Retirement Accounts, SIMPLE IRA vs. 401(k) plans and the power of starting early

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Abstract:

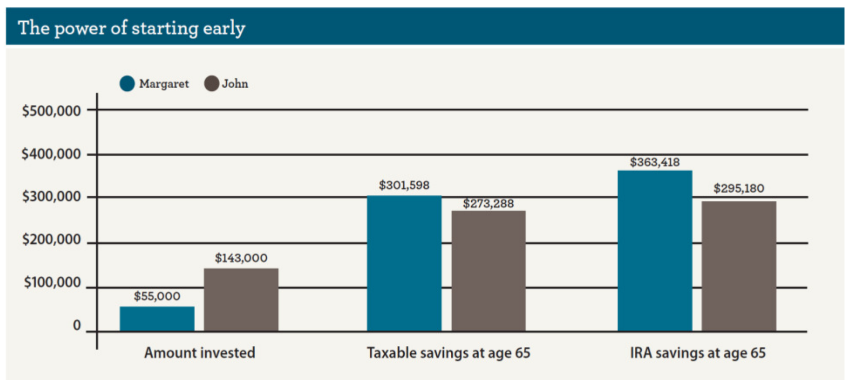
A few minutes of your morning to investigate 2 short illustrations of saving early vs. saving late, and the difference of compounding in a taxable vs. tax deferred account.

A short compare and contrast of the two most common and applicable retirement plans utilized by outfitters, the Simple IRA and 401(k).

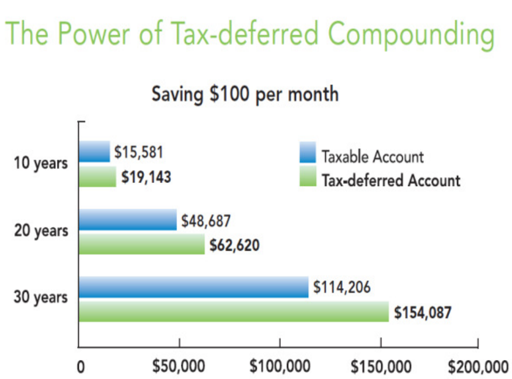
A few minutes of brow beating to encourage guides to take advantage of plans that are offered to them, and why they should ask for one if not available.

Margaret , 23, is planning to invest $5,500 a year in this IRA for the next 10 years (for a total of a $55,000 investment). After that time, Margaret will not be making any additional IRA contributions.

John isn't focused on saving for his future at this young age and will wait until the age of 40 to begin saving $5,500 a year in an IRA. However, at this older age and with his higher earning power, he will invest every year until age 65 (for a total of 26 years and a $143,000 investment).



This information is hypothetical and assumes an annual return of 5% and a tax rate of 25%. It is provided for informational purposes only. It is not intended to represent any specific investment, nor is it indicative of future results. Ending values for Margaret and John are at age 65. Distributions from a Traditional IRA are subject to ordinary income tax and may be subject to an IRS 10% penalty if taken prior to age 59½.



This graph compares the growth of $100 per month (adjusted for inflation over time) contributed to a tax-deferred retirement account and the same amount contributed to a taxable account. Balance in the tax-deferred account may be subject to income taxes on withdrawal, depending on whether pretax contributions or Roth contributions were made. Assumes 6% annual return, compounded monthly, 4% annual inflation, and 15% federal tax rate. From the taxable account, taxes are taken each month on deposits and annually on gains.
* This is a hypothetical illustration and is not meant to represent the past or future performance of any of the investment options available through your plan. It is possible to lose money by investing in securities. You may be subject to a tax penalty if you take a withdrawal from the plan prior to age 59½.

	Simple IRA	401(k)
Eligibility	Employees earning over $5k in 2 preceding years	Employees over 21 or one year of service
Maximum Contribution	$12,500/ $15,500 if over 50	$18,000/ $24,000 if over 50
Employer obligation	Match 3% of compensation	Discretionary, can include profit sharing

Testing / filing	No filing or testing	Must file 5500, complete annual testing for top-heavy and discrimination

You Are Planning To Retire Someday, Aren't You?

Does your employer offer a 401(k) retirement savings plan? Do you participate? If you don't, you're giving up two great benefits: immediate tax savings and tax-deferred growth* of your contributions. And you also may be giving up your best chance at saving for a comfortable retirement. Even if you already participate in the plan, you may not be contributing as much as you could. So, what should you do to take full advantage of your plan?

The First Step: Enroll

If you aren't contributing to your plan, sign up. Your contributions are generally taken out of your pay before taxes, so less of your paycheck will go to Uncle Sam. However, if your plan allows Roth deferrals, your earnings may be able to be withdrawn tax free at retirement**.

Make the Maximum Contribution

You're allowed to contribute up to $18,000 for 2017. If you're age 50 or older, you can make an additional catch-up contribution of up to $6,000 if your plan allows. Contribute the maximum amount, if possible. The earlier you begin making contributions, the longer you have for the tax deferred growth*. Remember, it's your future you're saving for.

Employer Match? Take Advantage

If someone offered you money just for doing something that benefits you, you wouldn't turn it down, would you? Well, that's what happens when your employer matches your retirement plan contributions. An employer match is like getting "free" money, so contribute to your plan at least enough to take full advantage of any matching funds.

Put It on Automatic

Some plans allow you to sign up for annual automatic increases in your contribution amount. Committing to even a small increase every year may help you build your retirement savings faster.

Look at Everything

Consider how your 401(k) plan will complement your other sources of retirement income, such as traditional pension plans, Social Security, and investment income.

*There are certain conditions that must be met before you can withdrawal the contributions, plus any earnings tax free.

**Withdrawals from a Traditional 401(k) plan ae subject to ordinary income tax and may be subject to a federal 10% penalty if taken prior to age 59 ½.

This article was written by Wells Fargo Advisors and provided courtesy of Tim Payne, CFP®, Senior VP – Investments, in Salt Lake City, UT