The Power of Tax-deferred Investing

As a result of the loss of corporate pensions and concerns about the long-term viability of Social Security, most Americans anticipate having to be personally responsible for funding their retirement to a degree that would have been unimaginable just a few generations ago. So the sooner you can start saving and investing, the better your chances for a secure retirement.

One way you can help potentially grow your retirement savings faster is to take advantage of tax-deferred investing. A tax-deferred account can be a valuable device for effective retirement saving. That's because there is no tax due on income earned in the account until you begin taking withdrawals, ideally when you reach retirement age. This provides the potential to accumulate retirement savings faster than in a taxable account.

Employer-sponsored retirement plans, such as 401(k) plans and Individual Retirement Accounts (IRAs), are examples of tax-deferred accounts. If your employer offers a 401(k) or other workplace plan, consider contributing up to the maximum allowable contribution amount. If you're not able to contribute the maximum amount and your employer offers a matching contribution, contribute as least as much as the match. Otherwise, you're leaving money on the table.

If your employer doesn't offer a retirement plan or you're self-employed, consider opening an IRA. Even if you already participate in a 401(k) or other plan at work, an IRA can help supplement those savings and help you gain access to a potentially wider range of investment options. Keep in mind you are still eligible to contribute to an IRA whether you contribute to an employer-sponsored plan or not.

The power of tax-deferral can really make a difference over time. Consider the following hypothetical example: An investor contributes $5,500 to a tax-deferred account that earns an annual fixed rate of return of 6%. The investor is taxed at a cumulative rate of 25%. Over the course of 30 years, the account value would have grown to $460,909 vs. $350,909 – an increase of more than $110,000 – in a similar taxable account.

By following a pattern of consistent savings and taking advantage of the power of tax-deferral, you can take control of your retirement savings. Talk to your Financial Advisor about how tax-deferred investing can fit into your overall retirement savings plan.

Our firm does not render legal or tax advice

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