Moir

FINANCIAL &
INSURANCE SERVICES

Employer Sponsored Retirement Plans: To Contribute or Not to Contribute?
By Heather Moir-Dangler

Jake[1] was reviewing his employer sponsored retirement plan, a.k.a 401(k) or SEP-IRA. Unfortunately, his plan did not include an employer match. Jake's wife didn't work and with three kids their budget was really tight. He reluctantly decided not to participate because he didn't see the value of contributing without any sort of match from his employer.

I saw Jake a few weeks later and he told me about his decision. I immediately asked, "What if you could contribute, without it affecting your take home pay? Would you do it?" He said, "Yes, I just don't see how I can afford to. Also, there's no match from my employer."

We did some calculating based on his wages and determined that he could put 3%[2] into his retirement without it negatively affecting his net pay. Jake was thrilled. He hadn't contributed for the last 5 years, because he thought he couldn't afford to. He couldn't even afford a $5 difference in what he took home.

If your employer has an Employer Sponsored Retirement Plan, your contributions are taken out pre-tax for the traditional retirement options. This is a great benefit, even if there's no employer match, because you can start with a very low contribution amount of 1 – 2%. There are a variety of online calculators which closely estimate the difference in your net pay for contributing to your retirement. Not contributing is not your only option. You may be surprised when you do your research.

[1] This hypothetical example is used for illustrative purposes only and does not represent any specific investment or situation. Actual results will vary. The effect of taxes and investment fees were not considered. Characters and situation are fictional. Any resemblance to real people or events is entirely coincidental.
[2] These calculations differ on how much you earn on an annual basis and the percentage noted is different for each person's situation.