

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 In the case of Roth accounts, direct contributions can be withdrawn at any time without penalty or tax because the money has already been taxed.<sup>146</sup>

#### **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.

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<sup>146</sup> Original material from Peerlink National Technical Assistance Center.