RETIREMENT GOALS

SETTING UP YOUR FUTURE SELF

There are a lot of decisions to make in the first decade or so of your career -- what healthcare plan to choose, how to budget your salary, where to treat yourself now and then. Retirement planning may seem far away and not particularly urgent. However, it's crucial to start contributing to your retirement fund now so you can enjoy your post-work years comfortably.

WHAT IS A 401(k)?

This employer-sponsored retirement account invests money — tax-free — from your paycheck. The sooner you participate in a 401(k), the better.

WHAT ARE MY ACTION STEPS?

Research your employer's 401(k) plan. Some companies match your employee 401(k) contribution up to a certain amount (usually a percentage) annually. This increases your retirement savings and sets you up for success in the long term! Also look into their vesting policy. (Vesting is when you own your account 100%.)

Not all companies offer a 401(k) plan. For those who do not have that option, an Individual Retirement Arrangement (IRA) may be the option for you. Traditional IRAs are tax-deductible, but Roth IRAs are taxed.

Pre-tax vs. Roth 401(k) — what's the difference? If you contribute to your 401(k) pre-tax, your contributions will be taken out before taxes each pay period. However, you'll have to pay taxes on the funds when you withdraw them during retirement. If you have a Roth 401(k), contributions will be deducted from your paycheck after taxes — but you won't pay taxes when you withdraw during retirement. Once you retire, you might be in a higher tax bracket, so contributing after taxes now could save you money in the long run.

Determining which percentage of your income to contribute to your account is the first step. **Aiming for 12% to 15% (inclusive of employer match contributions) is a good start, but keep in mind this percentage depends on each individual's financial situation.**

Regardless of which retirement account you choose or how much you contribute, it's important to think of it as a long-term strategy. **Dipping into the account early will jeopardize the quality of your retirement and rack up penalties from the IRS.**

WHY DO YOU NEED A 401(K)?

Previous generations may have been able to fall back on pensions and Social Security, but that's not the case now. 401(k) accounts can provide that extra cushion to fully or partially supplement any government-issued payments. Keep in mind that with inflation (average 2% a year) and people living longer, your 401(k) goal amount will need to sustain a lifestyle/standard of living for 20-25 years.

WHAT ABOUT THE INVESTING PART?

Investing can seem intimidating, but many companies offer predetermined investment options for 401(k) accounts, including Target Date funds (maximizing assets by a certain date) or Asset Allocation funds (diversified portfolio). These can be "set it and forget it" funds. This type of diversified investment option allows you to set things up once and not get bogged down by the ups and downs of the stock market — freeing you up to focus on long-term gains.

To discover more about 401(k)s or investing, visit your 401(k) plan administrator's website. To find out how much you should save, or to see how a little bit more now can have a big impact down the road, visit www.nerdwallet.com/investing/401k-calculator.

The chart to the right describes three millennials' approaches to retirement savings and outlines the importance of starting early.

Ashley starts her 401(k) at the age of 22. She contributes 6% of her salary every month and her employer offers a 100% match on her 6%. When Ashley retires at age 65, her projected balance will be $1.68 million.

Samantha is a late contributor. She starts her 401(k) at age 32. She contributes 6% like Ashley and Michael, and her employer also matches her contribution. When she retires, her projected 401(k) balance will be $826,000.

Michael starts his 401(k) at age 22 as well. He also contributes 6%, which his employer matches. However, Michael stops contributing at age 42. If he never touches his 401(k) until age 65, his projected ending balance would be around $1.14 million. So even though Michael saved for a considerably shorter time frame than Samantha, he still comes out a winner for starting 10 years earlier.

Please note this graph is based on a $50,000 annual salary assuming a 6% annual rate of return, with a company match consisting of 100% of the first 6%. Actual balances will vary depending on employee's salary and employer contribution amount.