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What Retirement Vehicles Should I Consider When Building a Nest Egg?

By Jane Leibbrand

A dramatic change has taken place in the way retirement is funded in America. Until recently, many workers relied on corporate pensions for a signiï¬•cant percentage of their post-career income. This seismic shift in funding retirement has occurred in four short decades.

As a result, a signiï¬•cant number of Americans are now responsible for funding their own retirements. Many know they havenâ??t saved enough for their later years and according to Northwestern Mutualâ??s 2022 *Planning & Progress* *Survey*, 74 percent of respondents believe they have enough money for their retirement.

Youâ??re in the Driverâ??s Seat

To ensure that you have the retirement you want, put yourself in charge. Reading about ways to fund retirement, keeping a list of your questions, and meeting with a ï¬•nancial advisor who can help you sort it all out are good starting points.

An important part of retirement planning is knowing what vehicles are available to you. The following are the most common savings vehicles that can help you build your nest egg.

The 401(k) or 403(b) Plan

Employer-sponsored 401(k) or 403(b) retirement plans are the easiest way to save for those whose employers oï¬?er such a plan. An amount of money that you determineâ??for example, 5 or 10 percent of your payâ??is taken out of your paycheck to help replace your income when you retire. Your employer automatically deducts the amount before your pay is taxed, lowering your tax liability for the year. The accounts are portable, so that you can roll the money over into another employerâ??s 401(k) or 403(b) or into your IRA if you change jobs. However, many plans also oï¬?er the choice of Roth type of savings that allow for diï¬?erent tax treatment of both your deductions and earnings.

In addition, although theyâ??re not required to do so, many employers oï¬?er a partial or full match of your contribution up to a maximum of a percent of your salary (usually 3 to 6 percent, although it varies widely). They can also choose to match a certain dollar amountâ??for example, the ï¬•rst $3,000 of your contributions. Participating in your 401(k) plan could provide you with match money; make sure you take advantage of it. You may have to forfeit all or a portion of the match money if you leave the ï¬•rm before youâ??re fully vestedâ??usually about three to ï¬•ve yearsâ??so read the ï¬•ne print in your beneï¬•ts package.

You can save up to $20,500 in this type of account in 2022. If youâ??re 50 or over, you can save an additional $6,500 to help boost your savings. These numbers also apply to government Thrift Savings accounts and many state and local government 457 plans. Private employers use 401(k) accounts while nonproï¬•ts and education institutions usually oï¬?er 403(b) accounts as the savings vehicle.

Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is a tax-advantaged vehicle used to pay medical expenses or for saving money for health expenses in retirement. HSAs are available to those enrolled in a high-deductible health plan. The higher deductible allows you to pay less in monthly premiums, making the cost of health care more aï¬?ordable, especially for young people just starting out. If youâ??re healthy and donâ??t need expensive medical care, youâ??ll probably save money with an HSA (compared to another type of health plan). The HSA 2022 contribution limits are $7,300 for a family or $3,650 for singles, with a catch-up contribution of $1,000 if youâ??re over 55.

Why is an HSA an important retirement savings vehicle? Money you put in an HSA is not taxed. Many HSAs allow you to invest your account and your dividends and interest from stocks and bonds in the HSAs are tax-free, and the money you withdraw for qualiï¬•ed health expenses in retirement is also tax-free, so thereâ??s a triple tax advantage. Remember youâ??ll pay ordinary income tax on your 401(k) and IRA when you withdraw funds from them, so an HSA is a better choice for funds earmarked for retirement healthcare needs.

Individual Retirement Account (IRA)

Any individual can set up an IRA. You can save up to $6,000 in an IRA in 2022; if youâ??re over 50, you can add $1,000 more through a catch-up contribution. If youâ??re covered by a retirement plan at work, the funds canâ??t be deducted from your taxable income if you earn more than $78,000 and youâ??re single, or, if you earn more than $129,000 if youâ??re married and ï¬•le jointly. But if your

employment doesnâ??t include a retirement plan, youâ??re able to deduct the full amount from your income, unless you ï¬•le jointly with a spouse whoâ??s covered by a plan. When you withdraw the money at retirement, itâ??s subject to income tax, but you may be in a lower income bracket.

Roth Individual Retirement Account (Roth IRA)

The Roth IRA is another excellent retirement savings vehicle. Contribution limits are the same as those for a regular IRA: $6,000 plus a $1,000 catch-up provision if youâ??re over 50. In 2022, you can contribute the maximum amount to a Roth IRA if you earn less than $129,000 and youâ??re single, or, if you earn less than $204,000 and youâ??re married. You can still contribute if you earn slightly more, but the amount of the contribution is reduced.

Youâ??re contributing after-tax money in a Roth IRA, so itâ??s not tax deductible, but the beauty of a Roth IRA comes during your retirement years. You can withdraw the money tax-free after you turn 59Â½, if itâ??s been five years from the first Roth IRA contribution. Plus, there arenâ??t any required minimum distributions (RMDs) that must be taken out of a Roth IRA, so all of the funds in this account can keep growing past age 70Â½, the age when youâ??ll have to take RMDs from other retirement accounts.

Thinking of taxes in retirement, your 401(k), 403(b), and IRA will be taxed as ordinary income in retirement, and most of your Social Security will be taxed as well. When you review your statements from those accounts, itâ??s important to be aware that you wonâ??t actually receive that dollar ï¬• gure in your checking account when you retire; income tax takes a bite. The Roth IRA provides a nest egg that Uncle Sam doesnâ??t touchâ??itâ??s all yours.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.

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