Employer-Sponsored Plan Contributions	
401(k)/403(b) contributions	
401(k)/403(b) contributions (spouse)	

**List for reference only – do not add contributions to your expenses since they are deducted from your paycheck pre-tax.*

Value of Retirement Accounts	
401(k)/403(b)	
401(k)/403(b) (spouse)	
IRA	
IRA (spouse)	
Other	
Total	

Weekly Tracking Chart

Item	Daily Expenses							Total Weekly Expenses
	Mon	Tue	Wed	Thu	Fri	Sat	Sun	
Groceries								
Restaurants/ take-out								
Laundry/dry cleaning								
Medical/dental								
Auto/gas/parking								
Other transportation								
Babysitting								
Personal care								
Clothing								
Bank fees/postage								
Entertainment								
Books/music/video								
Cigarettes/alcohol								
Gifts/cards								
Home/garden								
Contributions								
Other								
Other								

Once you have completed your budget, total up your expenses and subtract them from your net income. If your expenses are less than your income, great! If not, look over the worksheet and think about what changes you can make to improve your cash flow. Can you bring your lunch to work instead of buy it? Nix the land-line and just use your cell-phone? Give up your tap dancing lessons? Be honest about what is truly a necessity and what can be reduced, postponed, or cut out completely. Put any adjustments you plan to make in the Proposed column of the budget.

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Types of Retirement Accounts

When saving for retirement, it is a good idea to take advantage of accounts that give you a break on your taxes. Paying less in taxes means more money in your pocket.

Employer-Sponsored Plans

There are two basic types of employer-sponsored retirement plans: the defined-benefit plan, in which a certain level of benefits is promised and it is the employer's responsibility to fund it, and the defined-contribution plan, in which the employee makes defined contributions and there is no guaranteed payout. The value of a defined-contribution plan is dependent on how much is put in it and how well the investments perform. Employers generally let employees determine how much they want to contribute per paycheck, and some even match all or part of their employees' contributions. Today, defined-contribution plans are much more common than defined-benefit plans. An example of a defined-contribution plan is the 401(k). (The 403(b) is the equivalent for employees of non-profits.) The money that you contribute to a 401(k) or 403(b) is deducted from your paycheck pre-tax, meaning you don't have to pay state or federal income taxes on it. While your money is invested in the plan, you don't pay taxes on the earnings either. You only pay taxes on the withdrawals you make.

Individual Retirement Accounts (IRAs)

IRAs are retirement accounts that are not tied to your employer – you can open one at a variety of financial institutions, such as credit unions, banks, and mutual fund companies. In order to contribute to an IRA, you or your spouse must have earned income.

The two most common types of IRAs are the Traditional IRA and Roth IRA. Like with 401(k)s and 403(b)s, you do not have to pay income taxes on the contributions made to or in-plan earnings of a Traditional IRA, only the withdrawals. (The contributions are made with post-tax income, but you can deduct them on your tax return.)

Roth IRAs operate a bit differently than most other retirement accounts in that you do have to pay taxes on the contributions you make. However, earnings grow tax-free in the account, and you do not have to pay taxes on qualified withdrawals. Many financial experts prefer Roth IRAs to Traditional IRAs, but which one is more beneficial is dependent on your tax bracket now versus your tax bracket in retirement.

One of the downsides of employer-sponsored plans is that the investment options are typically limited. In contrast, with an IRA, you can invest in what you want. You also do not have to worry about what to do with your IRA when you leave your job. On the other hand, you don't have the benefit of automatic payroll deduction (or matching funds if your employer provides that), and the contribution limits are higher for employer-sponsored plans than IRAs. You can contribute to both at the same time, but contributions to a Traditional IRA are not deductible if you are covered by a retirement plan at work and your income is above a certain amount. (See www.irs.gov for more information.)
Plans for the Self-Employed

If you are self-employed, you can still contribute to a Traditional or Roth IRA. There are also retirement plans specifically for the self-employed and small business owners and employees, such as the Keogh plan, simplified employee pension (SEP) plan, savings incentive match plan for employees (SIMPLE plan), and solo 401(k). All allow you to make pre-tax contributions, and the earnings grow tax-free. The SIMPLE plan generally has the lowest administrative costs and is the easier to set up, but, depending on your earnings and age, other plans may allow larger contributions.

Types of Investments

There are three basic types of investment classes where you can put your retirement savings:

- **Stocks:** A share of stock represents a percentage of ownership in a corporation. In other words, if a company is divided into a million shares and you buy one share, you would own one millionth of that company. You can make money from receiving dividend payments and selling the stock for more than you bought it for. Historically, stocks have provided the greatest return (earnings) long term. However, there are no guarantees – one day your stock may be worth more than what you paid for it, the next, less.
- **Bonds:** A bond is a loan to a company or government, with you, the bondholder, as the lender. Generally, you receive the principal, called the par value, at maturity of the bond and interest periodically while you are holding the bond. Depending on the market, you may purchase a bond below, at, or above its par value. In general, bonds are between stocks and cash equivalents in regard to risk and return.

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- **Cash equivalents:** Cash equivalents are assets that can be readily converted into cash, such as savings and checking accounts, certificates of deposit, money market deposit accounts, and U.S. Treasury bills. They tend to be low-risk, so there is little or no danger that you will lose the money you deposit. As a result, cash equivalents provide a low return.

Instead of picking several investments individually, most people choose to invest their retirement savings in a mutual fund. In a mutual fund, money from several investors is pooled to buy different stocks, bonds, and/or cash equivalents. There are a wide variety of mutual funds available with different investment compositions and goals. Some are aggressively focused, with a high percentage of the portfolio invested in the stocks of companies expected to grow. (Long term, this type of stock often provides the highest return, but there is more of a risk of losing some or all of your investment.) Some are more conservative, with a high percentage of the portfolio invested in established companies and/or bonds and cash equivalents. Some invest primarily in a certain industry, such as technology or real estate. Some track a particular index, such as the S&P 500.

As mentioned previously, for IRAs, your investment choices are virtually limitless. With a 401(k) or 403(b), your options will be limited by your employer – typically, you will able to choose among several options offered by one investment company. As a general rule, you should invest more aggressively the further you are from retirement. This means focusing on investments that have the potential to provide a high return (typically stocks), even if they are riskier. If you are close to retirement, you want to be a little safer since you don't have much time to recover if your investments perform poorly. However, regardless of how far you are from retirement, it is important to have diversity in your portfolio and not put all of your eggs in one basket. If you are not sure where you should invest, remember, you may want to consult with a financial advisor.

Start Now!

If you are not currently saving for retirement or not saving as much as you need to, don't wait to start or increase your contributions. The earlier you start, the longer your savings have time to grow. If you started investing $200 per month now in a vehicle earning an average of 5% a year, in 30 years, you would have $159,453 ($72,000 in contributions and $87,453 in interest earned). If you waited five years to start, you would only have $114,545 ($60,000 in contributions and $54,545 in interest earned). You should save for retirement even if you have debt or more immediate goals. Prioritizing retirement now means you will not have to work until you are 80!

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