MICHIGAN OFFICE OF RETIREMENT SERVICES

VOYA FINANCIAL

Saving for Retirement

Investing in your employer-sponsored retirement plan, like the State of Michigan 401(k) and 457 Plans, may provide an opportunity for savings.

Compounding is a multiplier effect. Consider Paula and Susan:

	Paula	Susan
Age at which savings started	45	25
Monthly contribution	$300	$100
Total contribution by age 65	$72,000	$48,000
Total pretax savings at age 65	$171,798	$324,180

Susan not only ends up with more money than Paula, but she also contributed significantly less money. This is one of the potential benefits of starting early.

This hypothetical illustration assumes each account earns an annual rate of return of 8% and is for demonstration purposes only. It is not guaranteed and not based on the rate of return of any particular investment and does not include costs incurred under a particular investment. It is also not intended to serve as financial advice. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their financial ability to continue their purchases through periods of low price levels. Taxes are generally due upon withdrawal.

Take advantage and invest now

If you invest in your employer-sponsored plan, your contributions reduce the part of your salary on which you pay taxes. Here's how:

If you're in the 22% tax bracket, and you invest $5,000 a year, that's $5,000 of your salary on which you're not paying taxes this year. So you reduce your annual tax bill by $1,100 ($5,000 x .22).

If you decide to invest, doing so with an employer-sponsored plan actually may keep more money in your pocket today.

Please note that distributions will be taxed as ordinary income when distributed and are subject to any tax penalties that may apply. Consider the chart on the next page showing the difference between investing with a plan versus investing outside a plan.

Pension and Social Security aren't what they used to be

In recent years, Social Security, the traditional source of retirement income, has become a smaller part of the equation.

Consider that for the average worker, Social Security replaces only about 40% of pre-retirement income.[1] For the next generation of retirees, these percentages may be even lower.

Your employer's retirement savings plan can provide an additional source of income.

It's never too late to start

If you're nearing retirement and still haven't taken advantage of your employer's plan, you may still benefit. While you may miss the long-term advantages of a younger investor, you'll still get the current income tax benefits.

Plus, any earnings of your investment will also be exempt from current income taxes. That's a significant advantage over many other kinds of investments, whose earnings may be reduced each year by taxes.

Saving made painless

By using automatic payroll deduction, contributions are automatically deducted from your paycheck before you have a chance to spend them.

Lyndsay makes $40,000 a year and is unsure if she can afford to put aside 6% of her biweekly salary into her company's 401k plan for the future.

	Without contribution	Contributing to a plan
Gross biweekly salary	$1,539	$1,539
6% plan contribution	$0	-$92
New taxable income	$1,539	$1,447
Federal income taxes	-$431	-$405
Net biweekly paycheck	$1,108	$1,042

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Because plan contributions are made with pre-tax dollars, the net impact on her take-home pay is a more affordable $66. Lyndsay's 6% contribution also triggers a 3% match from her employer, which means an additional $46 is deposited into her 401(k) at no cost to her.

1. Social Security Administration, SSA Publication No. 05-10035, January 2022.