focus on Retirement

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Top 10 Reasons to Participate in a Retirement Plan

The decision you make with regard to participating in your employer's 401(k) plan will have far reaching consequences that can last a lifetime. While retirement seems so far away, the earlier you start saving for retirement, the more beneficial it will be in the long run. Below are the top 10 reasons why you should participate in your employer's 401(k) plan and things you should be aware of to make sure that participation will be a rewarding experience.

1. Saving is painless! Your employer automatically deducts your contributions every time you are paid and you don't need to remind yourself to write a check. After a while, most people don't miss the money that is taken out each pay.

2. You could get free money with an employer match. Over 70% of plans offer some type of employer contribution to encourage participation. If your plan is among them, don't pass up this freebie!

3. You get two tax breaks when you save in a 401(k) Plan. First, your contributions are tax-deductible, meaning the money you contribute does not count toward your gross income for the year, which lowers your taxable income. Second, your money grows tax-deferred. If you save money in a savings account or brokerage account, you have to pay taxes on the interest you earn at the end of each year. With a 401(k), your earnings are not reported on your tax return until you withdraw them.

4. Compounding interest! Bottom line, your earnings in every year continue to earn interest in every subsequent year, so you're earning interest on interest.

5. Dollar cost averaging allows you to buy low, sell high. Since you're buying shares of investments with each payroll contribution, when the market is high, you will buy fewer shares and when the market is low you will buy more shares. This tends to lower the average cost of all of your shares.

6. You can contribute more to a 401(k) every year than to an IRA.

7. It's an easy way to create a professionally managed, diversified portfolio. If you have a personal investment account, oftentimes mutual funds may have a minimum investment amount that you have to purchase to buy into a particular investment. The advantage that 401(k) plans offer is that you can put a small contribution amount in every pay, because minimum investment amounts are typically waived for 401(k) plans.

8. If you have an emergency and need to take money out, many plans offer ways of withdrawal. Since the money is supposed to be for retirement, taking it out early has strings attached! It's best to consult with a tax advisor when thinking about this.

9. You can roll your money over, even if you change jobs. Doing this will keep your savings tax-deferred.

10. Social Security will not be enough. It's well known that Social Security is only meant to provide a modest percentage of your retirement income (perhaps one-third of your income). Financial planners generally say that you will need between 70% - 90% of your pre-retirement income to live comfortably in retirement. Where will that additional money come from? A 401(k) plan could be a good source!

How to Retire a Millionaire

A recent post by CNNMoney tells how you don't have to make millions to be a 401(k) millionaire. Fidelity Investments looked at the habits of about 1,000 customers who earned less than $150,000 per year but had account balances of over $1 million in their retirement plan. The study showed that these savers (average age of 59) had several things in common, They had all started young, always put in enough money to maximize their share of the company match, and saved a large percentage of their pay each year (an average of 15%). This turned into an average investment of $17,800 per year($13,300 of their own money and $4,500 in employer contributions). As a result, the savers grew their average account balance from $426,000 in 2000 to $1.2 million in 2012.

But, while being a 401(k) millionaire sounds like a lot, it may not provide you with a lifestyle of the rich and famous. Assuming, you'll live 30 years after retirement, having a $1 million portfolio will result in being able to withdraw about $40,000 per year from your retirement plan.

To help you save wisely, here are some tips:

- Start young—thanks to compound interest, your earnings will build on themselves. For example, a single one-time $5,000 investment would grow to more than $50,000 in 40 years (assuming an annual return of 6%).
- Max out your savings. Most planners recommend you contribute 10-15% of your salary each year—but if that isn't affordable, make sure you contribute enough to receive your full company match.
- Take a little risk—If you invest all of your account in "safe" investments, you will stall your savings potential. A rule of thumb will help you here—subtract your age from 120 and invest this percentage in stocks. (For example, a 40 year old would invest 80% in stocks).
- Stick with it—Once you know how your money should be invested, resist changing your strategy when the market has highs or lows.

"Retirement is wonderful. It's doing nothing without worrying about getting caught at it."

- Gene Perret

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