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Planning for Your Long Term Future: Retirement Savings

Many Americans look forward to their retirement years, which can be a time for traveling, spending time with family, or enjoying a vacation home. In order to enjoy your retirement to the fullest, you'll need to have an appropriate level of savings to get you through many years without a steady stream of income.

Previous generations relied on Social Security and company pensions for their retirement income; however, those income streams have decreased over the last few decades. Now, most people save for their retirement in a 401(k) plan, named for the section of the tax code that allows employees to save money on a tax-free basis.

401(k) Plan
To participate in a 401(k) plan, an employee must have access to an employer plan. Some employers have requirements as to which employees can participate, and some also match contributions up to a certain level. Employees can have a certain percentage of their earnings taken right out of their paychecks pre-tax, and deposited directly into their 401(k) account.

Not eligible for a 401(k)? Here are some other retirement savings options:

- **403(b) accounts** are specific to nonprofit companies, such as educational institutions and charities. The benefits are similar to a 401(k).
- **Traditional IRAs** allow savers to invest money on a tax-deductable basis, up to a specific limit per year. Savings grow on a tax-deferred basis, meaning you won't pay taxes on capital gains. There are income limits to be eligible for a traditional IRA.
- **Roth IRAs** allow savers to invest after-tax dollars to be withdrawn on a tax-free basis. As with traditional IRAs, there are income limitations to be eligible.

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The best way to get the most from any of these accounts is to start saving early. With the power of compounding, the interest that you earn will also earn interest. Since all of these accounts generally involve investments in the stock market, making regular contributions is also beneficial, because you'll be able to leverage the benefits of dollar cost averaging. Make saving for retirement one of your top financial goals, and if you can have the money taken directly out of your check, chances are, you won't even miss it. If investing the maximum is intimidating, consider at least investing the minimum to get the full employer match. Then, steadily increase your percentage contribution as your income grows.

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