

BUILDING FOR YOUR FUTURE

Q: What exactly is 401(k)?

A: The term “401(k)” refers to the section of the Internal Revenue Code which permits employees to defer part of their compensation and invest it in their employer’s qualified 401(k) plan.

Q: Why would I want to participate in a 401(k) plan?

A: The best reason is that it is a great way to save money. You reduce your current income taxes and set aside money for your retirement at the same time. Most people pay taxes on their income first and use what is left over to put money into savings for retirement. With a 401(k), you can set aside part of your compensation before federal income taxes are calculated*. Since income taxes are figured on your income after your compensation has been reduced, you may pay less in taxes. Thus, you may actually have more spendable income with a 401(k) than you would if you were contributing a comparable amount to a savings account where contributions and interest are subject to current income tax.

Q: Will my 401(k) contribution affect what I pay in Social Security taxes or my Social Security benefits?

A: No. Social Security taxes and benefits will be calculated on your compensation before any payroll deduction.

Q: What about taxes when I want to withdraw my savings from the 401(k) plan?

A: Money withdrawn from the 401(k) plan at retirement is taxable, whereas earned income is taxed on an annual basis. You can defer some of the

income tax by using your 401(k) savings as monthly income for the rest of your life. You pay taxes only on the monthly income you receive each year. So, even after taxes are paid, there may be more money left for retirement by saving in your 401(k) plan than by placing money in a regular savings account.

Q: That sounds a lot like an Individual Retirement Account. What if I already have an IRA?

A: The two concepts are similar. However, for most full-time employees, more money can be contributed into a 401(k) than an IRA.

Q: May I roll over my existing IRAs into my 401(k) account?

A: Beginning in 2002, it may be possible to rollover existing IRA’s into your 401(k) if your employer’s 401(k) plan allows it. Please check with your employer for more information.

Q: How would I make 401(k) contributions?

A: You may make 401(k) contributions by payroll reduction. When you sign up for participation in your employer’s 401(k) plan, just tell your employer what amount you would like to contribute based on the limits prescribed by your employer. Reductions will be made from your pay and placed in a 401(k) account for you.

* Most states also exempt 401(k) from state income taxation until distributed from the plan



Q: May my spouse participate?

A: No. Participation in a 401(k) is only open to qualified employees—not spouses or dependents.

Q: How can I change the amount of money that is contributed in my 401(k) account?

A: Just notify your employer that you would like to change your payroll reduction amount. You may increase or decrease your contributions periodically according to your employer's plan.

Q: When may a withdrawal be made of my 401(k) payroll reduction contributions?

A: Withdrawals are allowed when you reach age 59 1/2, terminate employment, retire, die, become disabled, or experience a financial hardship as defined by your 401(k) plan. Your withdrawals, both contributions and earnings, will be subject to ordinary income taxes in the year in which you receive the money. Withdrawals may also be subject to a 10% IRS tax penalty. In addition to various types of withdrawals, you may also borrow from your account if your plan allows loans.

Q: How will I know the value of my 401(k) account?

A: You will receive four account statements each year—one statement every three months. You can check your account through AUL TeleServe, an interactive voice response system, at 800-249-6269 or online at **www.eretirement.aul.com**. With this kind of reporting, you will be able to carefully watch your retirement money.

The investment return and principal value of the variable accounts will fluctuate so that accumulation units when redeemed may be worth more or less than their original cost. Investment return is not guaranteed and subject to market risk.

AUL 401(k) plans are funded by group variable annuity contracts. While a contract owner may benefit from tax deferral under a 401(k) plan without the use of a variable annuity, variable annuities may provide additional investment flexibility and annuity related benefits to contract owners.



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Q: Some of my other company benefits, such as life insurance, are based on my compensation. If I defer a part of my compensation into a 401(k), will that affect those other benefits?

A: Not necessarily. Those benefits may still be calculated based on your compensation before taxes and payroll deduction.

Q: How much of my compensation can I elect to defer into my 401(k) plan?

A: There are limits which have been established by your 401(k) plan as well as by the IRS. There are both limits as to the percentage of compensation and the dollar amount per calendar year that you can defer into the plan. The IRS dollar limit can change each year, so you should contact your plan administrator to find out what *your* plan's dollar deferral limit's.

Q: What if I do not wish to participate in 401(k)?

A: You are not required to contribute to the plan. This benefit is completely voluntary.