# Retirement Planning – Ways to Save

Most experts are now suggesting one saves between 1 and 2 million dollars for retirement. This suggestion is at disparate odds with the realities of most Americans who save, on average, 25% of this amount. One point all experts agree on – the sooner you start saving, the better. This module focuses on investing for retirement. First, we’ll review the different ways one can save/invest for retirement, and then we’ll go into more detail for the options specific to teaching.

## Retirement Account Options

**Employer Retirement Accounts**

These retirement investing options are employer specific, and they are offered as part of the benefits beyond salary. There are two types of employee-sponsored retirement plans: defined benefit plans and defined contribution plans. Defined benefit plans (401a), colloquially called pension plans, offer a specified payout at retirement, usually an annual or monthly payment for the remainder of the employee’s life. There may also be options for spouse or survivor benefits, and the amount is dependent on your length of service at the company and your salary. Typically pensions require a certain number of years of employment to become vested. Teachers in Georgia have an optional pension through the Teacher Retirement System of Georgia that we’ll discuss below. In defined contribution plans (401k or 403b), an employee and employer may contribute to the account, but the payout at retirement is not specified; rather, it depends on the performance of the invested funds. Typically, the employer offers a matching contribution up to a certain percentage. These plans are employee specific, so they are more portable than a pension. This means there is no vesting scheduled required, and so these plans are attractive to individuals who change jobs regularly. Both options are tax-deferred, meaning employee contributions to these accounts are pre-taxed, and payouts at retirement are taxed as income.

**Government Sponsored Retirement Account**

The federal government offers a mandatory retirement plan for almost all citizens called Social Security. This is funded by a mandatory payroll tax (you will see a specific line on your paystub specifying Social Security or SS). To qualify for Social Security, you must work and contribute for at least 10 years, and full benefits are not available until age 67. It is worth noting that some states do *not* require teachers to pay into Social Security if they are paying into their pension plan (Georgia is not one of these states), so keep this in mind if you plan to move.

**Individual Retirement Accounts**

Any individual can save for retirement through special accounts created by the government to encourage retirement saving. The government offers certain tax advantages for these accounts, and they are an attractive option for individuals who want to diversify their retirement planning. Traditional IRAs are like 401ks or pensions in that contributions are tax-deferred, meaning any amount up to the limit (changes as tax law is updated) is not subject to taxation. A great advantage of a traditional IRA is that any appreciation (interest, dividend income, capital gains) is not taxed until the funds are withdrawn. Funds may be withdrawn starting at 59.5 without penalty. A Roth IRA is different from a traditional IRA in that contributions to it *are* taxed but any withdrawal of funds from a Roth IRA is *not* taxed. Like traditional IRAs, any appreciation in the account is not taxed. This type of IRA is attractive for individuals who expect a consistent payout in retirement (like those of us with pensions) and desire additional payouts that are not taxed, meaning withdrawals from a Roth IRA do not increase your taxable income.

There are a number of other retirement options, but these are the basic and most common types. This video, [Retirement Plans for Beginners](https://www.youtube.com/watch?v=pZNnueqfj_A), reviews the different retirement plans available.

## Retirement Plans for Teaching

As a teacher in Georgia, you will be offered two main retirements options when you begin your first year of teaching – a 403b or a pension through the Teacher Retirement System of Georgia. As such, this module will focus on these options.

**403b**

A 403(b) plan, also known as a tax-sheltered annuity plan (TSA), is a retirement plan that allows employees to defer some of their salary into individual accounts on a pre-tax basis. 403(b) plans are available to employees of certain public schools, colleges, universities, non-profit organizations, cooperative hospital service organizations, and self-employed ministers. Employers may also contribute to the plan for their employees.  If you elect this plan, the amount of the payouts at retirement are not guaranteed but depend on how well the market has performed while you were working and contributing to the plan. The redeeming feature of this plan, however, is that your contributions, your investment funds remain with you if you choose to leave Georgia or change careers.

**Pensions (401a)**

The Teacher Retirement System of Georgia (TRS) manages pensions for teachers (and staff and higher education employees, including your professors). As discussed previously, if you choose the pension route, you contribute a percentage of your pre-tax salary each month to TRS. Upon retirement, your pension pays out an annual amount dependent on your salary and years of service for the remainder of your life, but independent of market fluctuations! This is very valuable, and as the video in the link mentions, a rare feature in today’s market. TRS argues there is a significant amount of [power in a pension](https://www.youtube.com/watch?v=cwtzfaOiCfc). To take advantage of this option, you will need to stay in your chosen field in the State of Georgia until retirement.

## Quiz Questions

1. Which type of retirement account offers an employee the opportunity to invest a fixed amount of their paycheck to fund their retirement?
   1. Defined Benefit Plan
   2. Defined Contribution Plan \* Answer
   3. Traditional IRA
   4. Roth IRA
2. What retirement account options are available for teachers (and staff) in Georgia? (select all that apply)
   1. 401k
   2. 403b \* Answer
   3. 401a \* Answer
   4. None of the above.
3. Individuals can save for retirement through an employer sponsored account *and* through an individual retirement account like an IRA.
   1. True \* Answer
   2. False
4. How many years must you work to qualify for Social Security?
   1. 5 years
   2. 10 years \* Answer
   3. 20 years
   4. 35 years

## Vocabulary

* Defined Benefit Plan: an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history
* Defined Contribution Plan: a retirement plan that's typically tax-deferred, like a 401(k) or a 403(b), in which employees contribute a fixed amount or a percentage of their paychecks to an account that is intended to fund their retirements
* Individual Retirement Account (IRA): a long-term, tax-advantaged savings account that individuals with earned income can use to save for the future
* Pension: See Defined Benefits Plan
* Retirement: withdrawal from one's position or occupation or from active working life
* Roth IRA: a type of tax-advantaged individual retirement account to which you can contribute after-tax dollars toward your retirement
* Social Security: a federal program in the U.S. that provides retirement benefits and disability income to qualified individuals and their spouses, children, and survivors
* Tax Sheltered Annuity Plan: a type of investment vehicle that lets an employee make pretax contributions into a retirement account from income
* Traditional IRA: allows individuals to direct pre-tax income toward investments that can grow tax-deferred
* Vested: defined benefit plans are structured with options that limit your claim to the retirement fund until you have been with the company for a certain length of time. For the Teacher Retirement System of Georgia, [vesting](https://www.trsga.com/active-member/service-credit-accrual-purchase/vesting/) occurs after 10 years of creditable service.

## Task

In this module’s task, you’ll be guided through analyzing investment returns with multiple account types: Traditional IRA, Roth IRA, and a pension through GaTRS.