

Choose a Retirement Plan: Key Terms

401(k): a defined contribution retirement plan with tax benefits

403(b): a retirement account for employees of certain nonprofit organizations or the government

80% rule: an expert-created guideline that says you'll need about 80% of the income you make before retirement to maintain your same standard of living in retirement

Annuity: an insurance contract that provides a fixed income stream for a certain period of time

Annuity fees: costs to have an annuity that cover things like plan administration and investment management

Cash balance plan: combines features of a defined benefit (DB) with a defined contribution (DC) plan. You make regular contributions to your individual account, but it's managed by your employer. When you retire, your employer promises a set balance in your account that you can choose how to withdraw

Compounding: when the earnings on your investments are reinvested to earn even more money

Defined benefit plan (DB plan): a retirement account funded by your employer where you receive a fixed amount in retirement

Defined contribution plan (DC plan): an employer-sponsored retirement account where you make regular contributions. The amount you receive in retirement is based on how you invest your contributions.

Distribution: a withdrawal from your retirement account

Employee Stock Ownership Plans (ESOPs): a defined contribution plan that gives you shares of the company's stock

Employer matching contributions: when an employer matches the contributions you make in an employer-sponsored account up to a certain amount

Employer-sponsored retirement plan: (a.k.a. workplace retirement plan) a retirement plan you can access through your employer

Fixed annuities: an annuity that pays out a guaranteed amount for a set amount of time

Indexed annuities: an annuity where you receive a guaranteed minimum payout, and a portion of your return is tied to the performance of a market index, like the S&P 500

Individual retirement account (IRA): a tax-advantaged account you can set up on your own through a financial institution

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Mutual funds: groups of investments that can be professionally managed or that follow major sectors of the market

Pension plan: a type of defined benefit plan where you receive fixed regular payments from your employer in retirement

Pre-tax contributions: money you contribute to a retirement plan that reduces your taxable income for the year

Profit-sharing plans (PSPs): a defined contribution plan where your company contributes part of their profits to your account

Qualified Roth withdrawal: a tax-free distribution from a Roth account. You must be at least 59 ½ years old and have had the account open for at least five years after your first contribution.

Required minimum distributions (RMDs): withdrawals you are required to take from your retirement account once you reach a certain age

Retirement calculators: tools that can estimate what you'll need to save for retirement based on your age, current savings, contributions, and lifestyle goals

Roth contributions: contributions to a retirement account that are made with after-tax dollars

Roth IRA (IRR): an individual retirement account where you make Roth contributions

SIMPLE (Savings Incentive Match Plan for Employees) IRA plan: an employer-sponsored retirement plan where your employer is required to make contributions and you have the option to contribute

Simplified Employee Pension (SEP) plan: an employer-sponsored plan that only your employer makes contributions to

Social Security: a government program that pays you an amount every month to supplement your retirement income

Tax-deferred: when you delay paying taxes on money (like earnings that are growing in certain retirement plans)

Variable annuities: an annuity where you have your own sub-account and can decide how you want to invest for retirement