Two Tax Mistakes

Save more by avoiding these common oversights.

Contributing less than you can afford
The more you contribute, the lower your reported income—and the potential for greater tax savings. Contact your plan representative when you think you can increase your salary deferral.

Leaving funds in a flexible spending account (FSA) Employees who are allowed to direct pre-tax dollars to an FSA can use the money to pay for qualified medical and/or dependent care expenses. But unless an account is depleted by year-end, the money remaining in the account is lost. Some FSAs have a grace period of 2½ months after the end of the plan year (mid-March for calendar-year plans), so check with your human resources department to find out if you have a few extra months to spend the money.[3]

3. Source: www.smartmoney.com

Have Questions? Need More Information?

Web site*:	www.vermont457.com
KeyTalk®*:	800-457-1028

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STATE OF VERMONT

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FINANCIAL Footnotes

A retirement-planning newsletter brought to you by Great-West Retirement Services®

An Unbeatable Advantage

How tax-deferred accounts build savings

Thanks to this year's government stimulus package, most U.S. households are enjoying a number of tax breaks. Even so, investors are looking for every opportunity to further reduce their tax bills in the interest of building savings. A tax-deferred retirement account is one of the ways to do so.

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Great-West RETIREMENT SERVICES®

An Unbeatable Advantage

Continued from cover

The power of tax deferral

Your workplace retirement savings plan is a tax-deferred account. So is an Individual Retirement Account (IRA). In a tax-deferred account, your contributions and earnings aren't taxed until you withdraw them, at which time they are taxed as ordinary income.

What's more, if you are allowed to contribute pre-tax dollars to your plan, this reduces your taxable income, possibly lowering your tax liability for the year of contribution. In 2009, the maximum contribution to a workplace retirement plan is $16,500*. Investors age 50 or older can make "catch-up" contributions of an additional $5,500.[1]

Adding up the savings

To make the most of these tax benefits, strive to increase contributions each year. Say you earn a salary of $40,000 when you begin contributing to your plan and will receive annual raises of 3%. Assuming that you'll contribute 1% of your salary the first year and increase contributions by one percentage point each year thereafter, you'd end up with $192,281 after 20 years.[2] While you'll pay income tax on retirement withdrawals, you'll still have benefited from the years of tax-deferred savings growth. And that's an advantage that can't be beat.

1. www.irs.gov
2. This hypothetical illustration assumes a 7% annual investment return and a 15% cap on contributions. It is not intended to predict or project future investment results. Rates of return may vary. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted.

*Please check the terms of your plan for any further limitations.

To make the most of your workplace plan's tax-deferral benefits, strive to increase contributions each year.

Tax-Wise Investing

Understanding different types of accounts

Q: What is a tax-deferred account?
A: Tax-deferred means that any money you earn in that account grows tax-free until you start taking withdrawals. There are also tax-deferred accounts that, in addition to growing tax-free, allow for tax-free distributions, assuming that certain conditions are met. A Roth IRA or a Roth-designated account within your retirement plan are examples of such accounts.

Withdrawals from Roth-designated accounts are tax-free only if an account is held for at least five years and an original owner is over age 59½. Note: Contributions to Roth IRA and Roth accounts within a retirement plan are made with after-tax dollars. Contributions to traditional IRAs and non-Roth accounts within your retirement plan are made with pre-tax dollars.

Q: What is a taxable account?
A: A taxable account is a non-Roth account funded with after-tax dollars that receives no special tax treatment. Any earnings or gains in taxable accounts are subject to taxation in the year such earnings and/or gains are made. Among taxable accounts are your personal savings, money market, and brokerage accounts.