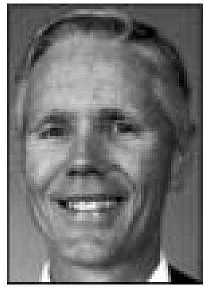
The 401(k) gives the employee a choice



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GUEST COMMENTARY

BY AL MATHEWS

Critics have had much to say about the 401(k) plan in the wake of the Enron scandal and the recent decline in the stock market. Their premise is that there are major structural problems in the 401(k) system which will cause these plans to fail employees when they reach retirement.

The truth is that the 401(k) plan is alive and well and continues to be the most popular savings vehicle in American history. Employees choose the voluntary 401(k) plan because it enables them to take control over the most personal and important of all financial decisions – the building of a retirement nest egg.

The passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has affirmed our government's intention to make the 401(k) plan today's dominant retirement savings and investment vehicle. Increased 401(k) contribution limits and "catch-up" contributions for those employees age 50 and over allow more income to be tax deferred, thus boosting savings. In 2003, the 401(k) contribution limit increases to $12,000. Catch-up contributions are increased to $2,000. These two contribution categories increase by $1,000 per year until 2006 when they reach $15,000 and $5,000, respectively, for a total of $20,000. This compares to the pre-EGTRRA calendar year maximum of $10,500 for regular 401(k) contributions with no catch-up contributions allowed. In addition to increased contribution limits, EGTRRA has made 401(k) plans extremely portable in recognition of the fluidity of today's work force.

Modern 401(k) investment programs are designed to give employees flexibility and choice in directing their own investments. Investments may be changed on a daily basis and employees can access their accounts through an internet website or by telephone. The investment menu features guaranteed return accounts, lifestyle options (pre-selected asset allocation models based on employees' retirement horizon and risk tolerance), and a wide range of stock and bond mutual funds with various risk and reward characteristics. This is a big change from the old style 401(k) plan with trustee directed investments which were largely unsuitable given the broad range of investment profiles among employees.

These new investment programs offer something for everyone. Although there has been recent volatility in the stock market, stocks are still by far the best investment for the long term and are well suited for most 401(k) investors. In the worst 20-year period since 1931, the stock market returned 242 percent. For those 401(k) investors who are risk adverse or getting near retirement, bond and guaranteed return accounts are available.

Employee investment education is a required and essential component of any successful 401(k) plan. It is this education that enables the 401(k) investor to be proactive in keeping his account on track to meet his retirement goals.

The tax advantages of participating in a 401(k) plan as opposed to investing through an ordinary taxable account are significant for most individuals. Employee 401(k) contributions are made on a pre-tax basis and the earnings on deposits are allowed to grow tax deferred. When withdrawals are taken from 401(k) plans, they are taxed as ordinary income. However, most individuals are in a lower tax bracket at retirement then when they were working. To minimize tax consequences at withdrawal, many 401(k) participants elect to take installment payments over a period of time.

Recently it was determined that over 42 million Americans participated in 401(k) plans. This is a powerful testament to the effectiveness of these plans and to the importance individuals place on saving for retirement. 401(k) plans provide the tools for employees to build their retirement future in a self-reliant and independent way. We all deserve this opportunity.