Where to Save Money for Retirement
By Gary Case

Many people have an employer sponsored retirement plan (401k, SIMPLE IRA, 403b, 457), and traditional wisdom states that you should contribute the maximum to that plan before considering alternatives. Your personal situation may dictate a different course.

The first thing to consider about your employer sponsored plan is how much your employer contributes and how that amount is determined. Some plans match employee contributions dollar-for-dollar up to a certain amount of your income--a common amount is 3%. If you earn $30,000 and you contribute 4% of your income, or $1,200 annually, a 3% match would equal $900 of employer contribution. Other plans match a portion of each dollar you contribute, such as $0.50 for each employee dollar contributed up to 6% of total employee savings. In this situation, an employee earning $30,000 annually would need to contribute at least $1,800 to receive the full employer match of $900. Employer matching is a powerful incentive to save and receive a full match into your employer's plan.

After you receive a full employer match, what are your options other than filling up your employer's plan? You could contribute to a traditional IRA. Advantages include a broad variety of investment choices usually not available in an employer plan; however, fees in a traditional IRA may exceed those in an employer sponsored plan. Incidentally, fees associated with any investment should be disclosed and understood by consumers—and they are not always obvious.

You might consider a Roth IRA. While contributions to a Roth IRA do not provide an immediate tax deduction, your money grows tax deferred, and at any time you can generally withdraw contributions without tax or penalties. Further, all money withdrawn from a Roth after age 59 ½ comes out free of federal income tax. Some employer plans also now carry a Roth option.

Finally, you may wish to consider funding a cash value life insurance policy in lieu of a formal retirement plan. This is a good way to meet two objectives—risk management and retirement planning. If you use cash value life insurance, consistently fund the policy for an appropriate amount of time, since the consequences of failing to put enough money in the policy are much more serious than failing to fund your retirement plan.

Check with your financial planner for assistance in evaluating which strategy fits your particular situation the best.

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