Retirement Investments

If you would like, print this study aid for future reference.

Several investment products are designed to help you save toward retirement:
- Individual retirement arrangements (IRAs)
- 401(k) and 403(b) plans
- Variable annuities

IRAs
An IRA, also known as an Individual Retirement Account, is the most basic kind of retirement arrangement.
- With an IRA, you deposit money into an account, which may include a combination of stocks, bonds, mutual funds, or Treasury securities.
- These types of accounts are tax exempt and generally designed to help ensure adequate income for retirees.
- Though an IRA generally grows over time due to interest earned and your contributions, it may lose value depending on the stock market and your investment choices.
- You should talk to an experienced investment professional for help making the best investments for you.

There are two main types of IRAs: traditional IRAs and Roth IRAs. A traditional IRA is a personal savings plan that gives you tax advantages for saving for retirement.
- Contributions to a traditional IRA may be tax deductible, based on the amount of your contribution and your income.
- The earnings on the money in your IRA are not taxed until they are distributed (you withdraw them).
- A traditional IRA can be established at many different financial institutions, including: banks, insurance companies, and brokerage firms.

A Roth IRA is also a personal savings plan, but operates somewhat the reverse of a traditional IRA.
- For instance, contributions to a Roth IRA are not tax deductible, while contributions to a traditional IRA may be deductible on your annual income tax return.
- However, while distributions (including earnings) from a traditional IRA may be included in income, the distributions (including earnings) from a Roth IRA are not included in income.
- For both IRA types—traditional and Roth—earnings that remain in the account are not taxed.
- A Roth IRA can be established at the same types of financial institutions as a traditional IRA.
IRAs can be thought of as either bank IRAs or brokerage IRAs.

- Money deposited into an IRA at an insured financial institution (bank IRAs) is insured up to the maximum allowed by law.
- However, investments made in other IRAs (e.g., stocks or bonds obtained through brokerage IRAs) are not federally insured, may lose value, and are not guaranteed by a bank (even if they are sold through an entity affiliated with the bank).

Your employer may offer a payroll deduction IRA. These plans enable you to authorize a payroll deduction for contributions to an IRA (either a traditional or a Roth IRA).

You may talk to your tax advisor for more details and/or review IRS Publication 590, Individual Retirement Arrangements (IRAs).

401(k) and 403(b) Plans

A 401(k) plan is a retirement savings plan established by an employer that lets its employees set aside a percentage of their pay for retirement before taxes are taken out. This can help lower your tax bill.

A 403(b) plan is a retirement savings plan for employees of public schools and certain tax-exempt organizations.

Characteristics of 401(k) and 403(b) plans include:

- A maximum contribution limit each year—you can invest up to a certain amount of your own money, not counting interest earned
- A penalty, or fee, on early withdrawal before age 59½, except in special circumstances
- Portability—you can move the money into an IRA (called rolling over), or roll it over into a new 401(k) plan if you change employers
- Choices—generally, you get to choose how to invest the money in your plan
- Your employer may match a certain percentage of the money you invest in the retirement plan; not taking advantage of this match is like leaving free money on the table.

Variable Annuities

A variable annuity is an insurance contract that invests your premium in various mutual fund-like investments. It is usually sold by financial brokers and insurance agents as an investment toward retirement. The brokers and agents earn a commission on the annuity sold, and may be motivated to sell you something that may not be the best for you financially.

Variable annuities can be very costly due to the fees, which may include:

- Annual fees
- Surrender charges on early withdrawal and withdrawal over a certain percentage
- Ten percent federal tax penalty on early withdrawal before age 59½
• Life or living benefits fees that you pay to guarantee you get at least your original investment back at retirement

Often, you must hold the annuity for at least 10 to 20 years to justify the fees.