

Why Participate in Your Employer's Retirement Savings Plan? – Video Transcript

What's your dream for retirement? Traveling to exotic locales, more time to pursue hobbies or a business idea, or maybe just relaxing and having fun with family and friends? Most of us dream of a retirement where our time is our own—and we can do whatever we want.

But when you consider how you'll afford those dreams, the picture may not be so rosy.

Think about it. Your retirement could last more than a quarter of your lifetime. After the regular paychecks stop, where will the money come from?

Social Security may help, but it probably won't meet all of your needs.

So it's up to you to plan ahead.

Fortunately, your employer wants to help—by offering one of the most valuable financial tools available today: a workplace retirement savings plan. Here are three reasons why you should consider participating in your plan.

First, you'll need a big nest egg to keep up with the rising cost of living. At just a 3% annual inflation rate, for example, a \$75 bag of groceries would cost about \$135 after 20 years. Multiply that by all your daily needs, and you can see how inflation can eat away at your savings.

Some employers help build their employees' nest eggs through matching contributions. If your employer offers a match, be sure to save enough to get the full amount. Employer matches are free money – don't pass them up!

Second, your plan offers tax benefits, both now and in the future.

When you contribute to a traditional, non-Roth savings plan, the savings are deducted from your paycheck before taxes are taken out. This reduces your taxable income now.

In addition, those contributions grow "tax deferred." That means you don't have to pay taxes on your account until you take money out of the plan, but that will likely be in retirement when you may be in a lower tax bracket.

If your plan offers a Roth savings option, consider that as well. Although Roth contributions do not reduce your current taxable income, qualified withdrawals from a Roth account are tax-free.

Finally, participation makes saving easy. Because your contributions are taken directly from your paycheck, saving for retirement is automatic. That's a great way to build a saving habit — and what you don't see, you won't spend.

When you consider the rising cost of living, the tax benefits, and the ease of saving, participating in your employer-sponsored retirement savings plan could be one of the smartest financial moves you make.

Assumed inflation is hypothetical and cannot be guaranteed.

Taxable withdrawals prior to age 59½ may be subject to a 10% penalty tax (unless an exception applies).

Nonqualified Roth withdrawals may be subject to regular income taxes and a 10% penalty tax, unless an exception applies.