

Retirement Plans

Saving for a Better Financial Future

401(k), 403(b), profit sharing and deferred compensation are all terms used to describe programs in which money is deducted from an employee's pay and placed into a special account for their retirement. The main benefit is that you do not have to pay taxes on the money that goes into the account. The taxes are paid when you take the money out. Because the employee is usually retired at that time, their income is normally lower, and they are usually in a lower tax bracket.

Another benefit is that many employers match a percentage of the money that is put into the account. If you do not contribute the amount necessary to get the full match, you are losing that money. These retirement plans are a valuable asset. For most workers, they have replaced traditional pension plans and will be the major source of income (along with social security) for most retirees. It is usually in your best interest to contribute as much as you can to your plan.

Common Mistakes

Many employees do not choose their investments wisely. You should take the time and ask questions to make sure you are choosing the best investments based on your current age, expected retirement age and other circumstances. You should review your portfolio on a regular basis and rebalance whenever necessary.

Diversify your portfolio. Investing a large percentage in one stock may not be a good idea because any stock could lose money. Employees tend to make this mistake with their own company stock.

Many young employees think they have plenty of time to start saving for retirement. Because of compounding, small contributions made when you are young will add up to big dollars when you are ready for retirement.



Many employees also cash out their retirement plan when they leave a company. This is a bad idea. Not only will you be without that money when you retire, but you will face a tax bill and early withdrawal penalties. You may be able to keep your account with your old employer. You can also roll your account into an IRA or a plan provided by your new employer.

Many plans allow you to take loans. Some employees use their retirement plan as their preferred way of getting extra cash. They believe they are borrowing their own money and paying themselves interest. Nothing could be further from the truth. Your loan repayments are made with after-tax dollars, and the interest you pay is coming out of your pocket. You will pay taxes again when you withdraw the money after you retire. In addition, you permanently relinquish the tax-deferred compounding on the money you withdrew. This can substantially reduce your retirement income. There are circumstances where the IRS allows withdrawals without repayment, but you must still pay the taxes and penalties. Also, if you leave the company, the entire loan amount must be repaid within a short time or you will be required to pay income taxes on the entire loan balance.

Finding the Money

If you are not currently contributing to your retirement plan or you do not feel you are able to increase the contribution, here are some suggestions:

- When you get a raise, increase your contribution by a percentage of the raise. You won't miss what you didn't have.
- Review your expenses. Most of us have at least one small or large expense that could be reduced or eliminated to fund the account. Look at what you are spending on eating out, coffee, entertainment, clothing, telephone and other discretionary purchases. Comparison shop for insurance, credit and major purchases. Track your expenses so you know where your money is going. Navicore Solutions offers free materials to assist you in doing this.
- Adjust your withholding. If you are currently getting a tax refund, you can reduce your withholding and have the money go directly to your retirement fund. Part of the contribution will be paid for by the reduced tax on the money you put in the retirement account.

Getting Help

If you would like more information about retirement savings accounts, there are many resources to help you. Start with the Human Resources department of your company or the administrator of your retirement fund. Although Navicore Solutions does not give investment advice, we will be happy to suggest resources and answer any questions you may have. Please feel free to contact one of our certified counselors at 1-800-992-4557.



An Educational Message from



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