

Types of Retirement Plans

Employer-provided:

There are several types of employer-provided retirement savings plans, in which employees contribute some of their salary to retirement. The most common are 401(k) plans, 403(b) plans, and pensions. All of these plans provide for the saving of pretax dollars into a tax-deferred account, which becomes fully taxable upon retirement. 401(k) retirement plans are employee benefits and can only be obtained through an employer.¹⁴² If you have a low-income and are contributing to a 401(k) plan, you may qualify for the Saver's Credit when you file your income taxes. Visit the IRS website for eligibility requirements.¹⁴³

Individual Retirement Arrangements (IRAs):

IRAs are popular retirement savings options, especially if your employer does not provide you with a retirement account. IRAs are savings accounts with tax advantages that a person can use for long-term savings and investments. Anyone with earned income can open an IRA account, which can be done through banks, brokers, or investment companies. Some IRAs are owned by individuals, such as Traditional IRAs and Roth IRAs, while others function similar to a 401(k). Examples of employer-provided IRAs are the SEP IRA and SIMPLE IRA.

Traditional IRAs are called "tax-deferred" accounts. Contributions to a traditional IRA are made using pretax dollars and can be tax deductible (they can lower your tax bill for the years leading up to retirement). When you start withdrawing from these funds at retirement, you will have to pay taxes on these funds. With Roth IRAs, an individual pays an initial tax on their contribution. Contributions are made in after-tax dollars, meaning you pay the taxes up front and afterwards can withdraw your contributions at any time without tax or penalty. These accounts do not reduce your tax bill for the year you made contributions, instead the tax benefit comes at retirement.¹⁴⁴

Deferred Annuities:

A deferred annuity is a life insurance contract in which an individual pays one-time or recurring deposits to a bank or insurance company and in exchange, they provide the individual with incremental payments (essentially income) when the person retires.¹⁴⁵

¹⁴² Original material from Peerlink National Technical Assistance Center.

¹⁴³ "Retirement Savings Contributions Credit (Saver's Credit)" *IRS*, 2022. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

¹⁴⁴ "Individual Retirement Account (IRA). *Investopedia*, Oct. 4, 2021. <https://www.investopedia.com/terms/i/ira.asp>

¹⁴⁵ David Rodeck & John Schmidt. "What is a Deferred Annuity?" *Forbes*, Feb. 4, 2021. <https://www.forbes.com/advisor/retirement/deferred-annuity/>