



Eight reasons why 401(k)s are a smart idea

There are many advantages to saving for retirement through your workplace retirement savings plan, including a potential match from your company, as well as professional management of your investments. The best reason to save in your plan is plain and simple: it's up to you to save and invest for your own future.

Here are seven more reasons:

- [You can increase your take home pay, really](#)
- [A company match can help your investments grow](#)
- [Automatic payroll deduction makes it easy to save](#)
- [Most of your plan's investment choices are managed by professionals](#)
- [Most plans allow access to your contributions in an emergency](#)
- [Account services keep you informed](#)
- [Your money can go with you, job to job](#)

1. You can increase your take home pay, really

Investing money through your 401(k) plan gives you the benefit of tax-deferred saving. This lets you *increase* your take home pay and *decrease* your current taxable income. Remember though, your pre-tax contributions are not tax-free, they're *tax-deferred*, which means that you don't pay income tax on this money until you withdraw it from the plan (which should be at retirement, when you may be in a lower tax bracket). Take a look at a hypothetical chart to see how contributing to the plan compares with saving outside the plan (in an ordinary savings, or other taxable account).

Contributing to your 401(k) on a pre-tax basis can help you increase your take home pay		
	Pre-tax savings in the plan	Saving in a taxable account outside of the plan
Annual gross salary	\$50,000	\$50,000
6 percent of pay before-tax contribution	- 3,000	0
Taxable pay	47,000	50,000
Less a hypothetical 27 percent Federal income tax	-12,690	-13,500
6 percent regular annual savings in a taxable account outside the plan (from gross salary)	0	-3,000
Take home pay	\$34,310	\$33,500
Annual difference in take home pay	\$810	

This hypothetical example is for illustrative purposes only. Taxes on pretax plan contributions as well as any earnings will be due at the tax rates in effect at the time you withdraw from your plan account.

2. A company match can help your investments grow

Some companies offer a match as an incentive to join the company retirement plan. It means that the company will contribute a certain amount to your account for every dollar that you contribute, up to a certain limit. The match formula can vary.

To receive the matching contribution, the plan may require that you work a specified number of years. It makes good sense to take advantage of a company match by setting aside the maximum amount required to qualify for a matching contribution. If your employer offers a matching contribution, your retirement savings have the potential to grow that much faster. In order to maximize an employer match, you might want to consider spreading your contributions throughout the year so you receive a match every month (subject to IRS limits).

3. Automatic payroll deduction makes it easy to save

Saving is ultra-convenient with your 401(k) because the money comes right out of your pay before you get your paycheck. This automatic payroll deduction helps make saving your number one priority. You don't see the money, so you're not tempted to spend it!

4. Most of your plan's investment choices are managed by professionals

Many of the investment options in your company's 401(k) plan are mutual funds. By investing in mutual funds, you place your money in the hands of a highly experienced team of investment professionals. Most funds are managed by a portfolio manager, and a global team of dedicated analysts works behind the scenes to provide in-depth research and analysis on thousands of companies, securities, and other investment opportunities. They do the work, so you don't have to.

Your plan may also include other investment options that aren't actively managed, such as index funds, funds of funds, or options other than mutual funds, such as a company stock fund or a commingled pool. Please see your plan materials for more information.

5. Most plans allow access to your contributions in an emergency

The contributions you invest in your company's 401(k) plan are designed to help you when you need them most: at retirement. But for those unexpected circumstances that can arise, many plans allow employees to dip into their account balances before retirement. Generally, there are two ways to do this:

Loans: When you take a loan from your 401(k) account, you actually take money out of your account, with a promise to repay it. You pay your account back the balance you borrowed, plus interest (a fixed rate determined at the time of the loan), through after-tax payroll deduction. In addition, as long as you repay your loan on time, you won't be subject to withholding taxes or penalties, as you would if you withdrew from your account before retirement.

Withdrawals: Withdrawals are a different story. When you withdraw money from your 401(k) account, you can't put it back. Different plans may allow you to take withdrawals for different reasons. The most common withdrawal type for active participants is the hardship withdrawal. According to IRS regulations, to qualify for this type of withdrawal, your hardship must represent an immediate and heavy financial need and there must not be any other resources reasonably available to you to handle that financial need. The IRS recognizes four reasons for a hardship:

- Payment of certain unreimbursable medical expenses incurred by the participant, the participant's spouse, or any dependents
- Cost relating directly to the purchase of a participant's primary residence (excluding mortgage payments)
- Payments of tuition, related educational fees, and room and board expenses, for the next year of post-secondary education for a participant, the participants

- spouse, or any dependents
- Payments necessary to prevent eviction or foreclosure on the mortgage of a participant's principal residence

Please note that under the "Safe Harbors" provisions, taking a hardship withdrawal will result in a minimum six month suspension during which you will not be able to make contributions to your plan account.

Some plans also allow hardship withdrawals for other reasons. Check with your benefits department. You will need to show your employer proof of how you intend to use the money, and proof that the amount you requested isn't more than enough to satisfy your need. As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001, hardship withdrawals are not eligible to be rolled over, and are not subject to federal income tax withholding. You may still owe income taxes and a possible 10 percent early withdrawal penalty if you are under 59½ when you file your annual income tax return. State and local taxes may also apply. Please note: You should consult your financial/tax adviser with specific questions about your personal situation if you are considering a withdrawal from your plan.

6. Account services keep you informed

Fidelity provides many account services to give you frequent and up-to-date information about your account, so you can always be informed about how your investments are performing.

Statements: Fidelity mails account statements every three months. They are chock-full of detailed information about your account, including account balances as of the most recent quarter end by investment and by source (pre-tax, after-tax, etc.), loan balances (where applicable), and change in account value during the three month reporting period, just to name a few features.

You may be able to get Statement on Demand depending on your plan provisions. With this option in Fidelity NetBenefits®, you can generate personal account statements on demand for any time period you choose, going back as far as 15 months. Statement on Demand also offers a Personalized Rate of Return for each statement timeframe.

Telephone services: Whether it's 9-5 or around the clock, call Fidelity to get updated information on your 401(k) account. Our automated telephone services are available virtually 24 hours a day, seven days a week, or you can speak to a Fidelity Participant Services representative from 8:30 a.m. to midnight, U.S. Eastern time. Once you establish a personal identification number (PIN), you can use the automated telephone service to get current investment prices and yields, current account balances, and in some plans, you can even make transactions. If you don't know your company's dedicated 800 number, call your benefits department.

Online account services: View your account information online through NetBenefitsSM. Participants in 401(k) plans can access their current account information over the Internet. Transaction requests received after 4pm Eastern time or on weekends or holidays will receive the next business day's closing price.

7. Your money can go with you, job to job

One of the reasons why plans like 401(k)s have become so popular is that they are portable: generally speaking, you can take them from job to job (with some exceptions). If you decide to change jobs, you have three options for your contributions:

You can roll your eligible rollover assets to and from 401(k), 403(b) and governmental 457(b) plans, provided your new employer's plan accepts these rollovers.

- Benefit:

- This would consolidate your accounts, which could be easier for recordkeeping purposes.
- If your new employer's plan allows you to take a loan against your account, you would be able to borrow based on your overall vested account balance. (Check with your employer for specifics.)
- Possible drawbacks:
 - The process could take a little while, and you'll have some paperwork to complete.
 - Does your new employer's plan offer a range of investment choices that suits you?

You could keep your old account and start another retirement plan account with your new employer's plan.

- Benefit:
 - You would avoid the possible hassle of directly rolling over your accounts between employers.
 - Each plan may offer different investment options, which may give you more choice.
- Possible drawbacks:
 - You would not be able to borrow against money you still have invested in your old employer's plan.
 - You would have to keep track of two separate accounts.

You could directly roll your old 401(k) account to an individual retirement account (known as an IRA) and start a new retirement plan account with your new employer.

- Benefit:
 - Through an IRA, you may have even greater choice for investing your contributions.
- Possible drawbacks:
 - You would not be able to take a loan from any money you invest in an IRA.
 - You would have to keep track of two separate accounts.
 - You'll have some paperwork to complete, and the process could take some time.

Generally, you may borrow the lesser of 50% of your vested balance or \$50,000. Any outstanding loan balances over the previous 12 months may reduce the amount you have available to borrow. Loan repayments (plus interest) to your plan account are automatically deducted from your pay through after-tax payroll deduction. Please call or check NetBenefits to see how much you have available to you in your account.



You may lose your chance for favorable tax treatment on lump sum distributions from your current plan balance if you make rollovers to your qualified plan account that consist of assets that are not from another qualified plan. Please talk to your tax adviser before making a rollover contribution to your employer's plan.

Unless otherwise noted, transaction requests confirmed after the close of the market, normally 4 PM Eastern time, or on weekends or holidays, will receive the next available closing prices.

The taxable portion of your withdrawal that is eligible for rollover into an individual retirement account (IRA) or another employer's retirement plan is subject to 20% mandatory federal income tax withholding, unless it is directly rolled over to an IRA or another employer plan. (You may owe more or less when you file your income taxes.) If you are under age 59 ½, the taxable portion of your withdrawal is also subject to a 10% early withdrawal penalty, unless you qualify for an exception to this rule. The plan document and current tax laws and regulations will govern in case of a discrepancy. Be sure you understand the tax consequences and your plan's rules for distributions before you initiate a distribution. You may want to consult your tax adviser about your situation.

Information about mutual fund performance: Past performance is no guarantee of

future results. Each fund's share price, yield, and return will vary, and you may have a gain or loss when you sell your shares. For more information about total returns, or any mutual fund available through the plan, call Fidelity Investments.

Fidelity Investments Institutional Services Company, Inc., 82 Devonshire St.,
Boston, MA 02109

©Copyright 1996-2005 FMR Corp. All rights reserved. [Important legal information.](#)