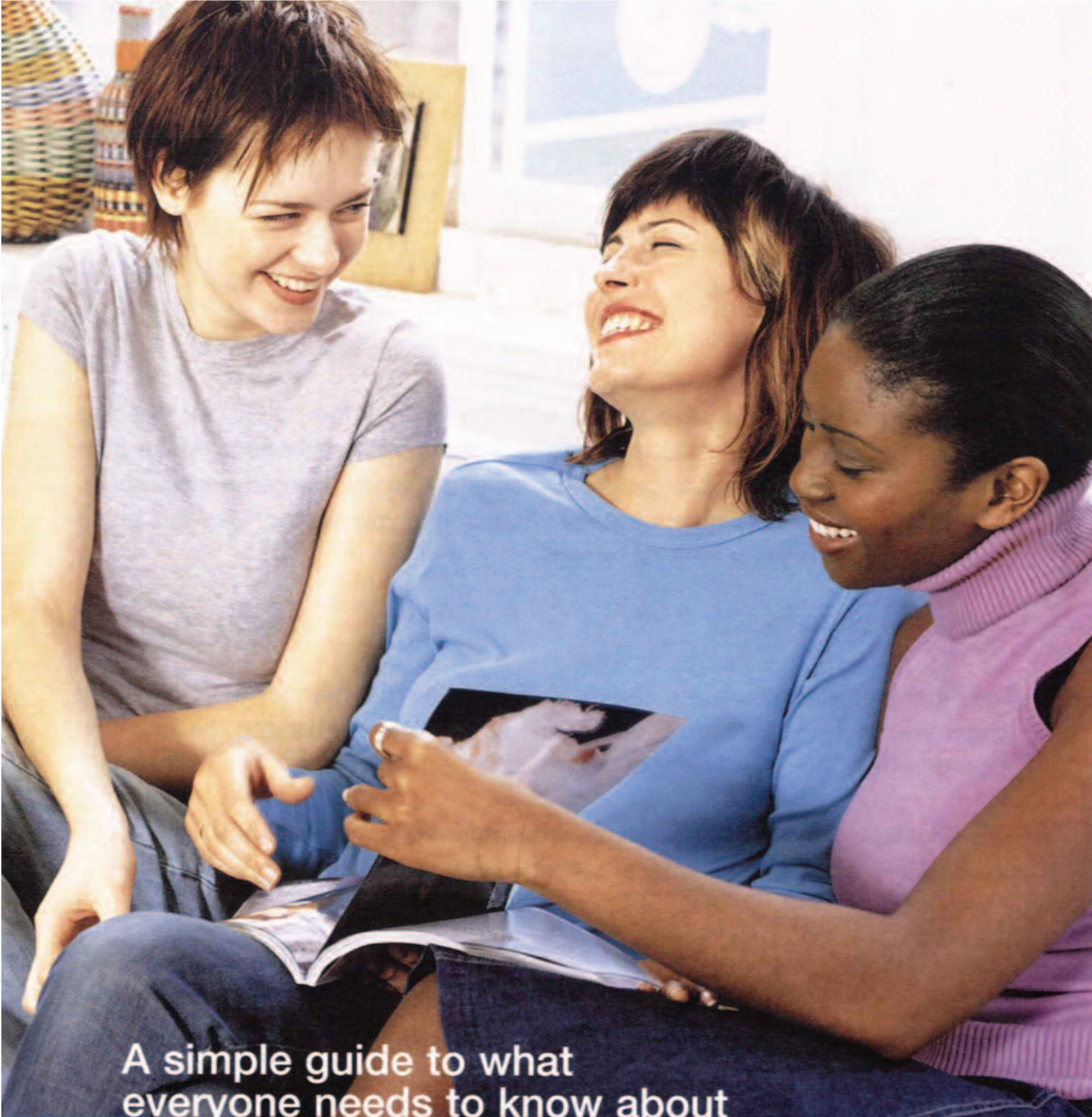

A simple guide to what everyone needs to know about

Money & Retirement

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We hope this guide will provide you with the basic information you need to know to be able to start making decisions about your retirement. Make sure you are getting the most you can from your employer-sponsored pension plan. If you don't have a retirement strategy yet, it's time you started! Use this guide to develop a strategy for your retirement

—*and then stick to it.*

The most important thing you can do is to start early to plan for the future. The longer you wait, the less time you have to save for retirement and the less time your retirement funds will have to grow.

This booklet is intended to provide general information. It should not be used as a substitute for legal or other professional advice.

A Simple Guide to What Everyone Needs to Know about Money & Retirement

contents

overview
just the facts

fact

People are living longer today. Experts project that retirees will spend an estimated 20 to 30 years in retirement as life spans continue to increase.

fact

At a time when people are living longer, there are fewer traditional pension plans available.

fact

Today, workers are expected to provide for their own retirement needs by paying for their retirement plans and saving more.

part 1 where retirement money comes from

Retirement is supported by three main sources of income: Social Security benefits, employer-sponsored pension plans, and individual savings and assets.

SOCIAL SECURITY

Social Security benefits are an essential foundation for retirement income. Social Security is a social insurance program, providing not only retirement income but disability insurance and survivor's benefits for children and spouses. As the main source of retirement income for most workers, Social Security keeps half of the elderly population out of poverty.

Social Security provides a foundation of support or a safety net. Unfortunately, many retirees rely on Social Security as their primary source of retirement income—something it is not intended to be. The average monthly benefit for retired workers is $1,294; for men the average is $1,433 and for women $1,092—so it is clear that Social Security benefits alone are not enough to live on.

EMPLOYER-SPONSORED PENSION PLANS

Think of a pension as a series of delayed paychecks that you receive upon retirement. Employer-sponsored pensions and 401(k) plans provide a crucial source of retirement income. Today, workers are less likely to earn pensions because they are less likely to work for the same employer for most of their work lives and fewer employers offer pensions. Today, less than one-fifth of workers have traditional pensions.

INDIVIDUAL SAVINGS AND ASSETS

Your assets are an increasingly important part of your retirement plan, so it is essential to start saving early and to invest wisely. This means choosing investments that are appropriate for your age, your tolerance for risk, and your current need for cash. Stocks, for example, often produce greater returns over long periods of time. You should consider including them in your investment portfolio – especially if you are a number of years away from retirement. If you are closer to retirement, however, you may want to invest more conservatively and consider shifting some of your investments from stocks and putting more of your money into lower-risk instruments such as bonds, stable funds, and money market funds.

Your Social Security benefits may be taxable, depending on your total income.

A GUIDE TO SOCIAL SECURITY

You earn Social Security benefits because you pay into the system at your place of employment. Social Security benefits are figured on the basis of a 40-year work life. The 35 highest-paid years of your career are averaged, and the five lowest-earning years are removed from the benefit calculation. For an average worker, Social Security benefits will replace about 40% of the final year's income.

A spouse may collect Social Security benefits based either on his or her own work record, or based on his or her status as a spouse or ex-spouse (provided they were married to their ex-spouse for ten years or more).

Are my Social Security benefits taxable?

Your Social Security benefits may be taxable depending on your total income. For instance, if you file a federal tax return and the combined income of you and your spouse is between $32,000 and

$44,000, you may have to pay taxes on up to half of your Social Security benefits. If your combined income is above $44,000, up to 85% of your benefits is subject to income tax.

When can I receive Social Security and Medicare benefits?

The current age at which you will qualify to receive full Social Security benefits is gradually rising to age 67. The age to qualify for Medicare will remain 65.

You may also receive reduced Social Security benefits at:

- Age 62 if you want to retire early.
- Age 62 if you are divorced, as long as you were married ten years or more (and aren't currently married), and your ex-spouse is eligible for retirement benefits.
- Age 60 if your spouse or ex-spouse has died.
- Age 50 if you are a disabled widow or widower.
- If you are a widow or widower and must stay home to care for young children, you may be eligible for a survivor's benefit, regardless of your age. This is paid until your youngest child reaches age 16.

These benefits are not automatic. You must apply to the Social Security Administration to receive them.

THE BENEFITS OF RETIREMENT

You may start receiving Social Security benefits as early as age 62. But for full benefits, you have to wait until full retirement age. Work beyond that age, and there is a benefit increase.

Year of Birth	Full Retirement Age	Percentage of reduction in benefits for those retiring at 62	Yearly percentage increase in benefits for those working beyond full retirement age
1937 or earlier	65	20.00%	6.5%
1938	65 and 2 months	20.83	6.5
1939	65 and 4 months	21.67	7.0
1940	65 and 6 months	22.50	7.0
1941	65 and 8 months	23.33	7.5
1942	65 and 10 months	24.17	7.5
1943 to 1954	66	25.00	8.0
1955	66 and 2 months	25.84	8.0
1956	66 and 4 months	26.66	8.0
1957	66 and 6 months	27.50	8.0
1958	66 and 8 months	28.33	8.0
1959	66 and 10 months	29.17	8.0
1960 and later	67	30.00	8.0

SOURCE: SOCIAL SECURITY ADMINISTRATION

At age 65 you are eligible to enroll in Medicare—the federal health insurance program. You should contact the Social Security Administration (800-772-1213) several months before your 65th birthday for more information.

How long can I collect Social Security benefits?
These benefits will continue for as long as you live; currently, they are adjusted every year for inflation.

Do I get benefits if I left the paid workforce for caregiving?
Yes, as long as you have accumulated at least 40 "service credits" during your career. Generally, as long as you have 10 years of paid employment, you will qualify for some retirement benefits from Social Security. However, as noted above, Social Security is calculated on the basis of your best 35 years of employment; if you have fewer than 35 years in the paid workforce, a zero is entered for each missing year. Each zero will lower your benefits.

What is SSI?
SSI stands for Supplemental Security Income. It pays a monthly benefit to people over age 65 who have very little income, or to younger people who are disabled or poor.

A GUIDE TO PENSIONS AND 401(k) PLANS

There are two categories of pension plans:

- Defined benefit plans
- Defined contribution plans

In a **defined benefit plan**, your employer often provides all of the money and selects an administrator to make investment decisions. When you retire, you get a specific monthly benefit.

In a **defined contribution plan**, such as a 401(k) plan, you may provide all or a portion of the funds and make investment decisions; sometimes your employer matches all or part of your contribution.

Increasingly, employees are being asked to pay for all or part of their own retirement.

Here are some common questions people have about retirement plans:

How do I become a member of the plan at my job?
Start by asking your employer if a retirement plan exists, and ask for a copy of the summary plan description. Remember—because the United States has a voluntary system, many employers do not offer retirement benefits. If your employer offers a plan, find out if you are eligible. To some extent, an employer can limit who participates in the plan. Many plans only cover full-time permanent workers, and not part-time employees. Many workers work part-time or for companies that classify them as independent contractors. Make sure you know whether or not you are part of the retirement plan, and ask the employer or human resources administrator about the rules for participating in the plan.

How many years do I need to work to be eligible for a retirement plan?
Usually you need to work five years at the same company to be "vested" in a defined benefit pension plan. In a 401(k) plan, you need three years to receive the employer portion of the contribution.

Once you are vested, you should not have to forfeit your right to the pension benefit or to the money your employer contributed on your behalf. A cautionary note here: In a traditional pension plan, you can still lose a small percentage of your pension for each year you've retired before the normal retirement age. So if you decide to retire early, expect to receive lower monthly benefits.

What happens to my retirement plan if I leave my job?
If you decide to change jobs, you should carefully examine your plan's rules to make sure that you won't be losing any benefits. For example, say you decide to change jobs after working at a job for four-and-a-half years. If the employer's pension plan requires that you work for five years before you become vested, leaving six months early (or even one month early) will mean losing all of your accumulated benefits.

What is Social Security integration?
Some companies have plans that reduce pensions by subtracting part of the Social Security benefit. This is called Social Security integration.

What is a 401(k) or a 403(b) plan? How are these different from a pension?
A 401(k) plan is an employer-sponsored savings arrangement that permits you to set aside money for retirement. All of the money you save through a 401(k) plan is tax-deferred. You pay tax only when you start to withdraw the money, which is permit-

ted at age 59$^{1}/_{2}$ when your tax rate is expected to be lower than it is now. The amount you contribute helps reduce your current taxable income. Early withdrawals are normally subject to a penalty in addition to income taxes. These 401(k) plans are not insured by the Pension Benefit Guaranty Corporation (the federal government agency that guarantees pensions when companies fail).

- **Advantages**: In addition to lowering your currently taxable income, a 401(k) plan is "portable" because you can take the amount you've contributed to your account, plus earnings, when you change jobs. (This often is not true of traditional pensions.)

The money can be "rolled over" into an individual retirement account (IRA) or another qualified 401(k) plan. Some employers contribute to or match your contribution. If you are fully vested, you may take your employer's contribution with you as well.

- **Disadvantages**: The amount of your retirement income will depend on your personal investing skills and on the amount of money you have been able to contribute. And some people just can't afford to participate.

A 403(b) plan is used by tax-exempt organizations and operates very much like a 401(k).

How can I get the most out of my company's retirement plan?

Read the company's pension plan booklet carefully, and make a list of any terms or rules you do not understand. Once a year, you may request an individual benefit statement from your pension plan. Pay particular attention to the type of formula that will be used to compute your benefit. Make an appointment with the plan administrator (usually someone in your human resources department) to discuss any questions you have.

What do I need to know about survivor's benefits?

- If you are married when your spouse retires, you are normally entitled to a survivor's benefit if your spouse dies before you—unless you agree to sign away your rights to a survivor's benefit. The survivor's benefit is called a "joint and survivor annuity," and it ordinarily guarantees you half the pension the two of you were receiving.
- Before your spouse retires, he or she will be asked whether they want to receive their pension in that form or some other form, such as a "lifetime benefit" or a single payment (lump sum). If they opt for the "lifetime benefit" or the single payment—both of which eliminate the survivor's benefit—they must have your consent. You will be asked to sign a "spousal-consent form." Read this form carefully. It can be quite confusing. You might even want to consult a lawyer.
- Often the spousal-consent form will list a series of options for you and your spouse to consider. The so-called lifetime benefit usually provides the highest monthly benefit, so people are often tempted to select it. But remember, it will be paid only while your spouse is alive. And if the pension includes retiree health benefits, these may stop too, if you become a widow/widower.
- The joint and survivor annuity offers a somewhat smaller monthly payment, but it guarantees a steady income for two lifetimes (the husband's and the wife's). For survivors who expect to depend on their deceased spouse's pension as a source of income in retirement, this is generally the better option. Under a lifetime benefit, for example, while your spouse is alive, the pension might be $1,600 a month; while under a joint and survivor annuity, the benefit might be $1,300 a month. By this formula, when your spouse dies, your benefit would be $650 a month.
- Do not assume that your spouse understands his or her choices on the spousal-consent form. It is important to remember that, statistically, wives are likely to outlive husbands and therefore need more income for a longer retirement.
- The last chance you have to make sure you receive a survivor's pension is at the time your spouse retires, so don't sign away your rights unless you understand what you are giving up.

What should I do to protect my pension rights if I'm getting a divorce?

Under the divorce laws of every state, a pension earned during a marriage is considered to be the marital property of both husband and wife. But the laws do not automatically require that pension assets be divided at divorce. In order to receive a portion of your spouse's pension(s), you must ask for your share at the time of divorce—not later when your spouse retires. The courts should then award you a share as part of the divorce or legal separation proceedings. If your spouse has more than one benefit plan—for instance, a 401(k) plan and a traditional pension—your settlement must refer to each plan in order to get benefits from both.

> In order to receive a portion of your spouse's pension(s), you must ask for your share at the time of divorce—not later when your spouse retires.

- Obtain as much information as possible from your spouse's company benefits office. Usually your lawyer will have to write a letter to obtain this information, but the law does consider you a beneficiary with the right to receive information. Notifying the pension plan administrator in writing that you are in the process of divorce may temporarily prevent the plan from paying out your share of the pension to your spouse.
- A pension may be divided in many ways. However, if you want to receive a survivor's pension, you will need to ask for it specifically, since it must be mentioned separately in the same divorce decree or property settlement. If your spouse previously chose a survivor's benefit for you, you are entitled to receive it regardless of the divorce (unless it's a government pension).
- To make sure the pension plan recognizes your right to a portion of your spouse's pension after the divorce, you need to obtain a separate court order. The special order is called a "qualified domestic relations order" or QDRO (pronounced "quadroe"). When the court issues a domestic relations order awarding you a share of your spouse's pension, a copy must be sent to the pension plan immediately. Generally, the plan will want to make sure of two things: (1) that the court order contains all the necessary information so the plan can determine who, what, and when to pay; and (2) that the court order does not require the plan to pay you in a way or at a time that would not otherwise be permitted. For example, a court cannot order a plan to pay you your share in a lump-sum payment if the plan does not allow employees to draw their pensions this way.
- As soon as the divorce proceedings begin, have your lawyer contact the plan administrator for the written QDRO procedures. Each pension plan is different, and many companies have developed their own QDRO forms to make it easier for the court and the ex-spouse. The responsibility for the preparation of QDRO rests with your attorney.
- Settle all pension issues before your divorce is finalized by the court. If the pension is mentioned in your property settlement, but you do not get a QDRO at the time of your divorce, then you will have to go back to court later to obtain it. That means that you will have to pay additional legal fees and run the risk of losing your share of the pension.
- Beware of trade-offs offered by your spouse. For example, a spouse may want to give ownership of the house or some other tangible asset in exchange for giving up the rights to the pension. But the value of your share of the pension may be higher than the value of the assets you are offered.

What do I need to know about my rights as a second husband or wife?

If your spouse was previously married, a former husband or wife may be eligible for a portion of your spouse's retirement benefits and savings. The rights of the former spouse are spelled out in the divorce settlement and QDRO. You'll need to check those documents to determine what you're entitled to. If your spouse's former spouse dies before your spouse retires, you may be eligible for some or all of the pension benefits. Regardless of the number of times your spouse married, you may qualify for survivor's benefits under Social Security.

PUBLIC EMPLOYEES TAKE NOTE

Reduction in Social Security benefits:

If you are receiving a pension based on your work in a federal, state, or local government job, and that work was not covered by Social Security, then the benefits you would receive from Social Security as a widow or widower may be reduced. Contact the Social Security Administration for more information.

Joint and Survivor's benefit:

If your spouse worked for a federal, state, or local government that does not require the payment of Social Security taxes, make sure he or she selects a joint and survivor annuity option for his or her pension, guaranteeing you a survivor's benefit. Unless you have your own Social Security and pension benefits, the spousal benefit is all you would be entitled to, with the possible exception of SSI.

ALL ABOUT IRAS

If your employer, or your spouse's employer, does not offer a pension plan or a 401(k), it is especially important that you start making contributions to an individual retirement account (IRA). You can establish an IRA through most financial institutions: banks, brokerage houses, credit unions, etc. There are several types of IRAs, but most require that you wait until age 59$^{1}/_{2}$ to begin withdrawing money without penalty.

Each type of IRA offers different tax benefits. Your total individual contribution to all your IRAs is limited to $5,500 per year. People age 50 and older can make additional "catch-up" contributions of up to $6,500 a year. The deadline for the annual contribution is April 15 of the following year, though the earnings will accrue more quickly if you contribute earlier.

The **traditional deductible IRA** offers two tax breaks if you are eligible. First, the federal government allows you to delay paying tax on the money you contribute depending on your income, etc. For example: If you earn $30,000 in a year and put $4,000 into an IRA, you'll pay income taxes on just $26,000. Second, all of your investment earnings from an IRA are tax-deferred. This means that no taxes are paid until you start to withdraw the money at age 59$^{1}/_{2}$. If you withdraw any money before then, you may have to pay a 10% penalty tax in addition to the regular income tax. You are, however, allowed to make penalty-free withdrawals for college tuition and catastrophic illness, as well as to withdraw up to $10,000 for a first-time home purchase.

The **Roth IRA** provides tax benefits at retirement rather than upfront. Contributions to a Roth IRA—up to $5,500 annually ($6,500 if age 50 or older)—cannot be deducted on your tax return. But, when you begin withdrawing funds from your Roth IRA at age 59$^{1}/_{2}$, you will not have to pay any tax. The Roth IRA is available to anyone, whether or not they participate in a company retirement plan. However, there are income limits: You cannot invest in this IRA if your adjusted gross income (AGI) exceeds $129,000 for singles and $191,000 for married couples. You can make a partial contribution if your AGI is between $114,000 and $129,000 for singles, and between $181,000 and $191,000 for couples.

The **Spousal IRA** allows full-time homemakers to contribute up to $5,500 each year to an IRA ($6,500 if 50 or older).

The **Nondeductible IRA** is for people who don't qualify for any of the IRAs mentioned above, or who may only be allowed to make partial contributions. In a nondeductible IRA, your money still grows, tax-deferred, until retirement, but your annual contributions to the IRA are not tax-deductible.

SEP-IRAs, or **Simplified Employee Pensions**, are designed for self-employed individuals as well as for small-business owners and their employees. The owner or self-employed workers can contribute up to the lesser of 25% or $52,000 of their income.

SIMPLE IRA, the **Savings Incentive Match Plan for Employees**, is a salary-reduction plan similar to a 401(k) that businesses with 100 employees or fewer can offer.

A **Keogh plan** is a retirement plan for those who are self-employed. A Keogh permits you to set aside substantially more money than you can in an IRA.

part 2 take control of your financial future

Financial planners say that Americans will need at least 60% to 80% of their pre-retirement income when they retire. In fact, many retirees may need 100% of their pre-retirement income because: (1) their incomes—and therefore their savings—are often lower; (2) they live longer; and (3) inflation erodes buying power over those additional years of life.

A GUIDE TO SAVINGS AND INVESTMENTS

THREE STEPS TO IMPROVE YOUR FINANCIAL OUTLOOK

STEP ONE:

Get started today. Estimate the value of your assets and income. (Assets are things you own, such as your home, car, bank accounts, IRAs, lump-sum payments from pensions, 401(k)s, stocks, bonds, and mutual funds.)

STEP TWO:

Determine if the payments from your pensions, Social Security, and savings and assets will meet your monthly expenses at retirement.

Request a statement from your employer that estimates the monthly pension benefit you are likely to receive. If you are not already receiving a copy each year, you may request an estimated benefits statement from the Social Security Administration (call 800-772-1213). Finally, calculate how much income your savings will provide. Is the total enough to cover your projected monthly expenses? If not, consider saving more and investing those assets appropriately.

STEP THREE:

Learn about investment choices as they pertain to your 401(k) plan or personal savings.

Your employer may offer you a "menu" of investment choices and allow you to divide your contributions as you wish. Make sure you understand each investment choice; look to select investments that provide diversification (including stocks and bonds) appropriate to your age and tolerance of risk, and that have low investment costs, such as fees (see *What are mutual funds?* below). As you approach retirement, shift your investments to lower-risk securities (such as bonds).

The best approach to savings is to maintain a mix of low-cost mutual funds that invest broadly across the stock and bond markets. Index funds are a good choice and often do better than managed stock funds. Additionally, it is very important that you examine your investments every year. While earnings from your investments may make up only a small part of your retirement income, a diversified, low-cost approach to savings can help you accumulate enough money to supplement your Social Security and pension income.

DEFINITIONS AND INFORMATION

What is stock?

Stock represents part ownership in a company and is traded in units called shares.

What are bonds?

Bonds are IOUs issued by companies, governments, or other institutions. The issuer agrees to pay back the face value of the bond (known as the principal) over a fixed period of time. In return for this "loan," the issuer also agrees to pay a fixed rate of interest to the bondholder for the life of the bond. Bonds are often less risky than stocks, but can also be less lucrative.

What are mutual funds?

Mutual funds are investments that pool together the money of thousands of investors and invest this money in a variety of stocks, bonds, and/or other securities. Instead of purchasing, say, a particular stock, you purchase shares in a whole group of stocks. Mutual funds offer small investors the advantages of diversification.

What are actively managed mutual funds and index mutual funds?

Mutual funds, regardless of the securities markets in which you invest, will be either actively managed or passively managed. In an actively managed fund, the fund manager tries to pick out a small subset of stocks that will out-perform the market as a whole. Passively managed (or index) funds invest across the whole market in order to ensure performance that matches a specific market average, such as the S&P 500 or the Russell 3000. Actively managed funds charge higher fees to investors, and may be more risky, as the manager may pick stocks that perform below average. Over periods of time greater than 10 years, index funds generally outperform actively managed funds.

What are growth and value mutual funds?

Some actively managed mutual funds provide either a "growth" or a "value" approach to investing. Growth funds look to invest in the shares of companies that are experiencing rapid increases in revenue, even if the price of those stocks is high compared to the company's profits. Value funds look to invest in shares that are undervalued.

What are load funds?

Some mutual funds charge a commission called a "load"—a one-time fee paid when you buy or sell shares in the fund. Those funds that do not charge such a fee are called "no-load."

ABOUT FINANCIAL ADVISERS: SOME THINGS YOU SHOULD KNOW

Do I need a financial adviser to help me with my retirement investments?

Many people can educate themselves by reading financial material in newspapers, magazines, and books, and by requesting information from local investment firms. There are also many websites on the Internet (including many that are creatively interactive) that provide information and education regarding retirement planning.

However, if you are uncomfortable or unfamiliar with finances, you may want to seek the help of a professional financial adviser. There are two types of financial advisers. First, there are fee-only financial advisers, who charge a flat fee or an hourly fee for the financial advice they give you. They do not receive commissions from mutual funds or other financial products that they recommend. Second, there are commission-based financial advisers who earn commissions on the investments that they sell. Some commission-based advisers also charge a fee. The financial planning profession is not regulated, so it can be difficult to judge a planner's qualifications.

If you are interested in working with a financial adviser:

- Do not be afraid to interview two or three different ones before choosing.
- Beware of someone who promises too much.
- Ask the adviser how the services he or she provides are paid for.
- Find an adviser who will design a realistic investment program for you.

INSURANCE: PROTECTING YOUR FUTURE ASSETS

If you are eligible for Social Security, you will qualify for Medicare, which provides basic coverage for your health needs starting at age 65. But many people also purchase supplemental or "Medigap" insurance policies to help with costs that are not covered by Medicare. (Contact your state insurance department for further information.)

Here are three other types of insurance some experts think you should consider:

Disability insurance guarantees a monthly income if your ability to work is impaired by illness or injury. Coverage is designed to replace a reasonable percentage of your pre-disability income, ranging from 60% to 80%. Even if your employer provides you with some coverage should you become disabled, you may wish to purchase an additional policy.

Long-term care insurance is most often associated with nursing-home coverage, but it can also cover other forms of custodial care if you are no longer able to manage on your own: for example, in-home health aides, or participation in adult daycare.

Life insurance helps to replace the income of a spouse who dies prematurely.

For more information about different kinds of insurance and the role they can play in your retirement planning, visit the American Council of Life Insurers' website at www.acli.com. Or, for a complete listing of official state insurance department websites, visit the National Association of Insurance Commissioners' website at www.naic.org.

part 3 in sum: what married couples need to know

If your spouse dies before you do, your monthly expenses are likely to remain at 80% of what they were before. You will still need to pay for housing, utilities, transportation, medical care, and insurance.

If your spouse dies before you do, you can no longer receive the combined Social Security benefit. In other words, you will keep whichever benefit is larger, yours or your spouse's.

If your spouse dies before you do, his or her pension is likely to be reduced or may stop.

You are guaranteed some of your spouse's pension because, under the federal pension law, traditional company and union pension plans must provide a survivor's benefit to the spouse if the employee dies first. The survivor pension can be forfeited only if the spouse gives permission in writing, and there must be a witness or notary.

Different rules apply to certain other retirement plans, such as 401(k) and public employee pension plans. You must find out what they are in order to receive your full benefit.

ADDITIONAL RESOURCES

1. *Get a Financial Life*
   Beth Kobliner, Fireside Books
2. *Making the Most of Your Money*
   Jane Bryant Quinn, Simon & Schuster
3. *Personal Finance for Dummies*
   Eric Tyson, IDG Books
4. *The Only Investment Guide You'll Ever Need*
   Andrew Tobias, Harvest/Harcourt Brace
5. *The Wall Street Journal Guide to Understanding Personal Finance*
   Kenneth Morris and Alan Siegel, Simon & Schuster

MAKING SENSE OF IT ALL

A Glossary of Terms

Annuity
Regular payments of income, usually monthly, over a specified period of time, often for life.

Beneficiary
The person whom a participant in a retirement plan chooses to receive a benefit if the participant dies first.

Defined benefit plan
A pension plan, insured by the federal government, that may pay a guaranteed monthly benefit for life to you and your spouse as long as either of you are alive. The benefit is usually based on your age at retirement, rate of pay, and the number of years you worked under the plan. Generally, all or most of the contributions are made by the employer.

Defined contribution plan
A retirement plan in which contributions are made by the employer, the employee, or both. The final payout will depend on how much is contributed and the success of the investments that you selected. This type of retirement plan is not insured by the government.

Early retirement age
An age earlier than normal retirement (which is usually 65) at which an employee may begin to receive reduced benefits under a pension plan.

401(k) plan
A type of defined contribution retirement plan (see above) in which employees contribute a portion of their pre-tax salary, and employers may match some or all of their employees' contributions.

403(b) plan
The nonprofit sector's version of the 401(k).

Individual Retirement Account (IRA)
A retirement savings vehicle in which individuals can make pre-tax contributions up to $5,500 per year, ($6,500 for those 50 and older). An IRA holder pays taxes on contributions and investment earnings at the time of withdrawal, after age 59 1/2. Under certain circumstances, this amount may be tax-deductible.

Lump-sum payment
Payment of an entire benefit all at one time.

Participation
The issue of whether a worker is included in a company's pension plan. Employers can exclude part-time workers who work less than 1,000 hours in any year and those who have worked less than one year.

Pension integration
Subtraction of part of an individual's Social Security benefit from a pension benefit.

Portability
The ability to take a vested retirement benefit from one company and transfer it to an individual IRA or retirement plan at another company.

Qualified Domestic Relations Order (QDRO)
A special court order or a court-approved property settlement agreement that requires a pension plan to pay a share of a pension to an "alternate payee"—usually an ex-spouse.

Roth IRA
A type of IRA in which the tax benefits come later rather than sooner. Contributions – up to $5,500 annually ($6,500 if 50 or older) – cannot be deducted on your tax return; however, when you begin withdrawing your funds at retirement, you will not owe any tax on them if the distribution is qualified.

Saver's Tax Credit
A tax break on retirement plan contributions for singles earning less than $29,500 and couples earning less than $59,000.

SEP-IRA
A type of IRA (Simplified Employee Pension) that allows self-employed workers to save for retirement or small-business employers to provide pension benefits to their employees.

SIMPLE IRA
A salary-reduction plan similar to a 401(k) for businesses with 100 employees or fewer.

Social Security offset
Another type of pension integration that affects those who work for federal, state, or local government and do not pay Social Security taxes.

Tax-deferred
Money that is allowed to grow (tax-free) until you reach retirement age and start to withdraw it.

Vesting
The date when you acquire a non-forfeitable right to receive earned benefits from a savings or pension plan.

HOW TO BECOME A WISER WOMAN

To become a member of the Women's Institute for a Secure Retirement (WISER), and receive a quarterly newsletter, send your $15 contribution to:

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Washington DC 20036
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