

# Get **\$SMART** Wausau

## C O A L I T I O N

*"Educating people to make smart money choices."*

### **Q** How much should I save for retirement?

**A** Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying your bills. However, don't just figure that you can't come close saving 10% of your income without looking at the after-tax cost.

For instance, assume you earn \$50,000 annually and your employer matches 50 cents for every dollar you contribute to the 401 (k) plan, up to 6% of your pay. So, you put 6% of your pay, or \$3,000, in the plan, your employer will match 3% or \$1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your \$3000 contribution will save \$750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

What if you don't have a 401 (k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, and contribute pretax dollars, which reduces your contributions cost by your marginal income tax rate. In 2010 , you can contribute a maximum of \$5,000 to an IRA, and individuals over 50 can make an additional \$1,000 catch-up contribution. Or, if you may prefer to contribute to a Roth IRA. While you won't get a current income tax deduction for your contribution, you can make qualified distributions free from federal income taxes.

Don't just assume that you don't have the additional funds to save for retirement without looking at the after-tax cost.

Visit [www.getsmartwausau.org](http://www.getsmartwausau.org) for information on free or low-cost local programs to help you make smart money choices.