# Starting to Save for Retirement (and other Long-term Goals)

It is *never* too early to begin saving for retirement and to start thinking about the most tax-advantaged way to put money aside. If two people save $100 a month for retirement, but one starts age 25 and the other starts at age 35, the early saver will have nearly twice as much in his/her retirement account by age 65 (based on past trends in investment markets) merely from availing him or herself of the extra ten years of compounding interest. Would you rather have $5 million saved at age 65, or $10 million? Many financial experts recommend saving at least 10% to 15% of your total income at the beginning of your career so that you can aim to fund a similar lifestyle in retirement.

- **Understand "Roth" versus "Traditional."** When thinking about retirement accounts, it is important to understand the difference between what is referred to as a Roth account and a Traditional account. A Roth contribution means that you are contributing after-tax dollars, and you are done paying taxes on these savings forever. A Traditional or "tax-deferred" IRA contribution, means that you are contributing pre-tax money, and you will owe ordinary income taxes when the funds are later withdrawn in retirement. Since the two savings strategies end up with the same after-tax income if your tax bracket remains the same, the difference is really a play on tax rates. If you are in a lower tax bracket now (because you are just starting out in your career), and anticipate being in a higher tax bracket in the future in retirement, it may make sense to make Roth contributions.

- **Contribute to a 401(k) or Individual Retirement Account (IRA).** At the very least, you should contribute enough to your 401(k) account to get the match from your employer if it offers this benefit. That is *free* money to you for retirement. Beyond the employer match, the 2021 maximum contribution amount for individuals under age 50 is $19,500. Beyond your 401(k) account, you have another $6,000 in potential tax-advantaged savings to contribute to and then invest each year, either in a Roth or a Traditional IRA. There are income limitations to being able to deduct and contribute to both, but individuals who are over the income limits often use a strategy called a "backdoor Roth" contribution. A backdoor Roth contribution involves an extra administrative step. You make a non-deductible contribution to your IRA (i.e., not deductible from your income), and then simply transfer that contribution over to your Roth IRA account. This is easiest when your IRA has a $0 balance. Otherwise, you need to watch out for something called the "pro rata rule," which is beyond the scope of this writing and requires calculating a portion of taxes owed on the conversion depending on any capital gains in your IRA. In addition, tax legislation was recently introduced that, if enacted, would change the rules about backdoor Roth contributions. Be sure to engage your financial and tax professionals if you are considering a backdoor Roth contribution.

- **Contribute to a Healthcare Savings Account (HSA).** If you have a high deductible health care plan, you qualify to have an HSA which is the most tax-advantaged account with a "triple tax advantage". The money you contribute to the account is pre-tax (meaning it lowers your taxable income), the money can be invested and grow tax-free, and you can make tax-free withdrawals if used for qualified medical expenses. There is also no limit to when you need to reimburse yourself, so theoretically you could max out contributions each year of your life, invest those contributions, pay cash for medical expenses as they occur if you are able, and then reimburse yourself later in life for all of your cumulative expenses completely free of tax. Healthcare expenses are also the number one overlooked retirement burden, and your HSA could instead be used as a medical account in retirement.

- **Start Building an Investment Portfolio.** If you are able to max out your 401(k) and IRA, you may want to consider contributing further to a standard brokerage account for other long-term savings goals. Currently, capital gains and dividends from investments in a brokerage account are taxed at a lower rate than ordinary income. You will need to assess your risk tolerance, determine the best asset allocation, and then remember to rebalance the portfolio as needed.