Why You Should Keep Contributing To Your SIMPLE IRA

Save for retirement consistently, regardless of how the market behaves.

Presented by Glazer Financial Network

There is seldom a dull moment on Wall Street. Stocks may rise or fall dramatically over the course of a year or a decade. Sometimes, breaking news may tempt you to think about withdrawing your SIMPLE IRA funds or greatly reducing or ceasing your contributions for the short term. If you're considering such moves, think twice.

Don't stop saving for retirement. If you stop contributing to your SIMPLE IRA for a while, you could end up shortchanging your retirement savings potential. Stopping and starting contributions isn't always so easy: if you stop, the plan rules may prohibit you from contributing again until the start of the following year.[1]

SIMPLE IRAs are terrific retirement savings vehicles – and the fact is that most Americans have not saved enough for their retirement years. Additionally, if you withdraw money from your SIMPLE IRA before age 59½, you're almost certainly looking at a 10% tax penalty on the amount withdrawn (25% if you've had the SIMPLE IRA for less than two years) in addition to the regular income taxes you will pay on that amount. Moreover, you may end up spending money today that could have enjoyed tax-deferred compounding in the future.[1]

Don't lose out on the match. When you have a SIMPLE IRA, your employer is your partner in your retirement savings effort. Your employer has to either a) match your SIMPLE IRA contributions dollar-for-dollar each year up to 3% of your annual compensation, or b) put in the equivalent of 2% of your annual compensation into the account per year. If your employer chooses option a), your employer has no requirement to contribute to your SIMPLE IRA if you don't. (In the other option, you at least get 2% of your yearly compensation put into the account regardless of what you do.)[2]

If your employer is going to match, that match could really add up over time. If you make $60,000 per year, 3% is $1,800. Would you throw away $1,800 worth of free money each year? You shouldn't, especially given that this money will grow tax-deferred.

Don't lose out on the power of tax deferral & compounding. Together, these factors have the potential to dramatically grow your retirement savings. As a hypothetical example, let's say you put just $100 per month in your SIMPLE IRA. If you do that for 20 years with a 7% rate of return, that $24,000 contribution across 20 years will grow to $52,093. How? You can credit compounding and tax-advantaged investment. That's just employee contributions: if your employer matches dollar-for-dollar to 3% of annual compensation, the inflows into your IRA are even greater and you are poised for additional compounding and growth.[3]

You make pre-tax contributions to a SIMPLE IRA, and there is never any vesting period: you always own 100% of that money. Your employer doesn't include your contribution amount as

part of your wages, tips or "other compensation" on your W-2, so the contribution amount is not counted as taxable income. If you are self-employed or a partner in a business sponsoring a SIMPLE IRA plan, the IRS allows you to deduct both employer *and* employee contributions.[1,3,4]

An employee younger than 50 can contribute up to $12,000 to a SIMPLE IRA in 2014; an employee 50 or older can contribute as much as $14,500 thanks to the catch-up contribution allowance for these plans. These employee contribution limits are unchanged from 2013.[1]

Do keep contributing steadily. It's a good idea to keep up the dollar cost averaging and continue to make steady month-to-month or paycheck-to-paycheck salary deferrals. In all probability, this is central to your financial plan - and how will you amass the retirement savings you need if you stop contributing? Sure, there are other ways to build retirement savings, but dollar-cost-averaged contributions to a SIMPLE IRA represent a consistent, recurring way to get that job done.

If contributions are made via a dollar cost averaging approach, the investment dollar buys shares at a lower price in a bear market – and it also buys more shares for the money. So when a bull market cycle resumes, you may end up in a really good position.

It's a good idea to keep contributing even if you are falling behind financially. Should you pay down debts with SIMPLE IRA assets? Only as a last resort. Remember that you can't take loans from these IRAs. As SIMPLE plans fall under Section 408 of the Internal Revenue Code, assets in SIMPLE IRAs commonly qualify for state and/or federal exemptions in personal bankruptcies.[5,6]

Do review your goals with your financial advisor. Look at your time horizon. Look at your overall financial plan. Whether you are nearing retirement or far away from it, you will see that your SIMPLE IRA is a vital tool for pursuing your financial objectives. Whatever this or that website may proclaim, don't be discouraged by short-term headlines; abide by the long-term plan created personally for you.

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Citations.

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