

## How To Save For Retirement

### Key Terms

- **IRA:** Individual Retirement Accounts can be opened without an employer and still allow one to make contributions to a tax-deferred retirement account that helps accumulate longer-term investment gains.
- **Tax Deductible:** Anything which is tax deductible allows an individual to reduce their reported income which is taxed.
- **Social Security:** Independent agency in the federal government that overlooks retirement, disability, and survivor benefits. Social Security charges employees a tax and then in retirement, eligible seniors receive Social Security Checks.
- **Defined-Benefit Plan:** These types of plans ensure that employees will be paid pension-like salaries after retirement.

### **Retirement Made Easy**

Saving for retirement may seem like an impossible task, however there are special accounts in place to house and grow savings. Every person uses a different retirement plan based on their career's and plans for the future.

### **401(K)**

The 401K account is an employer sponsored retirement account which is accompanied by contributions from your employer. Employers are able to allocate a set amount of their salary into the retirement account pre-tax. The IRS has a set limit (which accounts for inflation) on the amount of money allowed into the account.

### **Roth IRA**

In a Roth IRA withdrawals are not taxed, but contributions to the account are not tax deductible. Roth IRA's can be used hand in hand with 401(K) accounts to maximize savings. In order to open a Roth account you must not exceed a certain level of income. Roth IRA's are great for when you anticipate taxes to be higher in the future. In the Roth IRA there are penalties for withdrawing funds early.

### **Traditional IRA**

The Traditional IRA can be individually opened and managed like the Roth IRA, however contributions to the account are tax deductible, while withdrawals are taxed. In the Traditional IRA there are penalties from withdrawing funds early.

### **The Bottom Line**

Whether through your employer or individually, there are various options for retirement saving plans. You can set up your direct deposit to automatically contribute funds to whatever retirement plan you choose, so you can continue compounding those tax free gains.