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]

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[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/

Deferred annuities are purchased during a person's working years and are used to save for retirement on a tax-deferred basis. Similar to a Traditional IRA or 401(k), your savings are not taxed until you retire and begin receiving payments. It is recommended that people make maximum contributions to employer-sponsored plans and IRAs before utilizing annuities for retirement.

Time Frame: All funds put into the accounts mentioned above are accessible when the investor turns 59 and 1/2. With the exception of Roth IRAs, a 10% IRS penalty typically occurs if the accounts are accessed before that age. In the case of Roth accounts, direct contributions can be withdrawn at any time without penalty or tax because the money has already been taxed.[146]

Investments:

Within any of the accounts mentioned above, investors will typically purchase a number of investments, typically in stocks, bonds, real estate, cash, or commodities.

- **Stocks** (equities) are shares of ownership in a company and can be risky because the money that was invested moves with the market.
- **Bonds** are a loan issued by a company or government, and can be safer than stocks but still risky because their value fluctuates with interest rates.
- **Mutual funds** consist of a basket of assets (stocks, bonds, and cash equivalents), which is less risky than investing in just stocks or just bonds.

Note: A savings account or a CD is the safest investment you can make. When beginning to save for future purchases, retirement, or other financial goals, it is best to begin with safe investments so that you can grow your money safely and securely, without the possibility of losing money from changes to the stock market or interest rates.

Tips to Start Saving for Retirement: Start saving early to take advantage of compounding interest. Contribute to your 401(k) or open an IRA, and automate your retirement contributions so you don't have to think about saving. Don't put money you might need for the future into risky investments.

[146] Original material from Peerlink National Technical Assistance Center.

Asset Building

Asset building is a way for individuals, families, and communities to gather a variety of resources to help them move towards greater economic well-being in the short and long term. Asset building emphasizes the importance of helping individuals and families learn about and utilize healthy money management and budgeting practices to address current financial issues and set themselves up for financial stability and success in the future.[147]

Asset building strategies include:

- Financial education
- Savings accounts
- Healthy management of credit and debit
- Tax credits and assistance with filing taxes
- Accessing federal and state resources
- Individual Development Accounts

Utilizing these different strategies and resources can help individuals and families address current financial challenges and build their financial resilience and human capital. An example of asset-building resources by state and federal government agencies are first-time homeowner's benefits, such as closing cost matches, down payment assistance, or the Oregon Homeowner Assistance Fund. Another example is Oregon's College Savings Plan, where parents can create college savings accounts for their children with an initial deposit of just $25. With these accounts, earnings grow tax-free, interest savings are compounded, and parents can claim a state income tax credit of up to $300.

For more information about homeowners' benefits and the Oregon College Savings Plan, visit:

- https://oregonhomeownerassistance.org/
- https://www.oregon.gov/ohcs/homeownership/Pages/housing-counseling.aspx
- https://www.oregoncollegesavings.com/

Traditional assets, such as financial assets (cash, stocks, bonds, retirement accounts, CDs), physical assets (homes, cars, land, personal valuables) are also included in asset building activities. However, sound money management and financial resilience are most important to our understanding of asset building.

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[147] Administration for Children & Families. "Asset Building and Early Childhood Programs." *U.S. Department of Health & Human Services.* https://www.acf.hhs.gov/occ/fact-sheet/asset-building-and-early-childhood-programs-strategies-family-financial-security