Understand your Retirement Plan

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Saving for retirement can be overwhelming. This is especially true for the 44% of Americans who feel they aren't on track to meet their retirement savings goals, according to a recent report by the Federal Reserve. So how can you improve your retirement savings? First, you need to know the difference between common retirement investment accounts. Once you understand your investment options, then you can meet with your financial advisor to create a financial strategy that works for you.

IRA vs. 401(k)

Almost anyone can open and contribute to an IRA. All you need is to be under 70 ½ years old and have earned income. Earned income includes wages, salaries, tips, commissions and nontaxable combat pay. One advantage of IRAs is they offer tax-free growth. Once you put money in the account, the dividends or growth of that money are not taxed in the future. In addition, IRA contributions are often pre-tax dollars, which means you can likely deduct them and lower your current tax bill. Traditional IRAs are taxed when you withdraw the money and you must start withdrawals at 70 ½ or there are penalties. IRAs also have lower caps on the total amount you can contribute.

There are several different types of 401(k) plans, including traditional, safe harbor, SIMPLE, Roth, and solo plans. All of these are investment accounts that allow employees to contribute a portion of their wages to retirement savings. If your workplace offers a 401(k) plan, you should contribute regularly. If they match your contributions, contribute up to the maximum match if possible. Don't pass up free money for your retirement.

You may also contribute significantly more money to a 401(k) per year than to a traditional IRA. For instance, in 2020 the 401(k) contributions increased to $19,500 per year if you are under age 50 and $26,000 if you are over age 50. Traditional IRAs currently have $5,000 and $6,000 limits respectively.

Roth IRA and 401(k) Benefits

When you pay taxes on your retirement investments depends on the kind of account you choose. If you choose a Roth IRA or 401(k), your contributions are taxed when you put the money in, but withdrawals are tax-free. This is helpful in retirement, especially if you are on a fixed income. There are also conditions in which you can pull money out of your IRA and avoid the 10% early withdrawal penalty. This includes if you withdraw money because of a disability, are a first-time homebuyer or if the withdrawal is made by a beneficiary after your death.

Create an Investment Strategy

Once you understand the basic investment account options, it is time to talk with a wealth advisor. Your wealth management strategy should build sustainable income, diversify your portfolio of stocks and bonds and focus on growth that outpaces inflation. When you meet with a wealth advisor, explain your retirement goals and ask the following questions:

- How is the account invested?
- What is the expected return?
- How long can the account produce that level of income?
- Can we define how much is reasonable to withdraw from a retirement account?

Whether you are a customer or not, RCB Bank is here to help. Our wealth advisors can help with all of your questions about retirement investments. Give us a call at 855-226-5722 or visit RCB Bank here.

Sources

The Fed - Retirement (federalreserve.gov)

Retirement Plans | Internal Revenue Service (irs.gov)