

# OnTrack



## I Shoulda, COULDA, Woulda

Have you ever kicked yourself for passing up an opportunity years ago to buy something that's worth big bucks today? Sometimes opportunity is staring us in the face, and we can't see it. Or, we recognize it, but don't take advantage of it. Almost everyone has regrets about lost opportunities and the road not taken.

Your retirement plan is a wonderful opportunity — it's your chance to save for a financially secure retirement. Are you making the most of it? Are you contributing as much as you can afford? If not, why not?

### Eliminate Regrets

It's easy to convince yourself that you'll start putting more money aside for retirement soon — as soon as you have your kitchen remodeled or buy a new high



definition television, that is. Unfortunately, it rarely works out like that. The best way to ensure that you won't have any regrets about passing up the opportunity to save for a secure future is to begin contributing as much as you can to your plan right now.

### Decide To Save More

You may have to make some sacrifices to set extra money aside for your retirement.

But consider the benefits. The money you save now has the potential to grow steadily in your retirement account for many years. Look at the chart below to see the difference contributing more to your plan can make over the long term.

### Consider Catch-up Contributions

If you are age 50 or older, you may have the chance to make up for missed opportunities by making "catch-up" contributions in addition to your regular contributions. The maximum catch-up contribution amount for most types of plans in 2006 is \$5,000. (Your plan may or may not allow catch-up contributions, and the limit could be lower. Ask your plan administrator for details about your plan's provisions.)

### Do the Smart Thing

Too many people look back and wish they'd done things differently. By contributing as much as you can afford to your plan now, you're doing the smart thing for your future.

### Small Increase, Big Difference

Weekly Contribution	Account Balance After 20 Years	Account Balance After 30 Years	Account Balance After 40 Years
\$10	\$22,573	\$52,865	\$113,742
\$20	\$45,147	\$105,731	\$227,484
\$30	\$67,720	\$158,596	\$341,226
\$40	\$90,294	\$211,462	\$454,968

*These are hypothetical examples involving retirement plan participants who consistently make weekly contributions over various time periods and earn a 7% average annual investment return (compounded monthly). Your investment returns will differ, and it is unlikely that your contribution amount will remain the same over a long period. Pretax contributions and related plan earnings will be subject to ordinary income taxes and a possible early withdrawal penalty upon distribution.*

## Cash Windfall or **TAX TRAP?**



Picture this: You're leaving your current employer to start a new job or pursue other interests, and you're about to receive a payout of the money in your retirement plan. What will you do with it? Keep the money invested and working full-time on your behalf in a tax-deferred retirement savings account? Or take the cash?

Lots of workers take the cash. In fact, one study\* found that 42% of individuals receiving preretirement distributions spent the money.

### An Expensive Decision

While there may be circumstances that make taking the cash a necessity, it is generally not a smart move. First and foremost, you shortchange your financial future by cashing out and spending the

money. Second, you'll have to pay tax on the distribution, which means you may end up with less money than you had planned.\*\*

Here's how it works. Your distribution will be taxable to you at your ordinary income-tax rate. In fact, your employer is required to withhold 20% of your distribution as a "down payment" on your federal income-tax bill for the year. There could also be a 10% early withdrawal penalty on the distribution. (Some exceptions apply.) This graphic gives you an idea of how taxes and the penalty can diminish a \$30,000 payout.

If you don't want to cash out the savings in your retirement plan when you leave, you have other options.

### Let It Be

Instead of taking a distribution, you may be able to leave your money in your plan until you retire. Choosing this option lets you avoid a current tax bill and a possible penalty and it keeps your money invested tax deferred. Your plan administrator can tell you whether this option is available to you.

### Roll It Over

Moving your money to an individual retirement account (IRA) or another employer's plan that accepts rollovers is another option. In either case, it's usually best to ask the administrator of your current plan to transfer your balance *directly* to the administrator of your new plan or the rollover IRA. You'll avoid the automatic 20% withholding tax and any penalty that way. And your retirement savings can continue to grow uninterrupted.

Be smart. Keep your money working full-time for your future.

\* James H. Moore, Jr. and Leslie A. Muller, "An Analysis of Lump-Sum Pension Distribution Recipients," *Monthly Labor Review*, May 2002.

\*\* Some plans allow participants to make after-tax Roth contributions. Distributions of Roth contributions and related earnings will not be subject to federal income tax when certain tax law requirements are met.

