THE SEEDS OF RETIREMENT SAVINGS

For many people, saving for retirement is one of the most intimidating areas of personal finance. The key point: START NOW. Time is your biggest asset—it allows your money to grow through the magic of compound interest. Here are your options.

THERE ARE TWO BASIC WAYS TO INVEST FOR RETIREMENT

See "Terms to Know" for definitions of unfamiliar terms.

Through Work

SIMPLE IRA
Like an entry-level 401(k). Contributions come from your pay before it's taxed. And your employer must kick in a portion.

401(k)
*Puts part of each paycheck in a choice of investments including stock and bond mutual funds. (One popular option is a **target date fund**.) **Tax-favored** and may include an employer match—say, for every $1 you invest, your company adds 50¢. Penalty to withdraw before age 59½.*

THERE ARE TWO KINDS

TRADITIONAL
Contributions come from your pay before it's taxed. You pay tax when you withdraw (after age 59½).

ROTH
Contributions come from your pay after it's been taxed—but you never pay tax on it again.

Start now—and contribute as much as your company will match!

On Your Own

IRA
(Individual retirement account) Can be opened with mutual fund companies, banks, and brokers. Penalty to withdraw before age 59½.

SEP-IRA
You can contribute a big chunk of your net earnings from self-employment.

LIKE A 401(k), THESE COME IN...

TRADITIONAL
You get the tax break up front and pay tax when you withdraw (after age 59½). Contribution limit may be reduced (or you may be ineligible) if employer offers a 401(k) or income is too high.

ROTH
Contributions are taxed now, but not when you withdraw money. Plus, you can withdraw money put into a Roth IRA at any time, no penalty. (You will pay a penalty if you withdraw any of the interest.)

Terms to Know

EXCHANGE-TRADED FUND (ETF)
Traded like a stock on a stock exchange, its value rises and falls throughout the day, unlike a mutual fund's value, which changes only at the end of each day.

MUTUAL FUND
Pools many people's money to invest in many different stocks or bonds.

COMPOUND INTEREST
When interest, as it's added to your capital, earns interest on itself. Magic.

TARGET-DATE FUND (TDF)
A mix of stocks and bonds that changes as you near retirement to make it less risky.

CAPITAL GAIN OR LOSS
Difference between price paid for a stock and the price it sold for.

RATE OF RETURN
The percentage of profit or loss from an investment.

TAX-FAVORED When taxes are not charged on money while it is invested in a retirement account. Allows money to grow tax-free for years.

"BUT WHERE SHOULD I INVEST THE MONEY IN MY ACCOUNTS?"

In most cases, your accounts are made up of funds, which are either **actively** or **passively managed.** When a manager picks and chooses among thousands of stocks to create a fund, it's actively managed. A passively managed fund, such as an **index fund,** on the other hand, simply invests in a whole group of stocks (like the S&P 500). No manager picking and choosing. The surprising thing? Index funds do pretty much as well as funds managed by "experts" who charge higher fees.

Winner: passively managed, low-fee index funds. And you.

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