

Unemployment May Require a 401(k) Defensive Strategy

By Daniel Lamaute

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We all plan and prepare for what lies ahead of us, but can we truly know what our future holds?

In all of our planning, we never seem to account for that Mack truck barreling down the freeway, out of control and on a direct path for our vehicle.

MEET THE MACK TRUCK

Following is a real life example of someone whom I will refer to as Jane.

In March of 2000, the Mack truck hit Jane in the form of the Dot Com Crash. Through no fault of her own, her dreams came crashing down around her.

Jane is a well-educated woman, who had planned her future well and was living the dream. She went from flying high in the Dot Com frenzy, pulling in a cool six figure income, to crashing into the hard reality of unemployment.

WHAT ABOUT THE SAFETY NET?

In times past, Jane had managed to bounce back from adversity to continue living the dream. Yet, this time around was different.

An astute planner, she curtailed her family spending to cushion the fall. Still, it was not enough. The mortgage, insurance and car payments were taking their toll on her savings.

Six months into unemployment, Jane decided to start her own consulting company. Although she was able to pick up a few clients, the income she generated simply was not enough to pay the bills.

For the first time in her life, she was delinquent paying her bills. She feared losing the lights and even her home.

THE LAST STRAND OF HOPE

A year had gone by, her credit was maxed out and her savings depleted. Jane's 401(k) account had become her final hope.

Would her 401(k) savings be enough to get her back on her feet, allowing her to keep her home, her car, and to keep her dream alive? Or would she lose everything?

WHAT ABOUT YOU?

What would you do if you were in Jane's shoes? Would you have been able to pull out of the dive and save your life's work and dreams?

THE HARD TRUTH ABOUT EARLY WITHDRAWAL

With a 401(k) program, the money that we contribute is tax-deferred until we withdraw the money. Because the 401(k) is a retirement savings program, the government frowns if we withdraw our money early.

In fact, if you were to withdraw your money prior to the age of 59 1/2, then you will pay to Uncle Sam not only your regular tax rate, but also pay a 10% early withdrawal penalty tax. Ouch!

A HYPOTHETICAL EXAMPLE

Hypothetically, you could pay a combined total of 40% in federal, state and local income taxes plus the 10% penalty. A \$50,000 withdrawal would cost \$25,000 between taxes and penalties.

That is definitely a big OUCH! It pains me to realize what Jane had to give up to find the money she needed to get her through her most difficult time.

Your tax or legal professional can advise you as to what tax rate you could expect to pay.

FAST FORWARD TO 2002

In 2002, new tax laws made it advantageous for retirement plan

providers to introduce the self-employed 401(k). A self-employed 401(k) is available to you if you are in business for yourself or with your spouse and have no employees.

Under the current tax code, you can rollover your IRAs or 401(k) to a self-employed 401(k) plan. Some plans allow you to borrow up to 50% of your account balance for a maximum loan amount of \$50,000.

If only Jane could have survived until 2002 without tapping her retirement savings, then her present financial picture could have been much different.

Let me explain.

Had this option been available and taken advantage of, Jane could have taken a loan for the full \$50,000, against which no taxes or penalties would have been levied. And her retirement savings would have remained intact.

A 401(k) DEFENSIVE STRATEGY

It is my hope that you can avoid the Mack truck altogether, but the truth is that not one of us can foresee what might lie ahead in our paths.

With the self-employed 401(k) loan feature securely in place, you will get the ability to use your retirement savings as a rainy day fund, without the fear of having to pay any taxes or penalties for the use of your own money provided you repay the loan by the prescribed time.

If you are now self-employed or expect to be in the future, please explore the self-employed 401(k) option now. Be sure to ask about any fees to establish and invest in a self-employed 401(k).

It is your money! Protect it from the uncertainties of tomorrow! www.investsafe.com contains information about a self-employed 401(k) plan with the loan feature.

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Daniel Lamaute, CEO of Lamaute Capital specializes in helping people get the most benefit from their retirement investments. Take cash payments from your retirement funds the smart way. Get your FREE SOLO-OWNER 401K INFORMATION KIT. Kit includes a prospectus with detailed information about the plan, investments, sales charges and expenses. Visit <http://www.investsafe.com> to order kit.

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