Get an Instant 80% Return!

The Motley Fool
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We all know we should save for retirement, yet study after study shows that most Americans aren't saving enough. But I don't need studies to tell me that — as editor of The Motley Fool's Rule Your Retirement newsletter service, I hear from retiree wannabes all the time about how they wish they could save more, but they just don't have the money. However, when I tell them they might be able to get an instant 80% return on their savings, they start coming up with ways to save.

Is such a return really possible? For many people, it is, thanks to Uncle Sam and the boss. Here's why: By putting money in a tax-deferred retirement account instead of checking account — or in some company's coffers when you choose to spend your money on anything from a **Coke** (NYSE: KO) to a **Dell** (Nasdaq: DELL) to a **Ford** (NYSE: F) — you are getting an instant return on that investment. Here's how.

Fewer taxes today

Before money makes it from your employer's bank account to your paycheck, Uncle Sam takes a bite. However, you can prevent that by contributing money to a retirement plan at work or to a deductible traditional IRA (if you're eligible), since your contributions reduce your taxable income dollar for dollar. Put another way, if you're in the 28% tax bracket, every dollar that doesn't go into a retirement account increases your tax bill by 28 cents. I almost guarantee that a year after you increase your contributions to your 401(k) or 403(b), you will leave your local **H&R Block** (NYSE: HRB) office astounded at your lower tax bill.

Fewer taxes tomorrow

Capital gains, interest, and dividends on investments in non-retirement accounts get taxed in the year you receive them. This doesn't just increase your tax bill year after year; it also leaves less money behind to make more money. However, the money in a 401(k) or IRA grows tax-deferred, which means you don't pay taxes on that money until you make withdrawals in retirement. (If you have a Roth IRA, you won't ever pay taxes on the growth, though you won't get a deduction on the contributions.)

A bonus from the boss

Picture this: Your boss (or the CEO of your intergalactic megalo-conglomerate) is holding out $250 to you — all you have to do is make sure $500 from your next paycheck goes into the company retirement plan. That's right. If your employer offers a 50% match on retirement contributions, the company's essentially offering to pay you to save. For every $500 you don't contribute to the plan, you leave $250 of bonus pay in your boss's pocket.

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Let's tie all this together in one tidy example to see how utilizing retirement accounts can do more for an investor than improve his post-employment prospects. How much could a hypothetical investor save by contributing to a retirement account?

Income-tax savings from tax-deferred growth (assuming 6% interest on $4,000): $67.

Money gained by receiving company match (50%): $2,000.

Thus, for this fictional fellow, contributing $4,000 to a 401(k) increased his net worth by an additional $3,187. That, dear reader, is essentially an instant 80% return.

Of course, your mileage will vary, depending on your employer match, tax bracket, and investments. On the other hand, this illustration doesn't consider a myriad of other variables, such as state income tax savings and more money to compound through the years. Even if you don't receive an employer match, the tax savings are compelling — we're talking tens of thousands of dollars over the years, which, smartly invested, will create even more thousands.

So start contributing to your retirement accounts now. You can't afford not to. And if you're looking for other ways to improve your post-employment prospects, take a 30-day free trial of *Rule Your Retirement,* and receive the "8 Ways to Supercharge Your Retirement" special report.