

Why Participate in a Retirement Plan?

By Steve Gilbertson, CFP®

Each month, we look at ways for participants to maximize their retirement plan, discussing such topics as diversification, risk tolerance, and benchmarking. While all of this is sound information, to a significant percentage of employees, this material is, at least at this point, somewhat meaningless. For the roughly 35% of employees eligible for company retirement plans who are not currently participating, the question they need answered is a much more basic one: Why should I even participate in a company-sponsored retirement plan in the first place?

While the financial demands of daily life can for some make participation in a company retirement plan little more than an afterthought, here are several reasons to make it a priority:

- **The employer match** – Often times, company-sponsored plans such as 401(k)s offer participants a dollar-for-dollar match on employee contributions up to a certain percentage of deferral. Participation, then, essentially provides you with “free money” that you would not otherwise receive were you not contributing into the plan
- **Tax-deductible contributions** – With the exception of newer plans such as the Roth 401(k), company-sponsored plans are typically made with pre-tax dollars. As contributions are made into your account, your tax liability is proportionately decreased. Significant contributions, then, can mean significant tax savings.
- **Tax-deferred growth** – While assets in non-qualified accounts can potentially create a tax liability when sold or when dividends or capital gains are paid out, assets within a qualified retirement plan do not incur taxes until they are distributed. The power of this tax deferral can be very substantial over time.
- **Automatic contributions** – While investing for retirement is something that almost all of us know we should do, it is something that if left to our own devices, we often don’t get around to. The automatic contributions provided by a company retirement plan, then, solve this problem by allowing us to invest toward retirement without even having to think about it, greatly increasing the chances that we will be able to reach our financial goals.
- **The power of time** – While there are many investment strategies that can be used to potentially maximize returns, there is no substitute for the power of time. The sooner you begin contributing, the longer your assets have to compound. Consider this: if a 25 year-old who contributed \$5,000 a year for just 10 years and earned an annual return of 8% would by the time he or she is 65 have accumulated over \$200,000 more than a 36 year old saving \$5,000 each year until age 65 and achieving this same 8% return (\$787,175 vs. \$566,416.06) in spite of having contributed \$100,000 LESS than the 36 year-old.*

If you have questions regarding this topic, please contact Steve Gilbertson, CFP® at the Bryton Companies at 515.223.1601, sgilbertson@bryton.com.

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* The growth rate of these contributions in these hypothetical scenarios are achieved by compounding interest at an 8% annual rate. These examples are not hypothetical and do not represent the performance of a particular investment.