

MINORITY BUSINESS REPORT

Borrowing From 401(k) Today Could Hurt Tomorrow

You need a new car, or you want to take a vacation, or your house needs a new roof. You estimate that you have \$25,000 in your 401(k) plan, and your plan allows you to borrow some of this money. Does this mean you have cash on hand for these expenses?

Not really. If you have a genuine financial emergency, it may be necessary for you to tap these funds. Barring that, however, it probably would be wiser to maintain the assets in your 401(k) account for its original purpose: meeting your retirement needs.

While most 401(k) plans do contain a provision which allows participants to borrow from their account, a shortsighted view of retirement funding could impact your long-term retirement savings potential.

Points to Consider
Before borrowing from your 401(k) account, keep in mind that

if you leave your current company, you must pay back the entire loan or the Internal Revenue Service will consider it a distribution. This means you will have to pay income taxes on the amount withdrawn, as well as a 10 percent early withdrawal penalty tax if you are under age 59 and a half.

Perhaps even more important is what your loan will really cost you in terms of your retirement savings. As a hypothetical example, assume that you are contributing \$200 a month to a 401(k) account, which has a current value of \$25,000 and is earning a 10 percent rate of return a year. If you do not borrow and incur interest charges, your 401(k) account has the potential to be worth \$56,620 after 5 years and \$566,790 after 25 years, based on the hypothetical contribution and return rates above.

However, if you do decide to borrow \$5,000 and repay it over 5 years at a loan rate of 8 percent,



Investment Notes

Michael J. Robinson

your 401(k) account will be worth only \$45,341 after 5 years and \$484,136 after 25 years — differences of \$11,279 and \$82,654, respectively. The following section tells you why there are such significant variations.

Why Your Hypothetical Account Value Falls If You Take Out a Loan

First, your \$25,000 account balance drops to \$20,000.

In addition, a smaller portion of the \$200 monthly contribution

slows the growth of your savings. To get your savings back on track after taking a loan, you will either have to contribute more to your 401(k) plan or seek greater investment returns on your contributions (a choice which may entail more risk).

Consequently, many financial planners agree that tapping into your nest egg now can affect your retirement savings later. Although only you can decide whether your purchase is worth the cost of side-tracking the growth of your retirement savings, you may wish to consider how important the purchase is to you and to discuss other financial alternatives with your financial adviser before borrowing from your 401(k) account.

If you would like to learn more, please write care of Michael J. Robinson, Dean Witter Reynolds Inc. 380 Knollwood St., Suite 500 Winston-Salem, NC 27103

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Cooperative Extension: Sound financial health improves lives

GREENSBORO — Informed financial planning is key to reduced stress and improved self-esteem, says a Cooperative Extension specialist.

"When financial problems get out of control, the stress generated can destroy a person's family life and affect their work performance," says Dr. Claudette Smith, a family resource management specialist with the NC A&T Cooperative Extension Program.

Fortunately, programs offered through the North Carolina Cooperative Extension System can help, and Smith points to the work of a local Cooperative Extension agent as an example. From the Forsyth County Cooperative Extension Center, Deborah Womack, an Extension agent in family and consumer education, has been helping Forsyth County residents, ages 4 to 90, with their budgeting needs for the past 15 years.

"People are often amazed how planning and sticking to a budget can stretch their incomes," said Womack. "It's often just a matter of tracing where the money goes that encourages people to stick with a budget."

For audiences ranging from the Forsyth County Detention Center to local senior citizen centers, Womack conducts her budgeting programs with two goals in mind: helping people budget to meet their daily needs, and showing them the importance of saving.

With these goals in mind, Womack's programs are conducted in three or four separate sessions of two hours each.

The first session focuses on the wise use of money. In this session, Womack uses handouts, examples and posters to reinforce the concept of distinguishing between needs and wants. She also emphasizes the need to establish priorities when making spending decisions.

"Whether their income results

from employment, social security or other government aid doesn't matter," says Womack. "What's important is making this money cover basic life needs first, and then looking at savings or unnecessary purchases. And, because situations are different for different audiences, I tailor my programs around the needs of the audience."

Since many of the participants

"People are often amazed how planning and sticking to a budget can stretch their incomes."

-Deborah Womack

in Womack's programs have debt problems, the second session of the programs is devoted to establishing or reestablishing credit.

Key to the concepts in the credit session is the idea that debt, when it occurs, should be manageable.

"Many people amass outrageous credit card bills without even realizing that they're doing it," said Womack. "Then, when they find themselves unable to keep up with the payments, they borrow more money or get another credit card, creating a vicious loop from which it is very difficult to escape."

Womack teaches participants in this situation how to cut back on other expenses and focus on reconciling outstanding debts. For participants without this problem, Womack feels that knowledge of the pitfalls created by unmanageable debt will make them less likely to make mistakes with credit.

Without proper education, bank accounts can be confusing and intimidating. For that reason, Womack focuses the third session on different types of bank accounts and how to manage them.

"Some people don't understand how to balance a checkbook, or they don't realize the importance of it," says Womack. "If they don't know how much money they have and where it is going, they are going to have a more difficult time sticking to a budget."

In the banking session, Womack also explains the terms and service charges of some bank accounts, so her participants are able to make informed decisions when managing their money.

An optional fourth session addresses rent-to-own issues. "Sometimes when people see that they have some discretionary income, they go out and spend it on something, and the rent-to-own offers are enticing," says Womack, who structures this session around making informed decisions by comparing prices and payments between saving to buy an item and renting it.

"I try to show that things can change with learning," says Womack. "What might be a large problem now can be eliminated over time with the right practices, and when we feel more comfortable with our finances, we feel better about ourselves and free of some of life's pressures."

For more information, please contact Dr. Claudette Smith, NC A&T Cooperative Extension Program, at (910) 334-7956.

Wachovia promotes Peace



Sharon P. Peace has been elected operations officer of Wachovia Operational Services Corporation in Winston-Salem. She is document examiner supervisor in the Commercial Services Group.

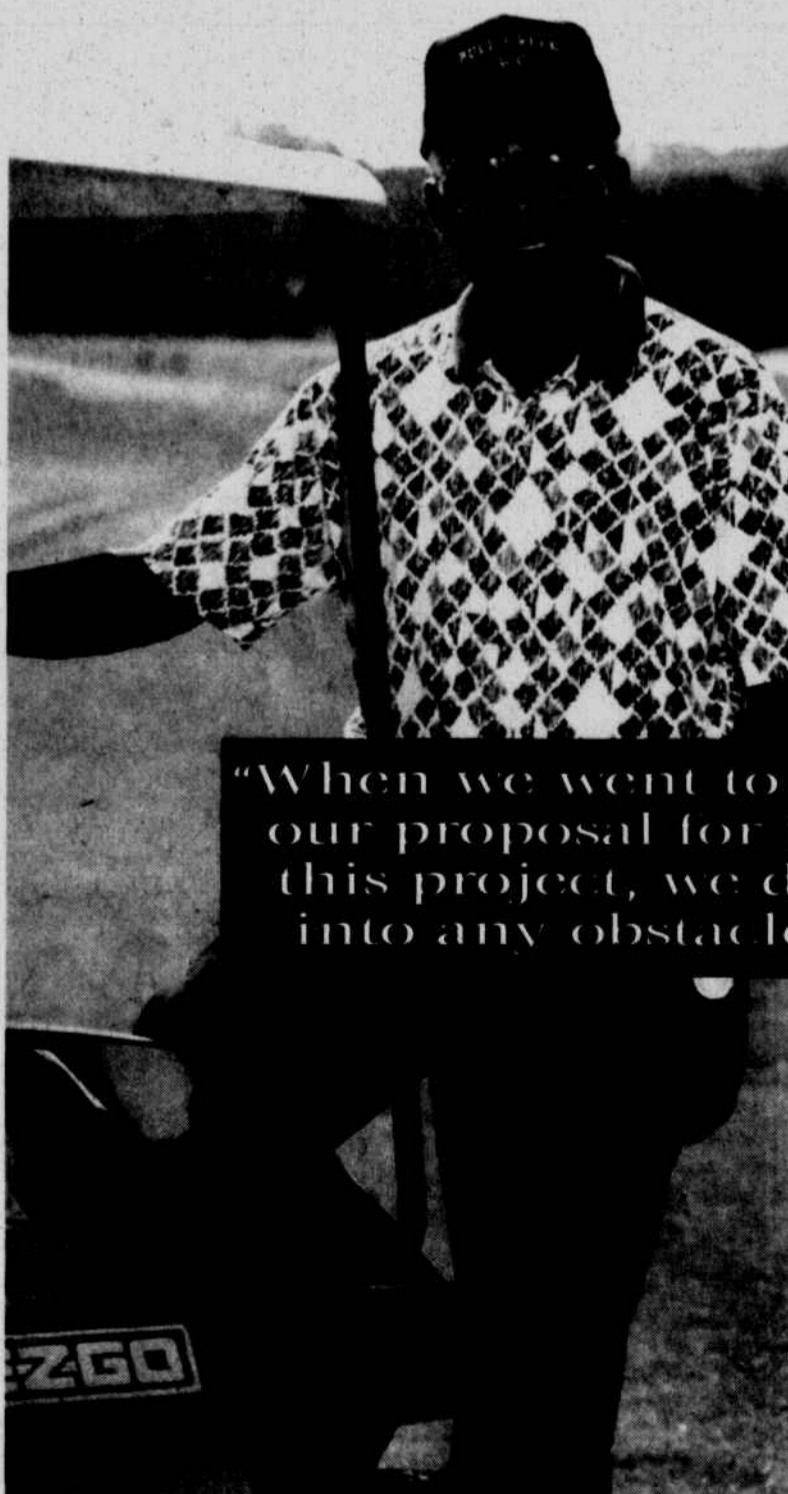
B U S I N E S S B A N K I N G

Sam Solomon, President
Bull Creek Corporation

Six families in Franklin County had a bold vision: they've turned their tobacco fields into a golf course. Before they went to First Citizens for financing, they had completed a fourth of the project themselves.

"We picked up rocks, we cut bushes, we worked on the tractors," explains Sam Solomon, president of Bull Creek Corporation. "We got out there and we grab the shovel."

When loan officers from First Citizens saw first hand the sweat equity the families had put into their vision, they were impressed. "First Citizens was very receptive to us when we went to them," says Solomon.



"When we went to them with our proposal for financing this project, we didn't run into any obstacles at all."

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Talent Bank a benefit to mid-year graduates

This time of the year is graduation time for many students in the college, university, or community college system. One of the best ways to get noticed is by putting a resume on the Internet using a service available through the Employment Security Commission.

Called North Carolina's Talent Bank, this service allows people to enter their resume directly on the Internet. People can put their name, telephone number, education, skills, and work history directly in front of potential employers. What makes the system unique is after the resume is entered, verified employers can search those resumes and contact a job seeker directly without first going through a local ESC office.

Since the service began in September, more than 400

employers and 1,460 job seekers have signed on. North Carolina's Talent Bank can be accessed on the Internet at either www.esc.state.nc.us or www.atb.org.

For more information about this story, contact Steve Nichols, North Carolina Talent Bank administrator, at (919) 733-7522.

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