MONEYWI$E

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INVEST IN YOURSELF:
WHICH RETIREMENT PLAN IS RIGHT FOR YOU?

Have you ever considered when you will be **financially** ready to retire? For working consumers, how they choose to invest their hard-earned money will make a difference in determining how financially ready they are. There are several types of retirement plans designed to help you save money for retirement while working. These fall into two major groups: *defined benefit plans* and *defined contribution plans*.

DEFINED BENEFIT PLANS

A **defined benefit plan** specifies a fixed monthly amount of money a person will receive upon retirement. The fixed amount (aka, the "defined benefit") is usually calculated from your salary and how long you worked. It may be listed as a predetermined amount of money or a percentage of your monthly salary. The most common form of defined benefit plans is a **pension**. Pensions require that workers contribute a certain amount of money from their paycheck into a pool of money that their employer than redistributes upon retirement. Other types of defined benefit plans include cash balance plans, annuities, and lump-sum payment plans.

DEFINED CONTRIBUTION PLANS

A **defined contribution plan** does not promise a set amount of money for retirement. In this plan, the employee, the employer, or both contribute. There are several types of defined contribution plans such as a 401(k), 403(b), and an IRA.

A **401(k)** is a type of defined contribution plan in which the employer sponsors the plan. Employees often can select how to invest their money. Money invested into 401(k) plans has pre-tax benefits, which means contributions can reduce an employee's current taxable income. The amount you contribute is typically a percentage of your salary. Another type of defined contribution plan is a **403(b)**, which is designated for public school teachers, nonprofit employees, and charitable organizations. They work very similar to a 401(k).

RETIREMENT SHOULD BE A TIME OF MINIMAL FINANCIAL STRESS

An **IRA**, which stands for Individual Retirement Account, is also considered a defined contribution plan. The earnings on a traditional IRA are not taxed until they are paid out or withdrawn. A **Roth IRA** works in reverse – the consumer pays taxes before contributing, which can be beneficial since tax rates tend to rise over time.

HOW MUCH DO YOU NEED TO RETIRE?

The answer to this question varies for everyone. Knowing how your salary has changed over time can be a key consideration for determining when you want to retire. Also, knowing the amount of money you need to maintain a certain lifestyle into retirement is important. For a more concrete number, there are several online calculators you can use, such as this one provided by FINRA: https://retirementcalculator.nga.finra.org/calculator/.

WHY IS THIS IMPORTANT?

You may imagine retirement as a time to finally have financial freedom. However, unexpected expenses may come up – from medical emergencies to home repairs to inflation. Ask yourself questions like: *"Do I want to travel?" "What do I want to splurge on in retirement?" "Am I prepared for unexpected expenses that may arise?" "Will I need to provide for a loved one?"* Thinking about specific retirement goals helps you to be more prepared financially.

Retirement should be a time of minimal financial stress. Starting to plan for retirement early makes these goals possible. It is important that you understand how to invest so that as retirement age approaches, you can be more financially secure.

REFERENCES:

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