

Saving for Retirement

Someday you will be an old person. Sorry to remind you, but it's true—and the sooner you accept the fact, the more prepared you'll be to build the kind of retirement lifestyle you want.

Timing is everything

Saving a little now is better than saving a lot later. Your retirement will likely be the longest-term savings goal of your entire life. The earlier you start saving, the more time your contributions have to compound and grow.

It pays to start saving early:

Let's say you put \$10,000 in your 401(k) and do nothing further until it's time to withdraw the balance at age 65:

- If you put the \$10,000 in at age 25, you'd have \$217,000 at age 65*
- If you put the \$10,000 in at age 35, you'd have \$100,000 at age 65*
- If you put the \$10,000 in at age 45, you'd have \$68,000 at age 65*

**Based on an 8% average annual return*

“The same investment can be worth a lot more when given a little bit more time to grow!”

Retirement accounts

Retirement accounts are designed as an incentive to save for

retirement and act like containers for your various investments. As long as your investments remain in the container, they can grow and accumulate tax-free.

Comparing options:

The most common retirement savings accounts include Traditional IRAs, Roth IRAs and 401(k)s.

Where can I set one up?

- **Traditional IRA:** At your financial institution
- **Roth IRA:** At your financial institution
- **401(k):** Through your employer

What are the annual contribution limits?

- **Traditional IRA:** \$5,500 (combined IRA limit)
- **Roth IRA:** \$5,500 (combined IRA limit)
- **401(k):** \$18,000 (if you're under the age of 50)

Are my contributions taxed?

- **Traditional IRA:** No, contributions are made with pre-tax dollars—contributions may be deducted from your income tax return for that year
- **Roth IRA:** Yes, contributions to a Roth IRA are made with after-tax dollars and cannot be deducted from your income tax
- **401(k):** No, your 401(k) contributions are pre-tax—they come directly from your salary and are not counted toward your taxable income that year

When can I make withdrawals?

- **Traditional IRA:** After age 59½ (to avoid penalties)
- **Roth IRA:** After age 59½ (to avoid penalties)
- **401(k):** After age 59½ (after age 55 in some cases)

Are withdrawals taxed?

- **Traditional IRA:** Yes, distributions in retirement are taxed as ordinary income
- **Roth IRA:** No, qualified withdrawals in retirement are tax-free
- **401(k):** Yes, distributions in retirement are taxed as ordinary income

Are there any penalties?

- **Traditional IRA:** An additional 10% in taxes is charged on early withdrawals
- **Roth IRA:** You may have to pay taxes and penalties on the earnings in your Roth IRA when you make early withdrawals
- **401(k):** Most early withdrawals are taxed as ordinary income and charged an additional 10% penalty fee

What makes it a good option?

- **Traditional IRA:** Because Traditional IRAs are self-directed, you can choose from a wide range of investment options
- **Roth IRA:** Unlike Traditional IRAs, Roth IRAs have tax-free withdrawals and have no RMDs (required minimum distributions)
- **401(k):** Your employer may offer company match on your 401(k) contributions—free money!

What should I look out for?

- **Traditional IRA:** Traditional IRAs have RMDs, meaning you have

to start withdrawing funds after you reach age 70

- **Roth IRA:** Unlike the other options, Roth IRAs will not give you tax breaks on your contributions
- **401(k):** Limited investment options and higher fees are sometimes associated with 401(k) plans

Just so you know... the comparison chart above is a simplified guide. Full details and exceptions are not listed here. If you're looking to learn more, visit the [IRS.gov](https://www.irs.gov) website or get in touch with your credit union.

Starter plan

Retirement savings plans are not “one size fits all,” but the following steps are often recommended:

1. Contribute enough to meet your 401(k) match
2. Switch over and max out your Roth IRA contribution
3. If you have money left over, top up your 401(k)

Why? This strategy nets you the free money from your employer match and also takes advantage of your Roth IRA's tax-free withdrawals.

Strategic saving

These tips will help you protect and grow your retirement savings:

- **Eliminate high-interest debt:** In order for your money to grow, you need to create the right environment—paying down credit cards (and other high-interest debt) should be your #1 priority
- **Build an emergency fund:** Life happens, but the last thing you

need is an unexpected expense taking a bite out of your savings—build an emergency fund to protect your financial goals

- **Maximize your repayment plans:** Revisit your loan terms and see if there's a smart way to consolidate or refinance your loans in order to free up extra cash for savings
- **Ditch the excuses and start saving today:** Time is on your side when it comes to retirement savings—start small if you have to, but start saving today

Sources: Investopedia, IRS.gov, NerdWallet, The Motley Fool, Time Inc.