

Once a foundation of stability is in place, the focus shifts to saving and investing for the future. This is where your money begins to work for you over time, rather than simply covering current expenses. The habits you build now, even small ones, can have a meaningful impact years down the road.

How Retirement Plans Work

What is a 401k?

A 401k is a retirement savings plan offered by your employer. You contribute a portion of each paycheck; those contributions are invested, and your balance grows over time.

- Contributions come directly from your paycheck before you spend it
- Money is invested in funds you select from your plan options
- Your balance grows through contributions and investment returns
- Designed specifically to support you financially in retirement

The Employer Match

Many employers will match a portion of what you contribute. This is money added to your account on top of your own contributions, at no additional cost to you.

If you are able, contribute at least enough to get your full employer match.

Not doing so means leaving part of your compensation unclaimed. It is one of the most impactful financial moves available to most people.

Long-Term Growth

Because contributions are invested, your account grows through both your deposits and investment returns over time. Starting early gives your money more years to compound, which can make a dramatic difference by retirement.

How Much Should You Be Saving?

Understanding Your Savings Rate

A savings rate is the percentage of your income set aside for the future. This includes your 401k contributions, IRA contributions, and any other regular savings.

10 to 15% of income is a common long-term savings target.

This is a goal, not a requirement. It often takes years to reach. What matters most is moving in the right direction and staying consistent along the way.

Tax Advantages

401k plans come in two forms with different tax treatments:

- Reduces your taxable income today; taxes paid at withdrawal in retirement: Traditional (pre-tax)
- You pay taxes now; qualified withdrawals in retirement are tax-free: Roth (after-tax)

Both have advantages. The right choice depends on your tax situation today versus what you expect in retirement.

Starting early vs. starting later:

Someone who starts at 25 generally needs to contribute less per month than someone starting at 40 to reach the same goal, because time allows returns to compound.

Building Momentum Over Time

- Start with whatever you can contribute today
- Increase contributions by 1 percent whenever your income grows
- Consistent contributions matter more than reaching a perfect number

Both Paths Can Work

Starting early gives your money more time to grow. Starting later may require higher contributions, but meaningful progress is still achievable with a consistent plan.

- Early starter: lower monthly contributions, more time for compounding growth
- Later starter: higher contributions needed, but still very achievable

Either way, the best time to start is now

Beyond the 401k

Even small extra payments build real momentum. As balances drop, more of your income opens up for saving and investing.

Individual Retirement Accounts (IRAs)

An IRA is a retirement account you open on your own, separate from your employer. It gives you additional tax-advantaged savings beyond your 401k.

- Contributions may be tax-deductible; taxes paid on withdrawal: Traditional IRA
- After-tax contributions; qualified withdrawals in retirement are tax-free: Roth IRA
- Annual contribution limits apply
- A strong next step once you are capturing your full employer match

Multiple account types create flexibility.

Having both pre-tax and Roth savings gives you options in retirement to manage your tax situation more strategically.

When to Consider Adding This

- You are already contributing to a 401k and an IRA
- You are saving for a goal within the next 5 to 15 years
- You want flexibility beyond what retirement accounts allow
- You want to build wealth beyond retirement contribution limits

Taxable Investment Accounts

Beyond retirement accounts, taxable investment accounts offer another way to build wealth with more flexibility and fewer restrictions.

- No contribution limits
- No restrictions on when you can access your money
- Can support goals outside of retirement
- Subject to capital gains taxes when you sell investments

Questions to Ask Yourself

- Am I contributing to my employer's retirement plan today?
- Am I receiving my full employer match?
- Do I know my current savings rate as a percentage of income?
- Am I saving consistently, even if the amount feels small?
- Have I considered opening an IRA for additional savings?

Take Action

- Log in to your 401k and confirm your current contribution rate
- Check your plan documents for the employer match details
- Increase your contribution by 1 percent if you are able
- Research IRA options if you are not already contributing to one

Consistency today creates opportunity tomorrow.