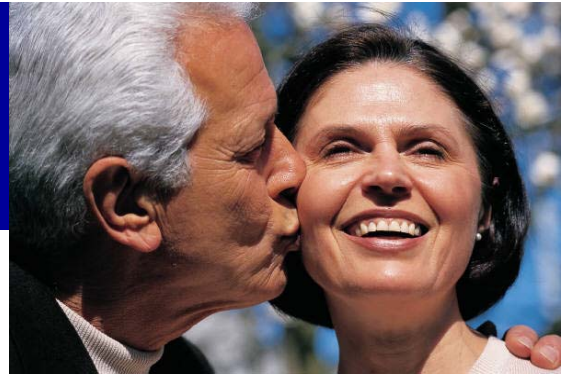


# Retirement Plans

## Saving For A Better Financial Future



401k, 403b, profit sharing and deferred compensation are all names used to describe programs where money is deducted from an employee's pay and put into a special account for that employee's retirement. The main benefit is that you do not have to pay taxes on the money that goes into the account. The taxes are paid when you take the money out. Because the employee is usually retired at the time, his/her income is normally lower and he/she is usually in a lower tax bracket.

Another benefit is that many employers match a percentage of the money that is put into the account. If you do not contribute the amount necessary to get the full match, you are losing that money.

These retirement plans are a valuable asset. For most workers, they have replaced traditional pension plans and will be the major source of income (with social security) for most retirees. It is usually in your best interest to contribute as much as you can to your plan.

### Common Mistakes

Many employees do not choose their investment wisely. You should take the time and ask questions to make sure you are choosing what investments are best based on your age, expected retirement age and other circumstances. You should review your portfolio on a regular basis and rebalance whenever necessary. Diversify your portfolio. Investing a large percentage in one stock (employees tend to do this with their own company stock) may not be a good idea. This is because any stock may lose money.

Many young employees think that they have plenty of time to start saving for retirement. Because of compounding, small contributions made when you are young will add up to big dollars when you are ready for retirement.

Many employees cash out their retirement plan when they leave a company. This is a bad idea. Not only will that money not be there when you retire, but you will face a tax bill and early withdrawal penalties. You may be able to keep your account with your old employer. You can also roll your account into an IRA or into a plan provided by your new employer.

Many plans allow you to take loans. Some employees use their retirement plan as their preferred way of getting extra cash. They believe they are borrowing their own money and paying themselves interest. Nothing could be further from the truth. Your loan repayments are made with after-tax dollars and the interest you pay is coming out of your pocket. You will pay taxes again when you withdraw the money after you retire. In addition, you give up the tax-deferred compounding on the



Money you withdrew, forever. This can substantially reduce your retirement income. There are circumstances where the IRS allows withdrawals without repayment, but you must still pay the taxes and penalties. Also, if you leave the company, the entire loan amount must be repaid within a short time or income taxes must be paid on the entire loan balance.

### Finding the Money

If you are not currently contributing to your retirement plan or you do not feel you are able to increase the contribution, here are some suggestions:

- ◆ When you get a raise, increase your contribution by a percentage of the raise. You won't miss what you didn't have.
- ◆ Review your expenses. Most of us have some expense, however small, that could be reduced or eliminated to fund the account. Look at what you are spending on eating out, coffee, entertainment, clothing, telephone and other discretionary purchases. Comparison shop for insurance, credit and major purchases. Track your expenses, so you know where your money is going. Novadebt offers free materials to assist you in doing this.
- ◆ Adjust your withholding. If you are currently getting a tax refund, you can reduce your withholding and have the money go directly to your retirement fund. Part of the contribution will be paid for by the reduced tax on the money you put in the retirement account.

### Getting Help

If you would like more information about retirement savings accounts, there are lots of resources to help you. Start with the Human Resource Department of your company or the administrator of your retirement fund.

Although Novadebt does not give investment advice, we will be happy to suggest resources and answer any questions you may have. Please feel free to contact one of our certified counselors at 1-800-992-4557.

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An Educational Message from

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