Importance of Saving for Retirement

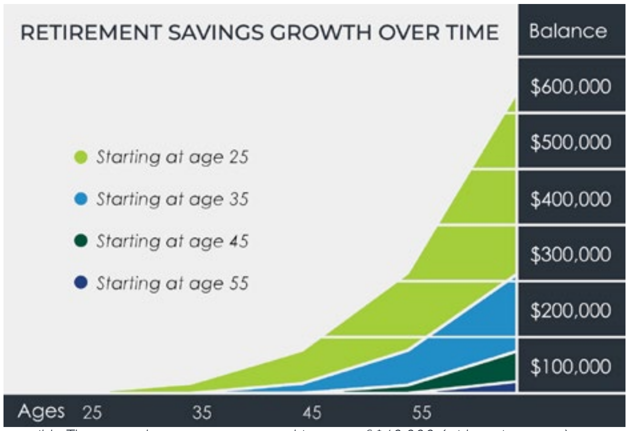
If you're like most people, you spend so much time working it's hard to give much thought to the time when you won't have to. But it's definitely worth your time now—especially when you consider you'll need about 80% of your income to maintain your current standard of living in retirement.[1]

Think about the retirement you want

The first step is figuring out the kind of retirement you want to have and how much money you will need to save. Begin by asking yourself the following questions:

- ✓ **At what age do I plan to retire?** The younger you retire, the longer your retirement will be, and the more money you'll need to carry you through it.
- ✓ **What kind of lifestyle do I hope to maintain during my retirement years?** Will I travel or take up a new hobby?
- ✓ **What rate of growth can I expect from my investments now and during retirement?** Be conservative when projecting rates of return.
- ✓ **Do I expect to dip into my principal?** If so, you may deplete your retirement savings faster than if you just live off investment earnings.

When you figure out your projected needs, don't forget about inflation. The average annual rate of inflation over the past 10 years has been approximately 2.87%.[2] Depending on how far away you are from retirement, this could be a significant number!



possible. The example assumes an annual income of $40,000 (without increases), 6% contribution, 8-10% rate of return, and monthly compounding. This chart is hypothetical and for illustrative purposes only. It is not intended to represent the performance of any specific investment. Actual returns will vary and principal value will fluctuate. Taxes are due when money is withdrawn.

Getting Started

Beginning to save for retirement as soon as you can and saving as much as you can afford on a regular basis are two of the best ways to make sure you're able to live the way you want to in your golden years. You may not notice the money being set aside each week from your paycheck, but even a small amount has the potential to grow over time.

	3% DEFERRAL RATE		5% DEFERRAL RATE	
Compensation	Pre-Tax Contribution	Weekly Paycheck Reduction	Pre-Tax Contribution	Weekly Paycheck Reduction
35,000.00	$20.00	$16.00	$34.00	$27.00
45,000.00	$26.00	$18.00	$43.00	$30.00
55,000.00	$32.00	$22.00	$53.00	$36.00
65,000.00	$38.00	$26.00	$63.00	$43.00
75,000.00	$43.00	$30.00	$72.00	$50.00

This chart assumes (1) 15% federal tax rate for the $35,000 compensation band and 25% of $45,000-$75,000 (2) 6% state tax rate and (3) weekly payroll deductions

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You ultimately want to look at your long-term goal and give your retirement account the potential to grow at a rate faster than inflation. Need some help determining how much money you may need in retirement? Our **Retirement Planning Calculator** can help. (*https://sentinelgroup.balancepro.org/resources/calculators/401k-calculator*)*

[1] *Will Your Retirement Income Be Enough? By Jean Folger, Updated February 14, 2024, Investopedia.*
[2] *Current US Inflation Rates: 2000-2024, © 2008-2024 COINNEWS MEDIA GROUP LLC*
You are solely responsible for the accuracy of any data you enter into this calculator as the calculations are based on the data provided. The simplified tax calculations also do not take into account any other pre-tax deferrals, such as reimbursement accounts for health plans or dental insurance., or other payroll taxes, such as FICA.

Creating your savings strategy

Creating a savings and investment strategy that will help you meet your retirement objectives is extremely important. And there's no better place to start than with your company-sponsored retirement plan.

Participating in your company's retirement plan has many advantages, but most importantly, you can benefit from tax savings either when you contribute to the plan or when you withdraw your money at retirement, and earnings on your contributions will be either tax-deferred or tax-free (see below for more information about taxes related to pre-tax and Roth deferrals). Consider the following:

- ✓ For regular (pre-tax) deferrals, you'll be taxed on a smaller gross income, which means a smaller income tax bill
- ✓ Typically the costs to invest through your employer's plan are much lower than investing on your own
- ✓ You'll enjoy the convenience of automatic deductions that are regularly deposited into your retirement account by your employer
- ✓ You can take your retirement savings with you when you change jobs
- ✓ If your company offers a match and you're not taking advantage of it, you're losing out on free money!

Save at least 15%

of your income for future needs and goals.

What is the difference between a regular deferral (pre-tax) and a Roth deferral?

With either a regular (pre-tax) deferral or a Roth deferral, you make a deferral contribution by electing to set aside part, either a percentage or dollar amount (if applicable) of your pay each pay period. For a **pre-tax deferral**, the taxable wages on your W-2 are reduced by the deferral contribution; therefore, you pay less current income tax. The tax on the pre-tax deferrals and earnings is postponed, or deferred, meaning you will pay tax on them when the plan distributes them to you.

A **Roth deferral** is an after-tax contribution, which means you pay current income tax on the deferral. Since you have already paid tax on the deferral, you won't pay tax on it again when you receive a distribution. In addition, if you satisfy certain distribution conditions, you won't have to pay tax on the earnings either. This means that the distribution of the Roth earnings can be tax-free, not just tax-deferred.

**Not all plans permit employee contributions and some do not allow for Roth deferrals. Also, not all plans offer an employer match. See your plan's Summary Plan Description or Plan Highlight for more information.*

Creating your investment strategy

Evaluate your risk tolerance.

Getting the most from your retirement plan requires you to understand how much risk you are able to tolerate as an investor. Keep in mind, aggressive growth opportunities come with more risk. In general, the closer you are to retirement, the less risk you should take with your investment choices. This is why it is always better to start sooner rather than later.

Risk is defined as the amount that the investment's value fluctuates over time. "Risky" investments go up and down more steeply than "safer" investments. Risk and return have a direct relationship. Usually as an investment's potential return increases, its level of risk increases too. Conversely, "safer" investments tend to have lower return potential

Diversification

"Don't put all your eggs in one basket" is as sound advice as you can get. Diversifying among several investments or asset classes is another way to reduce potential risk. It's important to build an appropriate mix of investments so that your overall mix – or portfolio – of investments can achieve maximum potential returns without exposure to more risk than you're comfortable taking. Why is diversification important?

- It helps reduce the volatility of your investment portfolio by spreading the risk across multiple investments or asset classes.
- It increases potential returns or decreases potential losses since a down period in one investment or asset class can be offset by gains in another.

Select your investments

Now that you've identified your retirement savings goals and are comfortable with your risk tolerance, you are ready to select your investments. In this guide you will find information about the investments that are available to you within the retirement plan. The investments offered have been chosen by your company's investment committee. The goal for their selection is to offer a variety of investments to provide opportunity for diversification. How your retirement plan performs will depend on how much money is contributed to your account and how well you invest your account. Before you invest, take the time to review the fund information carefully. It describes each investment manager, investment type, return characteristics, and risk and performance history. For more complete information on mutual funds associated with your retirement program, including charges and expenses, you may obtain a prospectus from our website. Please read all the materials carefully before you invest.

Check out our **[Savings Calculator](https://sentinelgroup.balancepro.org/resources/calculators/savings-goals-calculator)** *(https://sentinelgroup.balancepro.org/resources/calculators/savings-goals-calculator)* that was designed to help you create a savings plan. Your current savings, expected rate of return and target years to save are used to calculate when you may achieve your savings goal.

Consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and, if available, the summary prospectus contain this and other information about the investment company. A prospectus can be obtained by contacting your investment professional. The prospectus should be read carefully before investing. Diversification neither assures a profit nor guarantees against a loss in a declining market. There are no assurances that any strategy will meet its objective.
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