Did you know...  ■ retirement can last for 40 years  ■ retirees may need up to 80% of their income to retire comfortably  ■ the average monthly Social Security payment is around $1,000

 Lots of Benefits when you set up or participate in an employee retirement plan
This brochure highlights the many benefits of a retirement plan for both employers and employees. It addresses the initial steps when you’re thinking about a retirement plan, and then covers the working stages of a plan — choosing, establishing, and operating. And finally, it includes resources and contacts for further assistance with a retirement plan.

The Internal Revenue Service offers information for employers and employees on tax rules that apply to retirement plans. This information for business owners, tax professionals, retirement plan administrators, and plan participants is posted on the IRS Retirement Plans Web page at www.irs.gov.

Compounding Counts!

Here’s a quick look at the value of compounding interest.

<table>
<thead>
<tr>
<th>YOUR MONTHLY SAVINGS</th>
<th>YOUR SAVINGS GROWTH IN 5 YEARS*</th>
<th>YOUR SAVINGS GROWTH IN 15 YEARS*</th>
<th>YOUR SAVINGS GROWTH IN 30 YEARS*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100</td>
<td>$7,808</td>
<td>$41,792</td>
<td>$227,933</td>
</tr>
<tr>
<td>$300</td>
<td>$23,425</td>
<td>$125,377</td>
<td>$683,798</td>
</tr>
<tr>
<td>$500</td>
<td>$39,041</td>
<td>$208,962</td>
<td>$1,139,663</td>
</tr>
</tbody>
</table>

*assuming 10% annual earnings compounded monthly
The following shows different savings initiatives of two young workers:

- **June** graduated from college at 20, went to work, but didn’t start saving for retirement until she turned 30. June will have to contribute $300 a month for over 30 years to earn a million dollars by the time she turns 65 and retires.

- **April** graduated from college when she was 20. She went to work and immediately began participating in her employer’s retirement plan, saving $300 each month. She chose diversified investments in her employer’s plan that on average earned 10% per year.

April got married, started a family and decided to stay home after working for 10 years. April had contributed $36,000 to her retirement fund while working and didn’t contribute another penny. Because of compounding, when April turned 65, she had over two million dollars in her retirement account.

The chart below shows the comparison of savings for June and April.

June would have had to contribute much more out-of-pocket for her money to have grown to a million dollars. Her contributions had less time to grow, or compound.

<table>
<thead>
<tr>
<th>$300 monthly savings with 10% compounded earnings</th>
<th>April, who started saving early, yielded…</th>
<th>June, who started saving later, yielded …</th>
</tr>
</thead>
<tbody>
<tr>
<td>$300 per month  x number of years</td>
<td>total accumulated contributions</td>
<td>account balance</td>
</tr>
<tr>
<td>Year 10</td>
<td>$36,000</td>
<td>$36,000</td>
</tr>
<tr>
<td>Year 20</td>
<td>0</td>
<td>36,000</td>
</tr>
<tr>
<td>Year 30</td>
<td>0</td>
<td>36,000</td>
</tr>
<tr>
<td>Year 40</td>
<td>0</td>
<td>36,000</td>
</tr>
<tr>
<td>Year 45</td>
<td>$0</td>
<td>$36,000</td>
</tr>
</tbody>
</table>

Remember, April contributed $36,000 in the 10 years she was employed. All subsequent year earnings are based on her initial contributions of $36,000.
**Benefits Now, Benefits Later**

**Why should you be interested in a retirement plan; and what are the benefits of having a plan?**

Retirement plans allow investing in the future now for financial security later in retirement. As a bonus, businesses and employees get significant tax advantages and other incentives while investing in retirement.

**Business benefits include:**
- employer contributions are tax deductible,
- assets in a plan grow tax-free,
- businesses may receive tax credits and other incentives for starting a retirement plan,
- flexible plan options are available, and
- a retirement plan can attract and may help retain better employees, thus reducing new employee training costs.

**Employee benefits include:**
- tax on employee contributions is deferred until distributed,
- investment gains in a plan are not taxed until distributed,
- retirement assets can be carried from one employer to another,
- contributions can be made easily through payroll deductions,
- Saver’s Credit is available, and
- better financial security is available upon retirement.

**First Steps**

**What initial steps could you take to learn about and/or set up a retirement plan?**

Start by contacting either a tax professional familiar with retirement plans or a financial institution that offers retirement plans.

You can access detailed information on retirement plans at [www.irs.gov](http://www.irs.gov). See the back cover for other websites and telephone listings to access IRS retirement plan reading materials or answers to your retirement plan tax-related questions.
What are the “working stages” of a retirement plan?

Every retirement plan has three key periods of implementation — choosing, establishing, and operating the plan.

Choosing – Make a decision to invest in your future. Begin thinking toward retirement in general, and then learn specifically about ways you can put money aside for your retirement and the retirement of your employees.

Establishing – Take the necessary steps to put your retirement plan in place. Depending on the type of plan you choose, the range of employer administrative steps may vary, such as:

- arranging a fund for the plan’s assets,
- adopting a written plan,
- notifying eligible employees, and
- developing a recordkeeping system for your plan.

Operating – Implement the terms of your retirement plan so it grows and evolves into the valuable retirement vehicle you need. Depending on the type of plan established, there are a number of steps employers need to take to operate the plan on an ongoing basis, such as:

- covering eligible employees,
- making appropriate contributions,
- keeping the plan up-to-date with the retirement plan law,
- managing the plan assets,
- providing information to employees participating in the plan, and
- distributing appropriate benefits.

Check out IRS Publication 4460, *The Retirement Plan Products Navigator*, at [www.irs.gov](http://www.irs.gov), or order by calling the IRS toll-free at 800-829-3676. Publication 4460 displays an information highway of retirement plan products in the appropriate order to help choose, establish, and operate a plan that is right for employers and employees.
Access retirement plan information or assistance through:

- www.irs.gov
- 877-829-5500: Employee Plans Customer Account Services

Download the following publications at www.irs.gov or order a free copy through the IRS at 800-829-3676:

- Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- Publication 590, Individual Retirement Arrangements (IRAs)
- Publication 3998, Choosing a Retirement Solution for Your Small Business
- Publication 4222, 401(k) Plans for Small Businesses
- Publication 4333, SEP Retirement Plans for Small Businesses
- Publication 4334, SIMPLE IRA Plans for Small Businesses
- Publication 4587, Payroll Deduction IRAs for Small Businesses
- Publication 4674, Automatic Enrollment 401(k) Plans for Small Businesses
- Publication 4806, Profit Sharing Plans for Small Businesses

For general taxpayer assistance, contact the IRS at 800-829-1040.