

# No More Work!

Everyone loves the sound of retirement... never having to work again?! Great! But how do people make money when they no longer work? Below are several popular investment savings options that people use.

## **Pensions**

These type of retirement accounts are most often found in government service (teachers, firefighters, police officers, etc.). The employer contributes money to the pension plan where you are working. The money will then be paid to you, usually as a monthly check, once you retire. However, how much you receive depends on your years of service, your age, and how much you were earning when you retired. You do not get to choose how your money is invested in a pension plan, but it does present very little risk to the employee. The risk comes into play regarding how well the plan is managed. In the worst-case scenario, the pension plans are managed poorly and not able to pay out all the benefits it promises.



## **401(k)**

This is another retirement savings plan that is sponsored by a person's employer. It allows workers to invest a piece of their paycheck before taxes are taken out, mostly through mutual funds. Often, employers will match the funds you put into your 401k up to a certain percentage. For example, if you put 2% of your salary into your 401k, your employer might also put in 2%. There are many 401k plan choices, and you can choose which one you are most comfortable with.

## **Individual Retirement Account (IRAs)**

There are several different types of IRAs, including Roth IRA, SIMPLE IRA, and SEP IRA. The kind of IRA that you open up is determined by your income. Depending which you are eligible for will also determine if your contributions can be tax deductible or not. You can do this through banks, credit unions, and other brokers. Traditional IRAs have contributions that are tax deductible, but their withdrawals are taxed. If you are an individual taxpayer, you would set up a traditional or Roth IRA. Often, workers do this along with their pension or 401(k) as another means to save. If you are a self-employed individual, such as a freelancer or small business owner, you would open a SEP IRA. SIMPLE IRA stands for Savings Incentive Match Plan for Employees) and again is for a small business owner to make contributions to their employees.

It is important to begin saving immediately for retirement once you start working. The more you have saved, the better off you'll be as adults. If you do not, you may not get to experience retirement at all.

Anspach, Dana. "What Is a Pension Plan?" *The Balance*, The Balance, 27 Jan. 2019, [www.thebalance.com/what-is-a-pension-and-how-do-you-get-one-2388766](http://www.thebalance.com/what-is-a-pension-and-how-do-you-get-one-2388766).

*The Wall Street Journal*, Dow Jones & Company, [guides.wsj.com/personal-finance/retirement/what-is-a-401k/](https://guides.wsj.com/personal-finance/retirement/what-is-a-401k/).

Kagan, Julia. "Individual Retirement Account (IRA)." *Investopedia*, Investopedia, 9 Apr. 2019, [www.investopedia.com/terms/i/ira.asp](http://www.investopedia.com/terms/i/ira.asp).