

BUILDING BLOCKS FOR RETIREMENT

Risk Tolerance

Cash Today? Or Savings for Tomorrow?

Your paycheck can only stretch so far. So you should feel very good about your decision to have some money taken right off the top and put into your retirement savings account. When retirement rolls around, you'll be glad that you kept contributing over the years.



Cash Conflicts

It all sounds so easy. But, in reality, saving for retirement isn't always easy. Things come up that make it tough to keep saving. What happens if you need to replace a car? Or you'd like to buy a house and start a family? Or one of your kids is starting college? There are any number of reasons why you might be tempted to stop contributing to your plan so you can free up some cash. Just for a few years, you say. After all, how much difference could it make?

The answer may surprise you. Taking even a short break from saving could significantly affect the amount of savings you'll have when it comes time to retire.

Taking a Break Takes a Toll

Taking a break from saving for retirement could put your future financial security during retirement at risk. Take a look at the toll a five-year and a 15-year break could take.

<u>Annual contribution</u>	<u>No break</u>	<u>5-year break</u>	<u>15- Year break</u>
Years 1 – 5	\$2,000	\$2,000	\$2,000
Years 6 – 10	\$2,000	0	0
Years 11 – 20	\$2,000	\$2,000	0
Years 21 – 40	\$2,000	\$2,000	\$2,000
Account value after 40 years	\$331,915	\$261,883	\$171,470

This is a hypothetical example used for illustrative purposes. It does not represent the results of any particular investment vehicle. A 6% annual return (compounded monthly) is assumed. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable upon withdrawal.
Source: NPI

You've Got a Good Thing Going

No matter how disciplined you are, a short break can very easily turn into a longer one. And even though it might seem like it'll be easy to start saving again in a few years, there's no way of knowing what will happen. It's very possible you'll be facing some pressing financial demands then, too. The thing is, you're already *in the habit* of contributing to your plan. And it's automatic.

And Uncle Sam Is Helping

If you take a break from contributing, you're also taking a break from some important tax benefits that are built into your employer's plan. The contributions you make to the plan are tax deferred.* You don't have to pay federal income tax on the money you contribute to your plan account until later, when you withdraw it. Earnings on your plan investments are also tax deferred until you withdraw them. These tax breaks can help your balance grow.

A Smart Way To Save

Take a look at the difference between making pretax contributions to a tax-deferred account and putting after-tax money in a taxable account.

	<u>Tax-deferred savings</u>	<u>Taxable savings</u>
Pretax income available for saving	\$5,200	\$5,200
Federal income taxes (25%)	- \$0	-\$1,300
Annual amount saved	\$5,200	\$3,900
(6% – 25% tax)	6%	4.5%
Number of years saved	30	30
Amount saved after 30 years	\$435,290	\$246,800
Federal taxes payable upon distribution (25%)	-\$108,822	-\$0
Total accumulated for retirement	\$326,468	\$246,800

Difference \$79,668

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Source: NPI

The Best Choice

Choosing between having more cash now and having more savings when you retire isn't easy. But the long-term costs of taking a break could be steep. You might have to postpone retirement, retire and keep working, or scale back your retirement dreams. Whenever possible, make saving for retirement a financial priority. You stand a much better chance of accumulating enough money to afford a comfortable future if you keep on saving.

* Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.

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