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Retirement Connection

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6 reasons to contribute to your employer-sponsored retirement plan

As you set aside money for retirement, you shouldn't just consider how much you're saving. You should also consider where you're saving.

It's hard to beat an employer-sponsored retirement plan. It offers many benefits, from reducing your taxes to providing extra tools that can help you achieve your long-term saving and investing goals. By making contributions to your workplace retirement plan sooner than later, you can build a sizable nest egg by the time you retire.

The advantage of starting early

Thanks to the magic of compounding interest, you can save far less each year while amassing more over the long term. Here's an example:

Number of Years Saved	Annual Savings	Total Saved	Total Accumulated
40	$2,400	$96,000	$393,174
20	$7,500	$150,000	$292,445

** Both examples assume a 6% compounded annual return on investment.*
This chart is meant to be for illustrative purposes only and not to be construed as any type of investment. Investing has risks, including the possible loss of principle. Please read all information before investing money.

Here are six reasons why contributing to an employer-sponsored retirement plan makes sense:

1 **Tax-advantaged contributions.** Employer-sponsored retirement plans give you a tax break. Most plans offer pretax contributions, meaning your taxable income is reduced for every dollar you contribute. For example: Let's say you earn $60,000 a year and contribute $10,000 to your employer's 401(k) or 403(b). You will only pay taxes on $50,000 of income, which could reap you an annual tax savings of $2,500 or more. Some plans also offer Roth contributions, which provide no upfront tax deduction but allow for tax-free withdrawals in retirement. If you have a Roth option in your plan, consider whether pretax or after-tax contributions make the most sense based on your personal situation. (That will likely depend on your expected tax rates in retirement as well as your goals.) A Foresters Financial Representative can help you make that determination.

2 **Matching contributions.** Many employers match their employees' retirement-plan contributions up to a specific percentage of income. For example, some match dollar-for-dollar up to 3 percent of employee pay, while others may provide 25 cents for every dollar contributed by an employee up to 6 percent of income. Regardless of how much your employer chips in, don't pass up this opportunity—it's essentially free money to you. Make sure to contribute enough every year to at least get the full match.

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3 **High contribution limits.** In 2017, you can contribute up to $18,000 of income to your employer-sponsored retirement plan if you're under age 50. If you're age 50 or over, you can contribute an additional $6,000—meaning you can save a total of $24,000 for the year. Taking full advantage of your contribution limit every year helps you reach your retirement savings goal faster so you don't have to worry about catching up later on or—worse—running out of money in retirement. If you max out your limit, consider also contributing money in an individual retirement account (IRA), assuming you qualify, or a taxable investment account.

4 **Diversified investment options.** Federal law requires plan sponsors to provide participants with a diversified menu of investments. This means you should be able to build a portfolio tailored to your personal risk tolerance and goals that includes domestic and international stocks, bonds and cash—and potentially other types of investments, too. Many employer-sponsored plans offer "target-date" funds or "balanced" funds that include a predetermined mix of investments geared for investors who plan to retire in a specific year (such as 2040) or with a particular risk tolerance. Those funds automatically rebalance their asset allocation, so you don't have to take that extra step.

5 **Extra tools and features.** Many employer-sponsored plans offer extra features that can help you build, design and manage your portfolio. Many plans offer loans to people who are currently employed by the plan sponsor, though borrowing from your retirement savings is not generally a good idea.

6 **Convenience.** What's easier than having retirement plan contributions taken directly from your paycheck? The money is deposited into your savings before you have a chance to spend it. Moreover, the contribution amount is deducted from your taxable income on your W-2 federal tax form, so you do not have to record and report it to the IRS yourself.

As you build up retirement savings, you should do whatever you can to make it easier on yourself. Contributing to an employer-sponsored plan is simple and offers many benefits. A Foresters Financial Representative can help you evaluate your retirement savings needs and determine how to maximize the features your employer plan offers while looking at other strategies for improving your savings and investing and achieving your long-term financial goals.

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