Conrad Siegel
ACTUARIES
The Employee Benefits Company

Top 12 Strategies for 401(k) Participants

We have witnessed unprecedented changes in the capital markets in recent years, which in turn has resulted in unprecedented levels of fear among many 401(k) plan participants. Even though participants are encouraged to view their retirement plan from a long-term perspective, recent events have raised many questions in the minds of participants about the appropriateness of their retirement and investment strategies. To help you maintain the discipline of a well thought-out retirement and investment strategy, consider the following:

1. **Don't Panic, You are Investing for the Long Term –** You should not let short-term emotions dictate how you invest your long term assets. You should continually reassess your goals and carefully consider adjustments when appropriate. You should remember you are not investing for today, but the future.

2. **Understand How Much Risk You are Willing to Take –** Sure, most of us are willing to accept the large returns that an aggressive portfolio may receive, but are you willing to accept the large loss that an aggressive portfolio is bound to experience from time to time? Risk tolerance is a matter of how much you can lose and still meet your basic goals, while being able to sleep at night. You should perform a quick checkup by taking a risk quiz to determine your comfort level.

3. **Stay Diversified –** Asset allocation is the driving force behind what determines a participant's investment return. If you have a well-diversified portfolio, history shows you will recover over time, as will the security markets. Well-diversified portfolios contain bonds and stocks (both domestic and international), as well as investments in large, medium, and small sized companies. How you construct a well-diversified portfolio is based on your own risk tolerance.

4. **Rebalance Your 401(k) Account Periodically –** You should set a schedule for rebalancing your portfolio and stick to it. Regular rebalancing keeps the portfolio in line with your risk tolerance and avoids any surprises.

5. **Don't Time the Market –** Timing the market will not improve investment results and is more likely to result in disappointing returns. With a well diversified portfolio and a buy and hold strategy you have the best chance of maximizing your returns over the long term.

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6. **Don't Chase Investment Returns –** It's tempting to move your account into funds that performed well last year or last quarter. Human nature is to chase investments that have recently done well; however, last year's winners are no guarantee of this year's winners.

7. **Don't Back out of the Market Completely –** If you still feel the need to become more risk averse at this stage, it's far better in the long-term to take one step down the risk ladder until you feel more confident with the stability of the markets, than it would be to sell all your equity assets and move to cash where you will probably remain long after the stock market recovery is well under way.

8. **Guard Against Inflation –** People have a tendency to forget that with any inflation, a dollar today won't buy the same amount of goods in the future. Currently, inflation is very low; however, it is no guarantee it will remain low in the future. You should be mindful to select investments that will outperform inflation over the long haul.

9. **Think Twice Before Taking a Loan or Hardship Withdrawal –** There can be some considerable adverse tax consequences when taking a hardship withdrawal before age $59^1/_2$. And while you may be paying back your retirement account through a loan, you are not realizing any investment growth from the stock market. You should explore accessing other funds in a time of need, before you jeopardize your retirement accounts.

10. **Continue to Save for Retirement –** The main factor in how much you will have in your retirement account is the amount you contribute. Continuing to save will soften the impact of the current market losses. And because of the current market losses, you may not only need to continue to save, but to increase your contribution, in order to stay on track with your retirement goals. In addition, by continuing to contribute, you will be taking advantage of the current stock market "sale" by buying additional equities at much lower prices.

11. **Maximize Your Employer Match –** If your employer offers a matching contribution, you should contribute at least the minimum amount to receive these additional contributions for retirement.

12. **Take Advantage of Catch-up Contributions –** If you are age 50 or older, you can defer additional amounts each year into your 401(k) plan. This gives you an opportunity to make up for lost time.