

Retirement Planning – at Your First Job

If you're a young person just starting out on your first real adult job, it may seem like an odd time to be thinking about retirement.

But this is when your retirement planning starts, with that regular paycheck, those deductions for Social Security taxes, the choice to opt into a 401(k). You may not want to be thinking about your golden years yet, but the earlier you plan for them, the more comfortable they will be.

Retirement planning isn't the kind of thing you need to devote too much attention to, as long as you establish a few principles early on. Here are a few strategies to keep in mind:

GET THE MATCH

Employers that offer qualified retirement plans, such as a 401(k), usually offer some level of matching contributions. For example, your employer might allow you to contribute up to 6 percent of your earnings to a 401(k) plan, and they'll match your contributions up to 3 percent of your income each year.

If you're making \$50,000, it might be tough to put away \$3,000 out of that – but if you can find a way to kick in 3 percent, or \$1,500 a year, you'll get another \$1,500 in free money. You can't pass that up.

WATCH YOUR VESTING

All the money you put into your 401(k) is yours, of course, but the employer match might take a while, a process known as vesting. Some employers require you to work there for some period of time – maybe three years or five years – before you get full ownership of the match money. Once you've reached the tenure required for the plan's vesting requirements, the company's contributions are yours forever. If you're looking to job-hop early in your career, this is an important factor to keep in mind. ►

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OTHER OPTIONS

If your job is currently some combination of freelance gigs and side hustles, or if your employer doesn't offer a 401(k), you should take a look at an Individual Retirement Account, or IRA. Contributions to a traditional IRA can be tax-deductible if your income is low enough, but you'll pay taxes on that money when you withdraw it in retirement. If you can afford to pass up the tax deduction, you might be better off in the long run with a Roth IRA, where the money goes in without any tax savings up front, but the eventual withdrawals are tax-free. That could be advantageous to you because you're probably in a lower tax bracket now than you will be when you reach retirement.

INVEST FOR THE LONG HAUL

Whether you invest in your company's 401(k) or set up your own IRA, keep in mind that you have lots of time before you'll need (or have access to) this money, so you can be a little aggressive with it. The traditional rule of thumb is to subtract your age from 100 and put that percentage of your money into stocks, with the rest in bonds. An easier way to do this: Check out target date funds, which put together a mixture of stock and bond funds that slides into safer investments the closer you get to retirement.

One other note about saving for the long term: It's easier than you might think. You could think you can't afford to put a couple hundred bucks a month into a 401(k), but once you opt into your company's plan, you probably won't notice that money's missing.

Please reach out if you or anyone you know would benefit from discussing this topic further.