Courtesy of your 401k advisor, **John J. Higgins, CFP®, AIF®, CFS®**
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The Advantages of Saving in a 401(k) Plan

Financial planners generally say you'll need between 75 percent and 85 percent of your annual pre-retirement income to live comfortably in retirement. Do you know where your retirement income is going to come from? Social security benefits alone likely won't be enough. One of the best ways to supplement social security income in your post-work years and help ensure your future financial comfort is by saving in an employer-sponsored 401(k) plan today.

A 401(k) plan is a valuable employee benefit, and saving can be effortless. Your employer will automatically deduct your contribution from your paycheck, so you don't have to remember to set the money aside. Plus, you decide how much you want to save each pay period.

Here are some additional benefits:

- **Pretax contributions** mean you don't pay income tax on the money you contribute to your plan, so your annual taxable income will be lower. Additionally, because the government doesn't tax any contributions or investment earnings until they are withdrawn, you also benefit from **tax-deferred growth.**
- 401(k) plans allow for **higher contributions** than other types of retirement savings plans, such as IRAs. In 2018, you can contribute up to $18,500 to a 401(k) versus just $5,500 to an IRA.
- **Catch-up contributions** are allowed for individuals age 50 or older. For 2018, if eligible, you can contribute an additional $6,000, for a total contribution of $24,500.
- Many **employers match a portion of 401(k) contributions.** For example, a common match may be dollar-for-dollar up to 5 percent of eligible pay. In this scenario, an individual with an annual salary of $35,000 and contributing 10 percent to the plan ($3,500) would receive an additional $1,750 in matching contributions. It's hard to find a comparable savings option like this in a bank.
- Most 401(k) plans provide a **variety of investment options** from which you may choose. You can save time by selecting from a list of investments prescreened by your employer. Or, you can let your employer invest your money in the plan's default fund, if suitable to your situation.
- The sooner you start saving, the faster your account has the potential to grow. Through the **power of compounding**[1], as your invested assets generate earnings, that money is continuously reinvested to potentially generate even more earnings. Over time, this can snowball into a significant account balance.

- Through a time-proven investment technique called **dollar-cost averaging**,[2] over the years, you can buy more shares of each investment option when prices are low and fewer when prices are high. As a result, the average price per share of your investments may be lower than if you invested all your money at once. More important, you avoid the temptation of trying to time the market.
- **Your 401(k) belongs to you.** When you change jobs, you can take the money with you by rolling it over to your new employer's 401(k) plan or to an IRA.

Remember, if you don't participate in a 401(k) plan, you're missing out on a golden opportunity to save for your retirement while lowering your current tax burden. Saving today is the first step toward a secure retirement.

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[1] The formula used for the Rule of 72 approximates the time it will take for a given amount of money to double at a given compound interest rate. Compound illustrations are not predictions of investment performance, and investment principal and interest are not guaranteed and are subject to market fluctuation.

[2] Dollar-cost averaging is not a foolproof investment technique. It does not assure a profit or protect against loss in declining markets. It involves continuous investment in variably priced units, regardless of price fluctuations. Investors contemplating the use of dollar-cost averaging should consider their ability to continue purchases over a period of time even when prices are low.

Neither [DBA Name] nor Commonwealth Financial Network® provide legal or tax advice. You should consult a legal or tax professional regarding your individual situation.

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