What Are My Retirement Planning Options?

There are a variety of retirement planning options that can meet your needs. Your employer funds some; you fund some. Bear in mind that, in most cases, early withdrawals before age 59½ may be subject to a 10% federal income tax penalty. The latest date to begin required minimum distributions is usually April 1 of the year after you turn age 70½. In most cases, withdrawals are taxed as ordinary income. This list describes 10 of the most common planning options.

A **defined benefit pension** normally provides a specific monthly benefit from the time you retire until you die. This monthly benefit is usually a percentage of your final salary multiplied by the number of years you've been with the company. Defined benefit pensions are usually funded completely by your employer.

A **money purchase pension** provides either a lump-sum payment or a series of monthly payments. The size of this benefit depends on the size of the contributions to the plan. Your employer normally funds money purchase pension plans, although some will allow employee contributions.

Your employer may fund a **profit-sharing plan**; employee contributions are usually optional. Upon your retirement, you will normally receive your benefit as a lump sum. The company's contributions — and thus your retirement benefit — may depend on the company's profits. If a profit-sharing plan is set up as a 401(k) plan, employee contributions may be tax deductible.

A **savings plan** provides a lump-sum payment upon your retirement. Employees fund their own savings plans, although employers may also contribute. Employees may be permitted to borrow a portion of vested benefits. If a savings plan is set up as a 401(k) plan, employee contributions may be tax deductible.

Under an **employee stock ownership plan** (ESOP), an employer periodically contributes company stock toward an employee's retirement plan. Upon retirement, employee stock ownership plans may provide a single payment of stock shares. Upon reaching age 55, with 10 or more years of plan participation, you must be given the option of diversifying your ESOP account up to 25% of the value. This option continues until age 60, at which time you have a one-time option to diversify up to 50% of the account.

Tax-sheltered annuities or **403(b) plans** are offered by tax-exempt and educational organizations for the benefit of their employees. Upon retirement, employees have a choice of a lump sum or a series of monthly payments. These plans are funded by employee contributions, and these contributions are tax deductible.

Individual retirement accounts are available to virtually any wage earner at any salary, up to certain income limits. They are funded completely by individual contributions. IRAs are usually held in an account with a bank, brokerage firm, insurance company, mutual fund company, credit union, or savings association. They provide either a lump-sum payment or periodic withdrawals upon retirement. There are two basic types of IRAs: traditional and Roth. Contributions to traditional IRAs may be tax deductible and are taxed upon withdrawal, whereas contributions to Roth IRAs are not tax deductible but qualified withdrawals are tax-free.

Self-employed plans were specifically designed for self-employed people. They are funded completely by wage-earner contributions and provide either a lump-sum payment or periodic withdrawals upon retirement. Self-employed plans have the same investment opportunities as IRAs. Contributions to self-employed plans are tax deductible within certain generous limitations. No distinction is generally made between pension, profit-sharing, and other retirement plans established by corporations and those established by individual proprietors and partnerships. In the past, the term "Keogh plan" or "H.R. 10 plan" was used to distinguish a retirement plan established by a self-employed individual from a plan established by a corporation or other entity. However, self-employed retirement plans are now generally referred to by the same name that is used for the particular type of plan, such as a SEP IRA, SIMPLE 401(k), or self-employed 401(k).

Simplified employee pensions, or SEPs, were designed for small businesses. Like IRAs, they can provide either a lump-sum payment or periodic withdrawals upon retirement. Unlike an IRA, the employer primarily funds a SEP, although some simplified employee pensions do allow employee contributions. SEPs are usually held in the same types of accounts that hold IRAs. Employee contributions — in those SEPs that allow them — may be tax deductible.

Savings Incentive Match Plans for Employees, or SIMPLE plans, were designed for small businesses. They can be set up either as IRAs or as deferred arrangements — 401(k)s. The employee funds them on a pre-tax basis, and employers are required to make matching contributions. Principal and interest accumulate tax deferred.

Strictly speaking, **annuity contracts** are not qualified retirement plans. But they do provide tax-deferred growth like qualified retirement plans. They are also subject to withdrawal conditions very similar to qualified retirement plans, but there are no contribution limits. They can be used very effectively to supplement your employer-provided retirement plan.

Generally, annuities have contract limitations, fees, and charges, which can include mortality and expense charges, account fees, underlying investment management fees, administrative fees, and charges for optional benefits. Most annuities have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income and may be subject to a 10% federal income tax penalty if made prior to age 59½. Withdrawals reduce annuity contract benefits and values. Any guarantees are contingent on the claims-paying ability of the issuing company. Annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. With variable annuities, the investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions; thus, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

Variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.