



MONEYWISE

VALUING PEOPLE. VALUING MONEY.

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THIS MONTH'S TOPIC: PREPARING FOR RETIREMENT

Understanding the basics of saving for retirement is an important step in planning for your financial future. With the average American living to nearly 80 years old or older, a person could spend 20 to 30 years in retirement. The Internal Revenue Service estimates you may need up to 80% of your current income to retire comfortably. Thankfully, there are a variety of plans and options available to help you save today for a more secure tomorrow.

START SAVING EARLY

Retirement plans are designed to help you financially prepare for your future. It is important to start saving for retirement as early as possible, especially if you want to maintain the standard of living to which you are accustomed. If you don't have a lot to invest currently, know that a little money invested with compounding interest can go a long way.

The IRS offers examples of the value of future retirement savings:

Monthly Savings, 6%	5 years	15 years	20 years
\$50	\$3,506	\$14,614	\$23,218
\$200	\$14,024	\$58,455	\$92,870
\$500	\$35,059	\$146,136	\$232,176



UNDERSTANDING SOCIAL SECURITY

Don't expect government benefits to finance your retirement. The average monthly benefit paid by the Social Security Administration is \$1,200. To estimate your retirement benefits at different ages (such as ages 62, 65, 67, or 70), visit <https://www.ssa.gov/myaccount/retire-calc.html> or log in to your "my Social Security" account. This is an important decision, especially since no one age works for everyone because of differing lifestyles, finances, personal needs, and retirement goals.

TYPES OF RETIREMENT ACCOUNTS

IRAs, otherwise known as Individual Retirement Arrangements or Accounts, can help you save for retirement above Social Security benefits. Three common retirement plans are the traditional IRA, Roth IRA, and traditional 401(k). The minimum age to begin receiving benefits differs depending



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on the plan and circumstances (and can range from age 55 to 59 ½ to 72, for example). Talk to a licensed financial advisor at a bank, credit union, or a licensed brokerage firm as you consider what is best for your finances and retirement goals.

A **traditional IRA** is an individual retirement account that allows you to make pre-tax contributions. This means you don't pay taxes on IRA deposits or earnings until retirement. Then in retirement, the withdrawals you make are taxed as income. Traditional IRAs can be beneficial if you expect to be in a lower tax bracket when you retire.

A **Roth IRA** is an individual retirement account where your contributions are made with funds that have already been taxed. This means the earnings and withdrawals you make during retirement are tax-free.

A **traditional 401(k)** is an employer-sponsored retirement plan that allows employees to make pre-tax contributions through payroll deductions. This means deposits go directly from your paycheck to your account. Most 401(k) plans also offer employees a choice of investment options. Some employers will match your contributions. It is important to take full advantage of employer matching to maximize your retirement savings. Employee and employer contributions to a 401(k) plan, as well as any earnings from the investments,

are tax-deferred. This means you pay taxes only when you withdraw the savings.

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

You cannot keep money in your retirement accounts indefinitely. Most traditional IRA or 401(k) retirement plans require you to begin making withdrawals (or "required minimum distributions") when you reach a particular age. (It's generally 70 ½ or 72, depending on your birth year. See <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds> for more information.)

PLANNING AHEAD

It is up to you to plan for your retirement. Investing in retirement savings allows you to take charge of your financial future. Whether retirement is a few years or a few decades away, using the resources and advisors available through your workplace or financial institution can help make the process less intimidating. For more information online, visit <https://www.irs.gov/retirement-plans>.

Also, consider using free online tools offered by the U.S. Department of Labor to help you establish financial goals and priorities, create a cash flow spending plan, reduce debt, and save for retirement. These are available at <https://www.askebsa.dol.gov/SavingsFitness/Worksheets>.

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