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Financial News

One New Year's Resolution That Is Easy To Keep

Saving for retirement might be easier than you think.

You may not think you need to start saving for retirement now, or even in the near future. But the cost of procrastination may be higher than you think. If you are already contributing to you employer's retirement plan, now is a good time to increase your deferral amount. The small contribution you make now could have a big impact on your account balance later.

The High Cost of Procrastination

According to The Department of Labor, about 6.4 percent of Americans 75 or older, or slightly more than one million, were working last year. That number is up from 4.7 percent, or 634,000, from ten years ago.[1] More and more Americans are finding that they need to supplement their retirement income, and the amount in their savings account isn't enough to support them during what should be their retirement years. "Costs have risen and Social Security and other sources of expected income haven't kept up with the increased costs of health care and basic living expenses," states **Wayne Carpenter**, Director of Client Relationship Services. "By starting to save early on, your contributions have the chance to work harder and build up your retirement account. Plus, it's much less expensive to save in the early years — a small decrease in your paycheck will have a large effect on your potential account balance later on."

Put time on your side

The earlier you start to save for retirement the less you'll need to save each week to help reach your goal, depending on your investment performance and other factors. The following chart shows the amount that individuals of various ages would need to save each week with pre-tax contributions to their employer's retirement plan, assuming a hypothetical 8% annual return, to reach the same investment goal.[2]

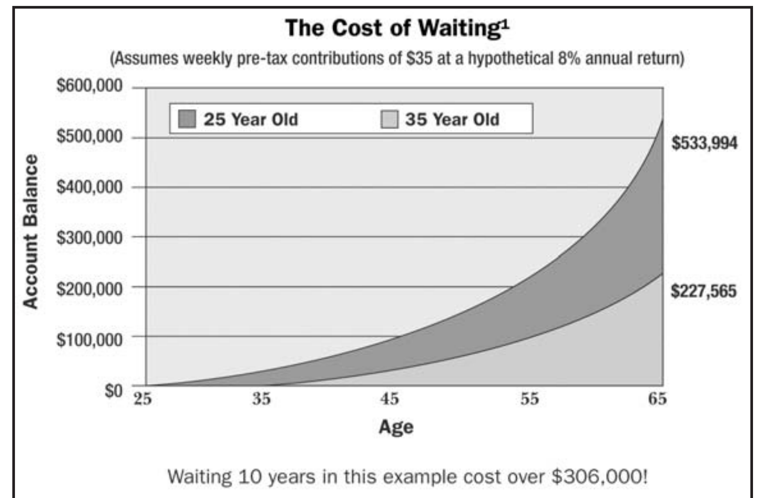
Age	Weekly Investment	Savings goal at age 65
25	$ 33	$500,000
35	$ 77	$500,000
45	$ 195	$500,000
55	$ 628	$500,000

It's not as much as you think.

The amount you choose to contribute to your retirement may have a large effect on your potential account balance, but only a small effect on your weekly take-home pay.[2] Using the example above, if you are 25 years old and contribute approximately $33 a week, the impact to your weekly take-home pay is only approximately $28. Waiting 10 years to accumulate the same amount may cost you $77 per week.

The Cost of Waiting

If you waited just 10 years to make the same weekly pre-tax contribution of $35 to your employer's retirement plan, your account balance could suffer in the long term. The chart below illustrates that contributions made consistently over the course of forty years can have a much bigger impact on your savings account than if you wait 10 years to make the same contribution commitment. The saver who contributes for forty years has the potential to accumulate more than half a million dollars, where as the saver who contributes for thirty years can expect less than half that amount. Waiting 10 years in this hypothetical example cost over $306,000!



Waiting 10 years in this example cost over $306,000!

Increase your contributions

If you are already contributing to your employer's retirement plan, you might want to consider increasing your contributions which may help ensure a more secure financial future. You may be surprised to learn that an increase as small as 2% of your salary may have a large effect on your potential account balance, but only a small effect on your weekly take-home pay.[2]

Your pre-tax retirement plan contributions are tax-deferred. So, if you increase your contributions, the impact to your weekly take-home pay will be less than the actual amount you defer. Take a look at the following hypothetical example.

Retirement Savings through a Tax-Deferred Plan

	$1,200 annual contribution (5% of salary)	$1,680 annual contribution (7% of salary)	Difference (2% increase)
Gross Pay	$24,000	$24,000	
Less pre-tax contribution	$1,200	$1,680	**$480**
Taxable pay	$22,800	$22,320	
Less 15% U.S. income taxes	$3,420	$3,348	
Less 7.65% FICA tax	$1,836	$1,836	
Spendable annual pay	$17,544	$17,136	**$408**
Spendable weekly pay	$337.38	$329.54	**$7.85**

In the above $24,000 annual salary example, the deferred contribution increased by $480, but the impact to the annual spendable pay was only $408 ($7.85 a week).

Now consider the potential long-term impact of that $480 contribution increase.[2]

If the annual $1,200 contribution in the above example was invested weekly at a hypothetical 8% average annual return for 20 years, it could accumulate to over $59,200. However, with an additional annual $480 – invested using the same assumptions over the same time period – the account balance would grow to over $82,900. That's a difference of over $23,700.

A contribution increase of $480 (net effect of $7.85 on the weekly paycheck) after 20 years turned into a 40% increase in account value of the above hypothetical example.

Join your employer's retirement plan or increase your contribution as soon as possible and put time on your side.

2008 Maximum Contribution limits

457 and 403(b) Deferral Limit	$15,500
Age 50+ Catch-Up Contributions Limit	$ 5,000
457(b) Pre-Retirement Catch-Up Limit	$31,000

[1] Source: Department of Labor 2007

[2] Assumes all contributions are made on a pre-tax basis. Example is hypothetical and does not represent the performance of any investment choice available in your employer's retirement plan. Actual returns and principal values will fluctuate. Distributions from your retirement program are subject to ordinary income tax and, if taken prior to age 59-1/2, a 10% federal income tax penalty may apply. A 10% federal tax penalty may apply to amounts distributed from your plan which are attributed to an IRA or other qualified plan. Tax deferred results assume no interim distributions.