

Planning for your Retirement



Investing in your Retirement...

Back in the good old days...

Company-Sponsored
Pension Plans

Companies would “fund” your retirement each year.

You didn’t have to put in anything.

When you retired (at 62 or 65), you could draw upon your pension.

This could be 60-80% of your pre-retirement salary!

Life was good – if you stuck around long enough.

Most employees don’t stay with the same company for 40 years.

Employees want more portable retirement plans.

Companies didn’t want to keep funding these expensive pension plans.

~~Company-Sponsored
Pension Plans~~

Investing in your Retirement: The 401K Plan

The 401K Plan

Company-Sponsored Retirement Plan

- Funding your retirement now is your responsibility.
- The “401K” part is the IRS’s definition of an approved employer-based retirement plan.
- You contribute to your plan every month (some % of your salary, say 5%).
- Most of the time, your contributions are on a “pre-tax” basis.
- Your employer matches your contribution (up to some percent).

While 401K plans are specific to the United States, other countries have similar concepts of company-sponsored plans where both the individual and company contribute.

Investing in your Retirement: The 401K Plan

A fairly realistic example:

Company-Sponsored Retirement Plan

Your salary at a medical components company is \$120,000 per year (\$10,000 per month). Your company has a 401K retirement plan, and you wish to participate.

Your company allows you to contribute *up to* 10% of your salary into your 401K plan, all on a pre-tax basis. You contribute the full amount: \$1000 per month.

Your company matches your contribution dollar for dollar up to 5% of your salary. Based on your contribution, your company contributes \$500 per month.

*You've maximized your 401K plan contributions, investing \$1500 per month!
And under this scenario, you've already achieved a 50% return on your investment!*

Investing in your Retirement: The 401K Plan

The Advantages of "Pre-Tax" Contributions

Your salary is \$10,000 per month. And your tax rate is 25%. What are the tax implications of investing pre-tax dollars into your 401K plan?

Scenario 1: Before You Contribute

Gross Salary:	\$10,000
<u>401K Contribution:</u>	<u>\$ 0</u>
Taxable Income:	\$10,000
<u>Tax Owed:</u>	<u>\$ 2,500</u>
Net Salary:	\$ 7,500

Scenario 2: After You Contribute

Gross Salary:	\$10,000
<u>401K Contribution:</u>	<u>\$ 1,000</u>
Taxable Income:	\$ 9,000
<u>Tax Owed:</u>	<u>\$ 2,250</u>
Net Salary:	\$ 6,750

- *You now have \$1,000 in your retirement account (\$1500 including your employer match!).*
- *You saved \$250 in taxes, because your pre-tax contribution reduced your taxable income.*
- *Your \$1,000 investment really only cost you \$750!*

Investing in your Retirement: The 401K Plan

The 401K Plan

Company-Sponsored Retirement Plan

The Advantages...

What you contribute is “pre-tax”; you don’t pay tax on your contribution.

You select the investments (e.g., S&P500 Index Fund, International Funds, etc.).

You can take it with you when you leave (including your employer’s contributions after your “vesting period”, meaning you work there a required number of years).

The Disadvantages...

If you don’t contribute, neither does your employer.

Your contributions are limited to a maximum amount per year (set by the IRS).

Investing in your Retirement: The IRA

IRA = Individual Retirement Account

Your own-sponsored
Retirement Plan

- Another mechanism allowed by the IRS to fund your retirement.
- Nothing to do with your employment status.
- You contribute monthly or annually.
- You decide what to invest in (you set up an IRA account with Vanguard, Schwab, TDAmeritrade, etc.).
- As of 2022, you are limited to \$6,000 per year (\$7,000 if you are 50 or older).

Investing in your Retirement: The IRA

IRA = Individual Retirement Account

Your own-sponsored
Retirement Plan

Two Types...

Traditional IRA:

You contribute “pre-tax” dollars, reducing the amount of income tax you pay at the end of the year.

But: You pay taxes when you withdraw funds once you retire.

Roth IRA:

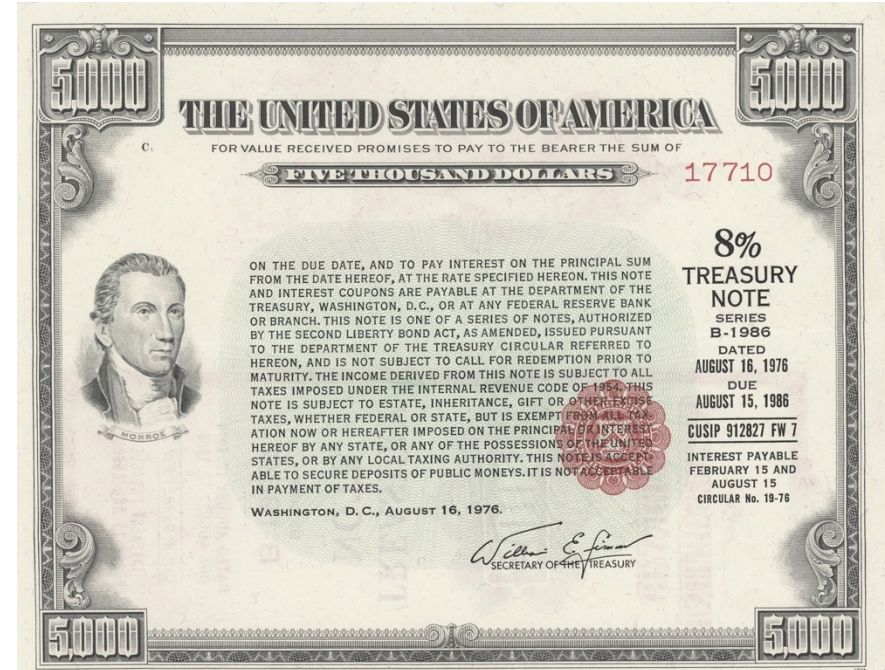
You contribute “after-tax” dollars.

But: You don’t pay any taxes when you withdraw funds once you retire. (As you already paid them!)

*Which one is best for you is actually a tax-related question.
Read up on this one and ask your tax consultant for advice.*

Investment Options...

Stocks, Bonds & Funds...



As stock and bond funds are the primary investment vehicles for retirement plans, we'll explore these in some detail.

Investment Options...

What about all those other, more exciting investment opportunities?



Real Estate



Precious Metals



Cryptocurrency



Fine Art

These are rather specialized, so we won't worry about these in this course.

And you can't invest in them with your 401K retirement plan!

Main Takeaways...

In today's world, retirement planning is all up to you – if you don't pay attention to it, no one else will either.

401K Plan: a company-sponsored retirement plan whereby you contribute pre-tax dollars on a monthly basis, and your company matches your contribution up to a point.

Pre-tax contributions save you considerable amount of money in taxes!

IRA Plan: Individual Retirement Account - a retirement plan independent of employment whereby you contribute pre-tax dollars (Traditional IRA) or after-tax dollars (Roth IRA).

Most retirement plans limit you to certain types of investment opportunities. Therefore, we'll focus on these as you start to build the foundation for a sound and secure financial future!

Next Time...

All about Stocks, Bonds and Mutual Funds



Credits & References

Slide 1: : Human Hand Drawing Retirement Plan Growth Concept by Andrey Popov, Adobe Stock (168285586.jpeg).

Slide 9: U.S. Stock Certificate 1916 Woman Reclining by qingwa, Adobe Stock (29531333.jpeg). US Government bond image source, JHerbstman, The Joe I. Herbstman Memorial Collection of American Finance, Public Domain, <https://commons.wikimedia.org/w/index.php?curid=55835405> (accessed April 30, 2022).

Slide 10: Office building 005 by Bright1, Adobe Stock (1883009.jpeg). Gold and silver ingots isolated on white background by Destina, Adobe Stock (217834395.jpeg). Cryptocurrency golden bitcoin coin by DedMityay, Adobe Stock (176244558.jpeg). Girl woman in yellow dress and hat walking trough lavender fields at sunset warm summer romantic by weris7554, Adobe Stock (304914642.jpeg).

Slide 12: Online wealth creation and management for sustainable growth, asset allocation and investment concept : Boxes of financial products e.g bonds, commodities, stocks, mutual fund, ETFs, REITs by William W. Potter, Adobe Stock (355901430.jpeg).