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HOW TO PLAN FOR RETIREMENT

Types of Retirement Accounts

**401(k)** is a retirement account offered by some employers that goes in untaxed but is taxed as income when you withdraw. If your employer offers a 401(k), it’s an excellent way to get started.

**Roth IRA** is an investment account that you can contribute to post-tax, but when you withdraw much later in life, funds are untaxed. If you don’t have a 401(k) option, open a Roth IRA and start contributing what you can.

**How much should I contribute per year?**

It depends on your priorities and your current budget. Try to start putting away a little bit as soon as possible, even $10 per month.

As you win out over other more pressing financial goals like paying off debt, start putting that amount into your retirement savings. So if you put $200 per month toward paying off debt and you finish, think about putting all or a portion of that monthly amount toward retirement.

**The maximum annual contribution for a 401(k) is $18,500**

**The maximum annual contribution for IRAs for people under 50 is $5,500**

**The maximum annual contribution for IRAs for people over 50 is $6,500**

**How much do I need to retire?**

There’s a principle known as the **4% rule**. Four percent is the recommended annual withdrawal rate for retirement years.

For example, to live on $32,000 per year for 25 years, you would need **$800,000** saved.

**But there’s good news! It’s called Compound Interest**

Without overcomplicating things, retirement accounts give you the benefit of compound interest, which lets your money grow without you needing to do anything.

Let’s say that your retirement account (like the 401(k) or IRA described above) gives you an average **7% annual yield** (yield = growth rate).

If you were to put in $1000 and leave it, in 40 years that single contribution will have grown to $15,000.

If you put in $1000 annually ($83.33 per month), after 40 years, instead of having $40,000, you’d have $228,584.