

Employer-Sponsored Retirement Plans

A good place to start investing for retirement is with your employer-sponsored retirement plan. Among these plans are defined contribution plans, such as the 457, the 403(b), and perhaps the most familiar, the 401(k). If your employer offers a retirement plan, you should consider participating in it, as it is one of the easiest and most beneficial means of helping you save for your retirement. It is also one of the best ways to defer paying taxes on your investments.

Contributing to a 401(k) is simple; your employer deducts the amount you designate from your pay, before federal taxes--in other words, the amount you contribute to the plan lowers your taxable income. In many companies, the employer matches all or part of your contribution. Let's say you make \$4,000 each month and contribute 6 percent to your 401(k) plan account, or \$240.00. If your employer's plan offers a 50 percent match--that is, half of the 6 percent you designate--your employer would put \$120 into your 401(k) account for you each month.

As the employee, you usually get to choose how much you want to contribute within the restrictions of your particular plan; however, your employer or its plan administrator will manage the account. Many 401(k) plans also allow you to direct how the funds in your account are invested within the choices allowed by the plan. It is important that you read all the information provided to you about the plan and consult the plan administrator, if necessary, to ask questions and discuss the details.

A 403(b) plan is similar to a 401(k), but is offered to employees of public and private school systems--K through college--and non-profit, tax-exempt organizations, such as churches, libraries, etc. Your plan administrator can explain how it works and how it differs from the 401(k).

The 457 plan, offered only to state and local government employees, allows you to set aside a portion of your pay for use later--generally in retirement. You are not taxed on that income now; you pay taxes later, when you withdraw the money from the plan. A 457 plan reduces your current income taxes, while helping you save for retirement, and allows your earnings to accumulate tax-deferred.