What to Do with Your 401(k) Now

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So which junior-high vocabulary word has been your favorite when you review your 401(k) returns over the past 12 months? Repugnant? Abhorrent? Odious? More likely it's a shorter word we'd rather not use here. Yet your 401(k) is still there. You still want to retire. So you still need to give it some love, even if you haven't been feeling the love in return.

And what to do in this "new normal" everyone's talking about? Whether you've lost a job, remain stable in your current gig, or have been one of the lucky few to land a new job, here's a step-by-step guide to getting your retirement savings back on track.

Things you will need:

- ***Time:*** An hour, tops. (That's 10 minutes to read this story, plus 45 minutes or less to finalize and execute your battle plan.)
- ***Your financial statements:*** You can't figure out how much to save if you don't know what you've already got.

step 1 Get the Big Picture

This first step is the one most commonly ignored or skipped, says Neil Goldberg, a principal with Boston-based investment advisory firm GW & Wade. Examine *all* your financial statements, and put your 401(k) in perspective with your overall wealth picture. How can you know what you need to do if you don't know what you have? "We see this a lot: People look at their 401(k) as a standalone, siloed part of their assets," says Goldberg. "But if financial advisers are doing their jobs, they'll have you look at the broader context."

How does the 401(k) look when compared to other portfolio holdings, IRAs, accumulated cash, real estate, and so on? If you're robust in those other areas, your 401(k) isn't as crucial

a component as it is for someone with no savings at all. Now that you know what you have, you can figure out what you need.

What Not to Do

Take Out a 401(k) Loan

No matter your financial position, do *not* be tempted to take out a loan on your 401(k). Fidelity reported earlier this year that 23 percent of thirty- and forty-something participants had an outstanding loan against their 401(k), and that more than 10 percent had initiated a loan in the previous12 months. Guess what? If you lose your job # and it seems to be going around recently # whatever loan money you take out you'll owe in a lump sum. At the worst possible time.

step 2 Find the Right Dollar Amount

It's very easy to be arbitrary when you're asked how much you think you need to save for retirement. "Oh, maybe $2 million. Five would be great." Well, if $5 million, why not $4.8 million, or $5.25 million? Time to admit a core problem: *You don't know.*

Retirement and 401(k) calculators abound online, and for good reason: They work. T. Rowe Price has a good one. Based on the calculator's magic, and paired with the big-picture information from step one, you should now know how much you need to put away to guarantee the retirement you want.

Is it a bigger number than you thought? Don't ignore it or shrug it away as unrealistic, says Frank Armstrong, founder of Investor Solutions in Florida and author of *Save Your Retirement: What to Do If You Haven't Saved Enough or If Your Investments Were Devastated by the Market Meltdown*. The number is not a lie. It's what you'll need based on the criteria you yourself put forth. Now it's time to save. Start by bumping up your 401(k) savings by as much as you can possibly afford (at least go beyond the percentage that the company will match). You may need to cut back in other areas. Don't fret over it, just do it. Because the bottom line still stands: *People do not save enough.*

Danger! Danger! Danger!

We have a few questions for the 56 percent of twentysomethings, 35 percent of thirty- and fortysomethings, and 30 percent of fiftysomethings who Fidelity Investments reports *do not participate in their company's 401(k) plans*:

- Are you nuts?
- Are you independently wealthy?
- Do you plan to switch from solid food to photosynthesis when you retire?

With all the financial hell we have gone through as a nation, all the coverage, all the advice and educating that constantly swirls within the media about the necessity, no, the urgency, no, the *emergency* that is saving for your retirement people in huge numbers still won't do it.

"Far too few people are accumulating retirement funds," says Armstrong. "The 401(k) system is far from perfect, but even if you're too stupid or lazy to do anything else, a bad 401(k) plan is better than not saving any money at all. You *have* to use the tools that are available."

So first thing first: *Enroll*.

step 3 Allocate Intelligently

This step requires you to make a decision, and choices stress us out: A 2008 University of Minnesota study shows # as have others # that facing too many choices, and trying to make them, is painful, mentally draining, and can lead one to agonize over perfection when good is good enough. So if you have no time (or inclination, or better excuse), go online right now, boost your savings percentage, and divert the money into a target date fund. (If your plan doesn't offer such a fund, put half in an equity index fund and half in a short-term bond fund. That allocation isn't perfect, but it's better than nothing. You can tweak it later.)

Target date, or lifecycle, funds take the guesswork out of choosing from investment options you may not understand yet get you allocated in a basic, appropriate way immediately. "This can work as a passive, throw-up-your-hands investment for those who don't have the ability or time to manage their 401(k)s," says Steven Keirn, a colleague of Goldberg's at GW & Wade who specializes in comprehensive financial plans. But he stresses that this is a basic choice, not optimal.

For optimal results, start with these age-appropriate allocations:

- 20s: As high as 80 percent equities, 20 percent bonds. "You simply have time on your side," he says.
- 30s: Ratchet back to 70/30, he says. In theory, a thirtysomething person is marrying, procreating, and buying a home, but still has a good 30-year horizon to absorb market ups and downs.

- Late 40s, early 50s: From 65/35 to 60/40. “The shift to bonds as you approach retirement gives you keel on the boat,” he says.

Personalize his suggested allocation by factoring in your own risk tolerance. Don’t trust what you *think* your risk tolerance is, though. Use an online questionnaire such as this one from Vanguard.

Next decision: To allocate the stock portion of your portfolio, Keirn suggests putting 60 percent in big company stocks, 25 percent in mid-cap stocks, and 15 percent in small-caps. Also, pay attention to your domestic/international splits, with 30 to 40 percent in international stocks, including emerging markets. “For the foreseeable future, the U.S. economy will probably not be the main driver of global asset growth,” he says, “and a lot of that growth will come from emerging markets.”

This should go without saying, but don’t even *try* to invest based on a guess about what the market will do next. First of all, no one knows. Second, it’s irrelevant, since you’ll be investing every two weeks for many years in good markets and bad markets. Tune out the noise.

As you close in on retirement, however, you have to pay strict attention to liquidity # how much cash will you need and how soon? “It’s useful to look at what Harvard and Yale did with their endowments,” says Goldberg. “They had very little liquidity going into the crisis, and they had to sell at losses to gain liquidity just to run their operations. Substitute yourself for Harvard. If you don’t have liquidity to cover your first few years in retirement, you must manage your portfolio in general, and your 401(k) specifically, with an eye toward that.” Here’s where cash and bonds make sense. Once you approach retirement, but are still working, Keirn recommends stockpiling at least a year’s worth of annual expenses in cash. Once you retire and no longer have income, boost that to two years, which you replenish so you always have that minimum two-year cash cushion as you go. In years where the stock market does well, increase that cash cushion, so you don’t have to sell in bad years.

Plan B

When Your Employer Cuts the 401(k) Match

A lot of recession-crushed companies have cut or suspended their 401(k) match # FedEx, Motorola, Black & Decker, to name a few. The fallout? Less cash for you, of course, but worse, you might be tempted to stop participating in the plan if the company cuts the match # a joint Harvard-Yale study in 2007 found that up to 11 percent of folks do just that (and 2007 wasn’t 2009). Long-term that’s a horrible idea.

“Bumper stickers don’t lie,” says Tom Scott, president and CEO of Scott Wealth Management in Orange County, California. “Things happen. Benefits change. You could lose your job outright. But while you’re there, you must save no matter how angry you might be that the match has been cut.” You will still benefit from tax deferral, dollar-cost averaging, and long-term market recovery.

step 4 Choose the Best Funds

Here's where Step 1 comes back into play. Knowing how your 401(k) plan fits into your big financial picture will determine how to choose mutual funds within your employer's plan, says Goldberg.

The key is to balance your 401(k) investments with other investments to make sure you are properly diversified and making the best of each account. Example: If you have an IRA, you'll have far more investment choices in that account than you do in your 401(k). So, you might use your 401(k) to invest in two plain vanilla offerings # a Standard & Poor's 500 index fund and a short-term government bond fund. Then you can round out your overall asset allocation by using your IRA to invest in an international fund, a small-cap fund, and a corporate bond fund. As for choosing funds, Morningstar ratings are a great source of information. In all cases, keep your fees as low as possible: If you can save one percentage point in fees, you'll keep $5,000 a year for every $500,000 in your portfolio. Big money.

The secret to retiring comfortably? Diversify, keep your fees low, and save till it hurts.

Hot Tip

Roll Over Anytime You Leave a Job

Job-hopping # whether you want to hop or not # is a huge risk to long-term retirement savings. “The average American changes jobs # voluntarily and involuntarily # every three-and-a-half years,” says Armstrong. “So you could easily be talking about 10 different jobs and 401(k) plans over a lifetime. It's very tempting to loot your own retirement security. Or you could end up with a collection of unmanaged funds left in previous employer's plans that are too small to economically manage and too diverse to fall under any coherent management plan. So they're inappropriately invested over time.”

The answer? As soon as you walk out the company's door, centralize your retirement money. Roll over any and all old plans into an IRA. “You can roll everything into, say, a company such as Vanguard, where fees are very low and it's easy to manage. The harder you make it on yourself, the less your chances of doing it. So make it easy and put it all in one place before you're tempted to cash it out.”

Another potentially huge factor: Should your financial picture get cloudy, rolling over into an IRA could protect your retirement nut from creditors. Check the laws in your individual state, but some states say that creditors can never touch your IRA (Florida is one). It's one way to protect your future in a dire present.

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- Retirement Report Card: Are You Saving Enough?
- 401(k) Checkup: What to Do Now
- Real Life: What to Do When Retirement Goes Bust
- 12 Dumbest 401(k) Mistakes to Avoid
- Retirement Countdown: What to Do Now
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