

Why Contribute to Your 401(K)?

Rather than talking about what a 401(k) is, I'm going to talk about why you should contribute to it. A 401(k) is about investing your income for retirement and delay paying income tax on both your contribution, and the subsequent earnings. Quite often, employers will match a portion of their employees' contributions. It's usually a small amount, typically around 3%. In essence, they are giving you extra money for your retirement. So, why not take it?

Even if your employer does not match your contribution, there are many benefits to contributing. With regard to income taxes, most people would rather not ever pay them. Coming in a close second would be to delay paying them for as long as possible. A 401(k) gives you the second option. You could delay paying income taxes on your contributions and earnings until you are 70½ years old. At that age, the IRS forces you to take RMDs (required minimum distributions). These distributions would be taxed at whatever tax bracket you are in at the time of the distributions.

As an added bonus, Congress has added a *Retirement Savings Credit* to the tax laws. You may be eligible to take this credit, depending on your AGI and filing status.

So, when you contribute to a 401(k) you are saving for your retirement, you delay paying taxes on both contributions and earnings, your employer may provide matching contributions, and you may be eligible for a tax credit.

What is the argument for not contributing to your 401(k)?

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1250 Capital of Texas Hwy, South -- Bldg. 3, Suite 400
Austin, Texas 78746
(512) 329-2020 - www.brycast.com