

Key Takeaways

Lesson 7: Building Wealth

Investing for Retirement

With almost any income, if you invest 15% of your income to retirement for a long period of time, you're going to end up a Baby Steps Millionaire!

Tax-Advantaged Plans

Traditional (IRA or 401K)

You don't pay taxes now, you pay the taxes when you withdraw. You're taxed on the initial investment *and* the growth.

- Tax deferred
- Not taxed on contributions
- Taxed on withdrawals in retirement



Roth (IRA or 401K)

You pay taxes now on the money invested, but the money grows tax-free. Plus, you can withdraw it tax-free at retirement.

- After tax
- Taxed on contributions
- Not taxed on withdrawals in retirement



Company Match (401K)

- Free money to you
- Employers match your contribution with their own money
- Usually 3-4%
- Always taxable upon withdrawal
- Check if there's a vesting schedule. Think of this as a warranty for their money just in case you decide to jump ship.

Key Takeaways

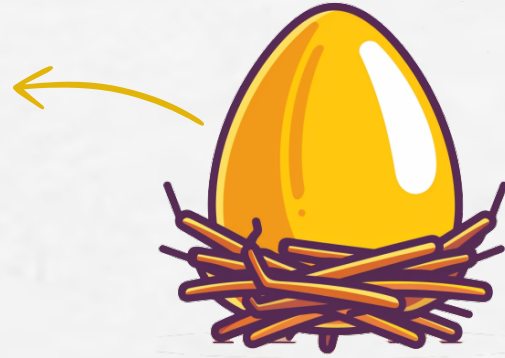
Lesson 7: Building Wealth

Investing for Retirement

Best of the Best Option

If your company offers a Roth 401(k) with a match and has good mutual fund options, that's your gold-star option.

(Put all 15% in that plan.)



Next Best Option

If your company doesn't have a Roth 401(k) with a match, but they do have a traditional 401(k) with a match, remember: Match beats Roth. Roth beats traditional. Contribute up to the company match (likely 3-4%), then invest up to the maximum amount in a Roth IRA. If that gets you to 15%, you're done.

Example



If you still have money left over after you've contributed up to your company's match and maxed out your contributions to your Roth IRA, go back to the company's traditional 401(k) to finish out the 15%.

Key Takeaways

Lesson 7: Building Wealth

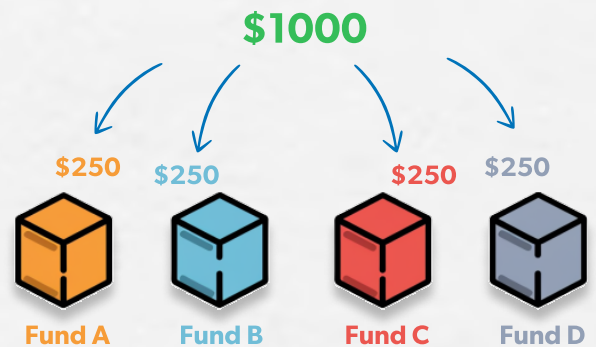
Investing for Retirement

What is a Mutual Fund?

A mutual fund allows investors (aka, you) to pool their money together to invest. You shouldn't invest in mutual funds unless you're willing to stick around for at least **5 years!** Don't jump off the ride in the middle of the rollercoaster.

Spread your investment across different types of funds (this is called diversifying).

Money is like manure, if you spread it around, it grows things. If you leave it in a pile, it stinks!



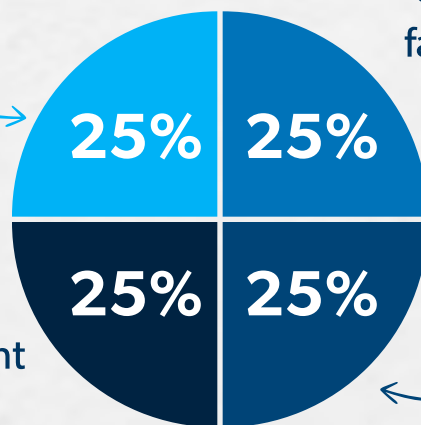
Think of your portfolio of investments like your family.

Growth and Income: Oldest child—predictable and calm

Growth: Middle child—fairly predictable

International: Exchange student

Aggressive Growth: Wild child—most unpredictable



Rules of Investing

- Never borrow on your retirement plan!
- Never invest in anything unless YOU understand it!
- Invest every month—slow and steady wins the race!

