

WHY AREN'T YOU MAXING OUT YOUR 401(k)?

It may be the best retirement planning tool you have.

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Do you have a million dollars? At the moment, probably not. But if you invest and save diligently and let your assets compound, who knows? You may be a millionaire someday. In fact, you may need to be a millionaire someday. If you stay retired for 20 or 30 years - which could happen - it could take well over \$1 million to fund that retirement. In fact, a recent study of Registered Investment Advisors recommended retirement assets of \$1.5 million or more for baby boomers.¹ This is why you should contribute the maximum to your 401(k) plan.

Your 401(k) is your friend. For years, employers have wondered: why don't people contribute more to their 401(k)s? At the typical large company, the majority of employees contribute too little, and some find it a hassle to even fill out the paperwork. Most people don't speak "financial" and don't look at financial magazines or websites. It's "boring." So they mentally file "401(k)" under "boring." But the advantages of a 401(k) should not bore you; they should motivate you.

Tax-deferred growth and compounding. The money in your 401(k) compounds year after year without tax penalties. The earlier you start, the more compounding you get. Let's say you put \$2,400 annually in a 401(k) starting at age 30, and for the sake of example, let's assume you get an 8% annual return. How much money would you have at 65? You would have a retirement nest egg of \$437,148 from putting in \$200 per month. But if you started putting in that \$200 a month five years later, you would have only \$285,588. You can put up to \$16,500 into a traditional or "safe harbor" 401(k) in 2011, and if you turn 50 or are older than 50 this year, you can put in an additional \$5,500 in "catch-up" contributions. You can contribute up to \$11,500 to a SIMPLE 401(k) for 2011, with "catch-up" contributions of up to \$2,500 if you are 50 or older.³ These annual contribution limits are indexed for inflation.

Potential matching contributions. Who would turn down free money? Big companies will often match an employee's 401(k) contributions. Usually, the corporate match is 50¢ for each dollar up to 6% of your salary.⁴

Reducing your taxable income. Many employees don't recognize this benefit. Your 401(k) contributions are pulled out of your wages before taxes are withheld (pre-tax dollars). So you get reduced taxable income and tax-free growth; you pay taxes on 401(k) assets when you withdraw them from the plan. With the new and increasingly popular Roth 401(k), the contributions are after-tax (no reduction in taxable income), but you can enjoy both tax-free compounding and tax-free withdrawals.

Why not take advantage? If you don't contribute greatly to your 401(k), 403(b) or 457 plan, you are ignoring a great retirement savings opportunity. Talk to your financial advisor about your 401(k) and other great resources to save for retirement.

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