests .................................... 195
  Calculating the bottom line on employer contributions .......... 197
  Deciding on other bells and whistles ..................... 197
Finding Alternatives to the Standard 401(k) Plan .......... 198
  SIMPLE Simon met a pie man ................................ 198
Choosing a safe harbor in a storm
  of requirements .................................................... 200
Selecting a Plan That’s Right for You .......................... 201
Looking Out for Number One ....................................... 203
  Going it alone: The one-person 401(k) .................... 203
  Simplify, simplify: Simplified Employer Plan (SEP) ... 205
A Word about Cost ....................................................... 206
Considering Real-Life Examples of Different Plans ......... 206
  Meeting a small business’s needs with a SEP .......... 207
  Reaching personal contribution goals with
    the SIMPLE plan .............................................. 207
  Adopting the standard 401(k) for
    a growing business .......................................... 208
  Attracting employees with a Safe Harbor 401(k) .... 210
Chapter 17: Ten Bad Excuses People Give for Not Participating (And Why They’re Bad) .... 247

I’m Afraid of the Stock Market ..............................................247
I’m Afraid I’ll Lose My Money if My Employer Goes Bankrupt ..............................................................248
I Can’t Afford It ....................................................................248
I’m a Single Parent, and I Have to Save for
My Child’s Education ..........................................................249
I Don’t Like My Plan ...............................................................249
I’ll Probably Change Jobs Soon ............................................250
I Hate Paperwork ...................................................................250
It’s Too Hard to Get My Money Out .....................................250
I Don’t Need Anything More than Social Security
and My Pension ..................................................................251
I’m Too Young (It’s Too Soon) ..............................................251
I’m Too Old (It’s Too Late) ....................................................252

Index .................................................................................253