Retirement Savings Plans

A convenient way to prepare for retirement is to invest in retirement savings plans that are available to you.

401(k) and 403(b) Plans
For simplicity, convenience, and tax savings, it's hard to find a better deal than a 401(k), or a 403(b) in government and tax-exempt organizations.

A 401(k) is a retirement plan that allows you to make deductible contributions that will grow tax-deferred until you withdraw them. With a 401(k) plan, you contribute part of your pay to a retirement plan account set up just for you. IRS and plan limits may apply to the amount you may contribute. You don't pay taxes on the amount you contribute or on the investment earnings in your plan account until you withdraw funds from the plan. If your employer matches any of your contributions, this is an added tax-deferred benefit.

The amount you contribute is not reported on your W-2 to the IRS, reducing your taxable income for the year. For example, if you contributed, $4,000 of your $60,000 salary to a 401(k) plan, only $56,000 would be reported as income.

Also, you may receive periodic statements showing the amounts you have in each investment option and how each one performed. It will also show your contributions and any matching contributions made by your company.

Individual Retirement Accounts (IRA)
A convenient way to prepare for retirement is to invest in an IRA. You can make periodic deposits, and your earnings aren't taxed until you make withdrawals, so your money grows faster.

IRAs were established by the Federal government in 1981 as an inducement for people to save money for retirement. The concept was relatively simple: individuals with income from employment could deposit up to 10% of their earnings (to a specified limit) each year into a special account set up by banks, brokerages, or mutual funds.

IRAs are self-directed, which means you choose how the money is invested – CDs, stocks, bonds or mutual funds, for example. Under certain circumstances, your IRA contribution may be deductible on your tax return.

Roth IRA
A Roth IRA is an individual retirement account created by the Taxpayer Relief Act of 1997. This IRA offers more incentives to boost your retirement savings, as well as more ways to use your nest egg.

Roth IRAs have gotten better over the years. With a Roth IRA:

- Contributions are allowed at any age
- Qualified distributions are tax-free
- Flexible withdrawal options are available
- The amount you can contribute is increasing

Unlike traditional IRAs, contributions to a Roth IRA are never tax-deductible. In addition, if the account is open for at least five tax years, withdrawals of original contributions and investment earnings are tax-free if you are at least 59 ½, become disabled, or withdraw up to $10,000 for first-time home buying expenses.

Choosing Between a Traditional IRA and a Roth IRA
The main question that you want to ask when you are trying to decide between a traditional IRA or a Roth IRA is: Do you want to save on taxes now or when you retire?

Here's the analysis:

Traditional IRA – If you want to save on taxes now, choose a traditional IRA. Traditional IRAs make sense if you want a tax deduction now or if you think you'll be in a lower tax bracket when you retire.

Roth IRA – If you want to save on taxes when you retire, choose the Roth IRA. Roth IRAs are a good fit if you don't need a tax break now. If flexibility is what you need, consider a Roth IRA. Two reasons why a Roth IRA is a more flexible IRA are:

1. You can withdraw regular contribution at any time, tax-free and penalty-free
2. You do not have to take mandatory distributions at age 70½