THE WHITE PAPER

Strategies for Managing Your Assets

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Could You Be Saving More?

We live in exciting times. While the pace of medical and technological breakthroughs bodes well for longevity and continued health for Americans in their later years, their financial future is fraught with uncertainty. Research shows that over the past two decades the age at which workers expect to retire has been slowly rising. In 1991, just 11% of workers expected to retire after age 65, while this year 33% of workers report that they expect to retire after age 65, and 10% don't plan to retire at all.[1]

How confident are you that you are securing a financially comfortable retirement? The good news is that as a participant in your employer-sponsored savings plan you are already saving for retirement. But are you putting away as much as you can?

The amount you contribute to your plan should depend on three key factors: how much you are allowed to contribute, how much you will need in retirement, and how much you can afford to deduct from your paycheck today.

How Much Are You Allowed to Contribute?

Different plans may impose different contribution limits and matching contributions, but all must adhere to certain rules imposed by the IRS. For 2014, you are allowed to contribute up to $17,500 to a qualified plan on a tax-deferred basis. If you are age 50 or older, you can contribute an additional $5,500 in "catch-up" contributions. The total that can be contributed to a plan in 2014 is $52,000 or 100% of your compensation, whichever is less. This includes your before- and after-tax contributions, as well as any employer match.

How Much Will You Need in Retirement?

To estimate how much you will need in retirement, you will want to start by considering your retirement lifestyle. Do you plan to travel? Will you want to work part time? These are important questions that will help determine just how much you'll need to save. You will also need to factor in when you plan to retire and how long you expect to live in retirement. Lastly, you will want to estimate your other sources of retirement income such as Social Security and pensions. This will help you determine just how much you'll need to rely on your investments to cover living expenses in retirement.

How Much Can You Afford to Deduct From Your Paycheck Today?

How much you can afford to contribute each pay period will depend largely on what your other expenses and financial commitments are -- and how you prioritize them. Keep in mind that contributions are tax-deferred, so the bottom-line impact on your take-home pay won't be as much as you might think.[2] Over time, with the help of tax deferral, you'll find that your contributions today will help you realize tomorrow's retirement goals.

And remember to factor in your employer's matching contributions, if available in your plan. The employer match, if offered, usually represents a percentage of your pre-tax contribution. For instance, if you contribute 6% of your salary to your plan, your employer might match the first 3% at 50 cents on the dollar. Note that not all employers offer matching contributions and such contributions may be subject to vesting periods or other terms. But if your employer offers matching funds, be sure to contribute at least the amount required to take full advantage of them.

[1] *Employee Benefit Research Institute, 2014 Retirement Confidence Survey.*

[2] Withdrawals will be taxed at then-current rates. Early withdrawals prior to age 59½ may be subject to a 10% penalty tax.

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