

**INSIDE GRUNDY COUNTY**  
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Saving for retirement is one of the most important decisions you can make. The sooner you start, the bigger the nest egg you can grow because of a longer contribution time and the returns earned on those contributions. One in three workers reported they had not yet started saving for retirement. If you are one of those workers who have not yet started saving, consider the following points made by Pat Swanson, CFP® and Families Specialist with Iowa State University Extension's Invest Wisely Project.

"One way to save for retirement is to enroll in retirement options at work. Traditionally employer-provided pensions have been defined benefit plans in which the employer promises a benefit based on a formula that considers the employee's years of service and salary. However, these traditional pensions are becoming less common. Instead employers are offering defined contribution plans. A defined contribution plan provides an individual account for each participant. The benefit at retirement depends on the amount contributed and the returns earned by the investments in the account."

A 401(k) plan is the most common defined contribution plan; it is available to employees of many private companies. Other defined contribution plans are 403(b) plans available to public school teachers and employees of nonprofit organizations and 457 plans for state and municipal workers. These plans get their names from the sections of the Internal Revenue Code that authorize them.

Defined contribution plans also are known as salary reduction or tax deferral plans. Employee contributions to the plans are pre-tax contributions. "You save on your tax bill and invest for retirement at the same time. The earnings on the growth on your investments in the plan are not taxed until you withdraw money in your retirement."

The maximum contribution allowed by law is \$15,500 annually (\$20,500 if age 50 or older) but the company plan may specify a maximum contribution that is less than this. Some plans automatically enroll employees in the plan and deduct part of the employee's salary into the plan unless an employee opts out. The company may match your contribution in whole or in part. For example, an employer may add 50 cents for every dollar you contribute up to a maximum amount. "It is a good strategy to take advantage of this employer match".

A defined contribution plan gives the employee choices as to how the money is invested. These typically are mutual funds including stock, bond and money market funds. "The amount of money in your defined contribution account at retirement will depend on your investment choices and the returns these have made over the years. It is important to consider your risk tolerance, your return needs, and time horizon when making your selections".

To learn more about saving for retirement, check out the ISU Extension Invest Wisely Project ([www.extension.iastate.edu/investwisely](http://www.extension.iastate.edu/investwisely)) which is funded by a grant from the Investor Protection Trust (IPT) or contact the Grundy Office of ISU Extension at 319-824-6979.