

Retirement Savings 101

The idea of saving for retirement can feel daunting and overwhelming. But it's more crucial now than ever before. Social Security could be trimmed in the coming years, making it especially important to institute a strong savings plan now.

The best place to start may be the workplace. The majority of full-time employers offer some vehicle for retirement savings. An employer-sponsored retirement plan can include various perks not available in individual plans. These include employer matches, which means the company will put in funds that equal some or all of what the employee contributes to the plan. For example, if an employee with a 401(k) with a 3% salary match puts 3% of their paycheck into the plan, and the employer will contribute that same amount, too. Many advisors consider employer matches "free money" that employees should capitalize on when they can.

If an employer-sponsored retirement plan is not an option, it may be time to look into Individual Retirement Accounts, or IRAs. IRAs are tax advantaged investment accounts that can be grown over a long period of time. There are a few different types of IRAs. These include a Roth, where contributions are made on an after-tax basis and qualified distributions can be made tax-free, or a SEP for self-employed individuals that automatically deducts contributions from earnings.

A person with an employer-sponsored retirement plan can also utilize IRAs in their financial planning — and, considering the contribution limits of most retirement plans, perhaps they should. Most advisors would say that you should contribute to an employer-sponsored retirement plan up to the amount your employer will match, then turn toward maxing out a Roth or regular IRA account. If the match has been met and the IRA maxed for the calendar year, advisors recommend going back to the employer-sponsored retirement plan and maxing that out if possible as well.

But the most important tip for retirement saving is simple: start as soon as possible. The earlier those funds make it into these retirement accounts, the more time the money has to compound and grow. Consistency is also key. If you begin saving early and continue to save regularly, you are maxing out your chance at having a financially healthy retirement.