[A Better Use for Your 401(K)]

By [The Mogambo Guru]

07/14/08 Apparently the advice to never touch your 401(k) is not so cut-and-dried, and it could easily be that immediately taking all that money out of the retirement plan would be the optimal move. The Mogambo Guru explains…

John F. Wasik, a Bloomberg News columnist, brings us news that although nobody has any income to support more spending, nobody has any savings to support more spending, and nobody has anything of value (like home equity) to pawn to support more spending, all is not lost!

There is still one, last, pitiful source of money that could be used to support more spending. He writes, "Among the most awful pitches is something that's being touted as an employee benefit: the 401(k) debit card. This allows you to treat your retirement fund as a cash account to withdraw money."

If you are like me, you said, "Hmmm! I like this new idea! And if I find a way to conveniently tap into my wife's 401(k) to get some money to fund a little party for my hoodlum friends and me, then I like the idea even more!"

Probably because he knows my wife and her complete lack of sense of humor about me taking a lousy few bucks out of her purse, much less raiding her retirement plan, he says, "Don't even think about it."

I think to myself, "Oh, yeah? You think I'm scared of my wife? Is that what you think? Huh? Is that what you think, punk?" Naturally, I instantly decide that I have to prove to this guy that I am a Big Macho Mogambo (BMM) who is not scared of his wife. Or even his kids! And in fact, I OFTEN challenge them to a fight, right out in the front yard! Ask them! Or ask the neighbors! Or you go get 'em, and I'll fight them right here for ya!

But before I could put any plan into effect, he says it is not about me at all! Instead, the caution is because "Debited withdrawals are treated as loans, subject to interest and fees and must be paid back within five years", and the money (of course) has to be with "after-tax dollars in those five years."

Then he adds (as if he is reading my mind), "What happens if you don't pay back these funds?" Well, I am sorry to report that the news gets pretty ugly at that point, and all my planning seems for naught, as he says, "Unlike a checking account-linked debit card, you will owe income taxes plus a 10 percent penalty if you are younger than 59 1/2."

Being naturally argumentative, here is my thinking: You gotta pay the taxes anyway, whether you get the money now or later, and so by NOT taking the money out of the 401(k) right now, you are betting that the retirement plan will go up in price, AND go up enough to offset the loss in the buying power of the dollar!

And to that I bellow a Loud Mogambo Honker (LMH) of a laugh “Hahahaha!”

Hell, the dollar has lost 40% of its value in the last 5 lousy years! And you are probably sitting on a year-over-year 20% loss in your 401(k) to boot! Hahaha!

The ten percent penalty, however, is quite a haircut, I will admit. But if you are now sitting on 20% year-to-date losses in your 401(k), compounded by a massive loss in the buying power of the dollar, you would have been better off – far better off! – taking the money out of the 401(k) at the beginning of the year, paying the 10% penalty, paying the tax and putting the money into gold like you know you should have, but didn’t! Hahaha!

And if you don’t believe me, and you haven’t gotten your latest retirement-account statement to see your losses, CNNMoney.com reports, “Falling stock markets around the globe and the credit crunch are putting the pension funds of some of the largest U.S. companies into deeper financial holes. Since the credit crunch hit last fall, pension plans funded by S&P 500 companies have lost about $280 billion in assets, according to an actuary at Mercer, a human resources consulting firm. The losses amount to about 7% of a total $4 trillion in pension plan assets.” A 7% loss for the pension plans of the 500 biggest companies in America! Hahaha! And you think you can do better? Hahaha!

So the advice to never touch your 401(k) is not so cut-and-dried, and it could easily be that immediately taking all that money out of the retirement plan would be the optimal move, meaning (for me, anyway) it would be one of the few times in my whole failure-prone life that I did not do the wrong thing, at the wrong time, or with the wrong girl!

And the gains in gold and gold-oriented mutual funds, when so many other investors are losing their butts and they come wailing to me “I didn’t do what you said when you said to buy gold, silver and oil, and now I am a loser, boo hoo hoo! Help me!”, as if there is something I could do at this point, just makes it sweeter still! Whee!

Until next time,

The Mogambo Guru