GreenPath financial wellness

FROM 401(K)S TO ROTH IRAS: DEMYSTIFYING RETIREMENT ACCOUNTS

With so many responsibilities in our day-to-day lives, it's common to feel unprepared for the future. If you've ever caught yourself staring at your 401(k) statement blankly or questioning whether a Roth IRA is the right move, you're not alone. With guidance, these accounts can feel less daunting and more like tools you can confidently use to secure your future.

401(k)

A 401(k) is like a retirement starter pack, especially if your employer offers a match (which is free money!). Contributions are taken out of your paycheck before taxes, which lowers your taxable income now, however you'll pay taxes when you withdraw in retirement. It's a great choice because it's automatic – set it, forget it, and watch savings grow. Be aware that if you withdraw early, you'll face income taxes as well as a 10% penalty. This is your meant to be long-term, can't-touch-it money**.**

Example**:** If you're earning $50,000 a year and contribute 10% to your 401(k) with a 3% employer match, that's $6,500 saved annually. Over 30 years, assuming a 6% return, that could grow to over $500,000.

ROTH IRA

Unlike the 401(k), you contribute to a Roth IRA with after-tax dollars, so you won't get an immediate tax break. The upside? When you take money out in retirement, it's tax-free. Roth IRAs offer flexibility; you can withdraw your contributions (not your earnings) at any time without penalties. This makes them a good option if you need some of that cash before retirement.

Example: You're 40 years old and decide to start contributing the maximum amount to a Roth IRA (which in 2024 is $7,000 per year if you're under 50). If you contribute $7,000 annually for the next 25 years until you retire at age 65, and your investments grow at an average annual rate of 6%, you could end up with around $464,000.

TRADITIONAL IRA

The Traditional IRA is a solid option, especially if you're looking for a tax break now. Like the 401(k), contributions to a Traditional IRA may be tax-deductible, which can lower your taxable income in the year you contribute. However, withdrawals in retirement are taxed as ordinary income.

Example: You contribute $6,500 annually to a Traditional IRA starting at 35, and you qualify for the tax deduction each year. By 65, with a 7% average annual return, your account could grow to about $650,000. Unlike the Roth IRA, these withdrawals will be taxed, so it's important to plan for that.

SEP IRA

If you're self-employed or run a small business, a Simplified Employee Pension (SEP) IRA might be your go-to. SEP IRAs allow you to contribute up to 25% of your net earnings from self-employment, or $66,000 in 2024, whichever is less. This high contribution limit can make SEP IRAs a powerful tool for ramping up your savings if your income changes year to year.

Example: If your self-employment income allows you to contribute $15,000 annually to a SEP IRA from age 40 to 60, with a 6% return, you could accumulate around $555,000 by retirement at 65. Like a Traditional IRA, contributions are tax-deductible, providing valuable tax savings now, withdrawals in retirement will be taxed.

NEXT STEPS

How do you choose? If you're eligible for a 401(k) with a match, start there. That's an instant return on your investment you don't want to miss out on. The best retirement account for you is the one you start funding now. It's okay if you don't have all the answers or much to contribute right away. Starting small and being consistent will get you far.

RECOMMENDED FOR YOU

(Webinar) Retirement 101: Three Steps to Prepare for Retirement!

Wednesday, November 13 @ 2:00 – 2:45 PM EST

Worried you should be saving more for retirement? Unsure of how much money you need? What happens to your social security benefits if you retire early? Join us for this informative webinar.

REGISTER

The Path to Financial Wellness Starts Here

www.greenpath.com/community-first

No matter what your goals may be, our partners at GreenPath can help you take control of your day-to-day financial choices to create more opportunities for achieving your dreams.

CREATE A BUDGET

SAVE MORE

PAY OFF DEBT

IMPROVE CREDIT

BUY A HOUSE

PLAN FOR FUTURE

Connect With A Counselor Today

877-337-3399

Your Partner in Financial Wellness

Community First
FEDERAL CREDIT UNION