BUILDING BLOCKS FOR RETIREMENT

Retirement Planning Essentials

Compliance Refunds and Your Retirement Plan: Adding Up The Pluses

Have you received a refund of excess contributions from your 401(k) plan? If you have, you should feel confident that you've maximized the opportunity to contribute to the plan.

Have you ever wondered why financial planners say employer sponsored plans should be the first priority for people saving for retirement? Let's look at the key reasons why:

Tax Deferral. Your employer-sponsored plan lets you defer tax on part of your pay by contributing that amount to your plan account. With tax deferral, you don't pay taxes on that income or earnings in your account until you withdraw the money.* In addition, because your pretax contributions is deducted directly from your pay, your taxable income is reduced. And if you're over age 50, you can contribute an additional amount — $5,500 in 2012 — that's not included in compliance testing.

Tax-Deferred Compounding. Compounding is what happens when previous earnings from an investment remain invested and, in turn, earn more money. Because taxes aren't subtracted from earnings in a tax-deferred account, the effect of compounding can be even greater.

Matching Contributions. If your employer matches part or all of your contributions, this extra money also compounds tax free until you withdraw it.

Other Tax Deferred Ways To Save For Retirement

- Individual Retirement Accounts (IRAs) are next on any planner's priority list. Like employer-sponsored plans, IRAs allow investment earnings to compound on a tax-deferred basis.*
- An annuity, which is basically a contract between you and an insurance company, provides tax deferral as well as unlimited contributions.** A financial advisor can give you more information about the costs, limitations, and types of annuities.

You may also consider supplementing your tax-deferred retirement assets with savings and investments in taxable investment accounts.

After all, the more you set aside today, the better your financial future is likely to be.

* Withdrawals are subject to ordinary income tax. Withdrawals made prior to age 59 1/2 may be subject to a 10% federal penalty.
** Annuities generally have withdrawal charges. In addition, earnings withdrawn before age 59 1/2 may be subject to a 10% federal penalty. This material is provided solely for informational purposes and does not constitute investment, tax, legal or accounting advice on the matters addressed.

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