

# Introduction

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**B**umper sticker we'd love to see: "I'd Rather Be Managing My 401(k)."

Made you snicker? We agree. Most of us have better things to do with our time than pore over 401(k) statements and investment brochures — and that's precisely why we wrote this book.

Every day, through our work, we hear from people who want to save and invest for a secure retirement but aren't sure how to get started or how to do it the right way. Particularly after the decline of the stock market in the early 2000s, and the Enron fiasco, in which many 401(k) participants lost a good chunk of money, people are anxious to find out what to do with their retirement savings.

This uncertainty among workers isn't surprising, because the concept of retirement has changed dramatically over the last decade or so. Social Security seems less than secure, and it was never meant to cover all your retirement needs, anyway. Most people can't count on receiving a traditional fixed pension from their employer. The burden of retirement planning is falling squarely on your shoulders at a time when you're living longer and need more money to finance retirement.

You probably *wouldn't* rather be managing your 401(k) — you'd rather take in a movie, watch a ball game, or pursue your favorite hobby. But it's hard to enjoy yourself if you're plagued by a nagging worry that you could end up destitute in retirement.

We've got good news for you. Although you *do* have to take responsibility for your own retirement saving, you *don't* have to let retirement planning take over your life. Investing a bit of time now in ways we explain in this book should enable you to eventually sit back and relax.

## *About This Book*

This book explains essential 401(k) rules in easy-to-understand language so that you can manage your retirement accounts in a way that leaves you better off in the long run.

When you hear stories about people losing their entire retirement savings, you can bet that they weren't following accepted investment practices. This book also explains how to manage risk in your investments and minimize the chances of big losses.

We give examples to show why you should start saving for retirement as soon as you can, because the longer your money stays in your 401(k), the bigger your potential nest egg. In fact, if you take only one message away from this book, we hope that it's "Save as much as you can as early as you can, and invest it sensibly."

But, don't let the title fool you. *401(k)s For Dummies* is a useful book even if you have a different type of retirement plan. Sure, we explain the basic rules — and even some obscure ones — of 401(k)s. We include information that's completely up to date, including new rules that went into effect in 2002.

We also look at two 401(k) cousins, the 403(b) and 457 plans, used by teachers, healthcare workers, state and local government officials, and many nonprofit employees. These plans are similar to 401(k)s but not identical. Participants in these plans often complain that they don't have the information resources available that 401(k) participants have. We include a chapter on each plan and also note where 401(k) information in the book is relevant to these plans. We explain rules for IRAs and how to use an IRA rollover to your advantage when you change jobs.

Beyond that, we explain basic principles of long-term investing to help you decide which investment options are right for you. We also give you guidelines to figure out how much you need to save for retirement, and then, after you retire, how to manage withdrawals from your accounts so that your money can last. These are important concepts for 401(k) investors, but they're equally important for everyone else.

Something else you'll find in this book that you probably won't find elsewhere is our section on retirement plans from an employer's point of view, with tips for small-business owners on choosing a plan (including the new one-person 401(k)).

We explain things in a way that's easy to understand; we go into as much detail as necessary for a basic understanding, but no more, and we refer you to additional resources. And heck, Ted Benna created the first 401(k) plan. How much more authoritative can you get?

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## ***Conventions Used in This Book***

We have to say this loud and clear: Nothing in this book should be taken as tax advice or investment advice for your specific situation. Everyone is unique, and all we can do is explain some of the more important rules and give you guidance to help you make your own decisions. Also, because the rules are so complicated, we explain the general rules but leave some of the more technical exceptions to your own expert advisors. We know that most people want someone to tell them exactly what to do, but our lawyers won't let us do that. You need to consult an investment advisor or tax advisor for advice on your specific situation. But rest assured, reading this book will help you understand the advice that you receive and may save you money by enabling you to have fewer and shorter meetings with your advisors!

## ***Foolish Assumptions***

This book is for readers who are either thinking about participating in a 401(k) or other retirement plan, or who already are participating in a retirement plan but have doubts about what they're doing. We assume that you have an idea that it's important to save for retirement, but you're not sure whether you're doing it right, or how to get started.

We try to make things as simple as possible, but we can't avoid throwing in some math. We assume that you understand basic economic principles, such as inflation and earning a return on an investment.

For more information about the general investing concepts we cover, we recommend *Investing For Dummies* and *Mutual Funds For Dummies*, 3rd Edition, both by Eric Tyson (Wiley Publishing, Inc.), as well as other resources listed throughout the book.

## ***How This Book Is Organized***

This book is divided into six parts. You can read through from start to finish, or you can use the book as a reference tool and zero in on the different sections that provide the answers to your questions.

## ***Part I: Getting Started***

Should I sign up for my 401(k)? How much can I save in it? What do I have to do to get an employer matching contribution? This part answers these questions and more, explaining the basic features of 401(k) plans and the advantages you get by investing in one.

## ***Part II: Finding an Investment Strategy That Lets You Sleep at Night***

Investing money can be nerve-wracking, especially if you feel like you don't know what you're doing. This part explains how to make investment risk work to your advantage, how much investment return you can expect over the long run, how to understand the different investment options in your 401(k) plan, and how to select a portfolio of investments that's right for your situation. It also includes guidelines for investing in company stock that should help you avoid your own personal Enron.

## ***Part III: Getting Your Hands on Your Money***

Withdrawing money from a 401(k) is not as easy as writing a check or visiting your local bank teller. This part explains the rules for taking money out while you're working (it's not easy!), when you change jobs, and when you retire. It explains how to keep your retirement savings intact with a rollover. It also explains when you *have* to take money out. (It's funny. For decades, it was nearly impossible to get your money out, and then all of a sudden you're required to withdraw it!)

## ***Part IV: Floor Plans of the Other Types of "4" Plans***

Maybe you don't have a 401(k). Or maybe you do, but your *spouse* has one of those other funny-sounding plans that starts with "4" and is offered outside the private sector. This part explains the rules for 403(b) plans (also known as tax-sheltered annuities or TSAs) and 457 "deferred comp" plans — and why these plans exist in the first place.

## *Part V: From the Employer's Perspective: Finding the Right Plan*

Offering a retirement plan isn't a piece of cake for an employer. Strict rules make administering these plans complicated and potentially expensive. This part explains why employers offer retirement benefits and what they have to consider when choosing a plan and a company to administer it. We include a chapter that outlines different types of retirement plans that may make more financial sense for small-business owners than a 401(k).

## *Part VI: The Part of Tens*

This part looks at common participant mistakes and how to avoid them, as well as bad excuses for not participating, and why they're bad. It also includes answers to real questions from individuals and employers about situations — both common and unusual — that can arise in 401(k) plans.

## *Icons Used in This Book*

Throughout this book, you'll find helpful icons that highlight particularly useful information. Here's a quick rundown on what they all mean.



Pay attention to this because it may save you time, money, or aggravation.



Importantissimo. Commit this information to memory.



Ignoring this information may result in painful financial consequences.



You don't have to know this detailed information, but it wouldn't hurt. Skip it if you're in a hurry or not interested. (There aren't many of these.)



This paragraph contains terms that are useful for you to know (although, they may make your eyes glaze over), especially when you deal with folks in your benefits office.



Drink some strong coffee or take a few deep breaths before you read this paragraph, because it contains math.



This information may affect the value of your retirement account (nest egg) over time.

## Where to Go from Here

The beauty of *401(k) For Dummies* is that we've organized it so that you can start reading anywhere without risking total confusion. Here are a few suggested starting points, depending on why you picked up the book.

- ✔ If you're just starting your first job with a 401(k), Part I is a very good place to start.
- ✔ If you think that your money isn't invested properly, you don't understand the investments in your plan, or you're scared of investment risk, start with Part II.
- ✔ If you need to take money out of your 401(k) for an emergency, to put a down payment on a home, or to pay for college expenses, or if you're changing jobs or retiring, Part III is the place for you.
- ✔ If you want to feel better about your own situation by reading about other people's problems and dumb mistakes, go directly to Part VI.
- ✔ If you're entirely happy with your 401(k) and the investments in it, give a copy of this book to someone who isn't!