The Case for Starting Your **401(k) Saving Plan**, Right Now!

It's time. The time to start is now! Don't wait any longer! The longer you wait the farther behind you fall. 30% of adult workers have no personal saving devoted to their retirement. These national statistics are startling and depressing at the same time.

I know, you need every penny you can get to cover current living expenses. Also, you likely feel the pressure of the immediate need, (paying the bills) and the guilt of not planning for your future needs (adequate retirement savings), become paralyzed by these feelings and consequently, do nothing.

Doing nothing to prepare for retirement is on par with investing in the lottery as a plan for retirement. The outcome of both will be the same. You will end up living on Social Security (assuming that it is still around). Further, a passbook savings account may be acceptable for your emergency cash needs, but for retirement savings, over time, it will actually lose money.

UPAL has a solution. The solution is a low minimum/automatic retirement savings plan. The low minimum part is very important; very few mutual funds still exist with a low initial investment minimum ($250-$500). Most mutual funds today require a minimum initial investment of $1,000 or more. For most people, this is a non-starter.

Assumptions:

1. you have pretax income of $35,000 annually
2. you are 27 years old
3. you have determined that you can scrape together $145.83 a month to defer into your 401k retirement plan

Good news!! You just reduced your taxable income by $1,750! OK, according to this plan, your employer will contribute $145.83 from your monthly salary to be automatically deposited into your 401(k) account. This is called the "**employee contribution**." Your employer will repeat this process for each paycheck and in a short- time, you will have adjusted to the lower take home amount. Let's further assume that you elected to place your deposits into the UPAL Conservative Model Fund. This fund has historically returned 5% on an average annual basis since its inception in 1997. At the end of year one, you will have deposited $1,750 into your account and you will have added $40.67 in earnings, for an ending account balance of $1,790! Hurray for you! I know, you are saying "So what's the big deal?" The big deal is you have completed a full year of regular savings to your retirement and you have $1,790 that you didn't have a year ago!

But wait, lets' make this even more interesting by adding the "**EMPLOYER MATCH**." What is a **match** you ask? This is **free money!** Who would pass up free money? Guess what? You would and you have with every year that has passed since you become eligible for the employer-sponsored retirement program!

Most of the UPAL practices offer a matching contribution. The most popular matching contribution is 80% of the amount you contribute, up to 5% of your annual salary. How did I get 80%? Well, when you defer 5% into your retirement plan, your employer "matches" your deferral with an additional 4%. According to my calculations 4 is 80% of 5. Therefore, your employer is going to contribute 80% (that's

$1,440) in addition to the $1,750 you personally contributed. Bottom line, assuming your employer makes the matching contribution on a quarterly basis, your first year ending balance is $3,217 instead of the $1,790 we listed previously.

Is this starting to get your attention? OK, let's look ahead because that's where it really gets interesting.

The chart below shows how your retirement plan balance will likely grow at the end of each decade until normal retirement age which is assumed in our illustration to be at age 67 in 40 years.

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Year #	You Contribute Annually	Employer Contributes Annually	Earnings 5% Compounded Monthly	Ending Balance
1	$1,750.00	$1,400.00	$67.25	$3,217.25
10	$1,750.00	$1,400.00	$1,890.93	$40,686.32
20	$1,750.00	$1,400.00	$5,152.46	$107,697.08
30	$1,750.00	$1,400.00	$10,254.24	$218,064.44
40	$1,750.00	$1,400.00	$19,371.60	$399,840.53

According to this chart, you stuck to your plan by continuing to make the same monthly contribution, received the same employer match, and your account grew at the historical average rate of 5% annually. By doing so, you would have accumulated a final balance of **$399,840.53** in your retirement account! Guess what? You only contributed $70,000 to this balance. The rest came from your employer match and from earnings.

What happens if your paper work gets lost and you don't find it for the next 10 years? This will reduce your savings period to thirty years and the ending balance of your account will be reduced by 45% to $218,064.44! So the longer you wait to start saving the less (much less) you will have at retirement age.

But what if you really need to be at the forty year $399,840.53 in 30 years? Keeping everything except your monthly contribution the same, it would require you to contribute 12.5% of your salary or $4,375 annually for 30 years to catch up by your normal retirement age. In this scenario, you end up making more personal contribution by $61,250, while the amount contributed by your employer is reduced by $14,045. Don't give up this **free money**!

My hope is that this article has convinced you of the importance of developing a plan for 401(k) savings that you can adhere to for the long term. Please resolve to make 2015 the year you take action on this very important matter.

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