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Remembering the virtues of 401(k) savings

401(k) ADVISER
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Saving for retirement is a lot more enjoyable when the market goes up. This year, checking your 401(k) account balance has evoked feelings similar to finding a lump of coal in your stocking. If this feeling strikes you as all too familiar, it's not your imagination.

According to data from Morningstar, 2015 enjoys the dubious distinction of marking the lowest rolling 15-year average annual rate of return (3.96%) for the U.S. stock market in the last 80 years.

Given the recent lack of support from the markets, it's no wonder that some are feeling frustrated with their progress toward their retirement saving goals. Let's take a minute to remember why a 401(k) program is such a powerful tool to help you overcome challenging markets and accumulate wealth for retirement.

Here are my top 10 reasons to participate in your employer's 401(k) plan.

1) Free money: Most 401(k) plans offer employer matching contributions. A 50% match is a 50% return on the money you invest that year. Not participating, at least up to the amount of your employer's matching contribution, is like walking past $20 bills on the sidewalk.

2) Convenience: Automatic payroll deduction is psychologically the most painless way to save money because of the adage: If you don't see it, you don't miss it.

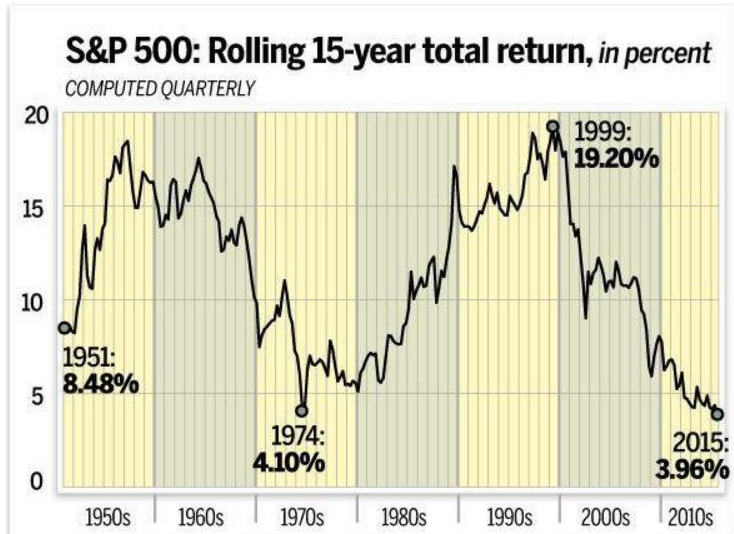
3) Fantastic tax shelter: Regardless of your income level, a Roth 401(k) account allows tax-free accumulation of investment earnings for as long as you care to keep your savings in the plan. The younger you are, the more powerful the benefit of tax-free compounding of investment earnings can become.

4) Up front tax savings: If you are currently in a high tax bracket, money you save in a traditional 401(k) account reduces the amount of taxable income you report to the IRS. This tax saving should allow you to save more.

5) Protection from creditors: Federal law makes 401(k) assets off limits to creditors in case of bankruptcy or liability claim. This is not the case in all states for IRAs. Of course, two creditors that represent an important exception to this rule are an ex-spouse and the IRS.

6) Lower cost investing: The larger the company, the more likely its 401(k) plan offers institutional shares of funds with expense ratios that average one-half that of the average retail mutual fund. Even for index investing, an index fund that costs 0.08% to a retail investor is often available within large 401(k) plans at 0.04%.

7) Dollar cost averaging: Investing equal amounts every month throughout all market environments is a disciplined investment strategy that counteracts the temptation to buy high and sell low and lowers your average cost, thereby boosting returns.



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8) Auto features: Automatic enrollment, automatic escalation, and automatic investment and rebalancing can make it almost effortless to keep your retirement planning on track.

9) Estate planning: A Roth 401(k) account allows you to leave wealth to your heirs income tax-free, and if rolled into a Roth IRA, avoid IRS-required minimum distributions from your retirement savings. Splitting your retirement savings between a traditional and a Roth 401(k) account allows you to control the amount of taxable retirement income you receive in retirement, which can affect your eligibility for tax-free Social Security benefits.

10) Lifetime income solutions: The prospect of converting a lifetime of savings into retirement income is a daunting task. Increasingly, 401(k) plans are offering solutions that provide a simple and cost effective way to turn some or all of your accumulated savings into a monthly check that you cannot outlive.

As difficult as recent market results have made building wealth for retirement, your employer's 401(k) plan offers numerous advantages that will help you achieve your goals. Now is good a time to investigate if you are taking full advantage of all the benefits your plan has to offer.

You might also be interested to know that after the two other previous lows in the 15-year rolling period average annual rate of return, 1942 and 1974, the average annual rate of return from the stock market in the subsequent 15 years was well above 10% per year. It is too easy to assume what has transpired recently will continue. History has often proved that assumption wrong.

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