Financial Well-Being Terminology & Road Map

IRA (Individual Retirement Account) – Savings account where the interest grows tax free. Money from account cannot be withdrawn until age 59 ½, with some exceptions. Maximum annual contribution is currently $6,000 per year if under 50 years of age.

Traditional IRA – The IRA is funded using "pre-tax" dollars; the amount contributed each year lowers the taxable income on the individual's IRS tax return by that same amount. When the money is withdrawn, the amount withdrawn is reported as taxable income on IRS tax return.

Roth (Rothstein) **IRA** – The IRA is funded using "post-tax" dollars. The money can be withdrawn beginning at age 59 ½, and it is **not** considered taxable income.

When to start: The sooner the better. Individual needs to have earned income to begin an IRA.

Reason to do it: Social Security may not be enough to maintain in retirement the lifestyle to which you have grown accustomed.

Deferred Compensation – Portion of an employee's compensation that is set aside (deferred) to be paid at a later date. In most cases, taxes are deferred on this portion until it's paid out. Withdrawals have the same age requirement as an IRA.

When to start: When you're maxing out your IRA contributions.

Reason to do it: To grow your retirement nest egg, since an IRA has an annual contribution limit.

Flexible Spending Account (FSA) – Money set aside from your paycheck to pay for many out-of-pocket medical expenses with *tax-free* dollars. For example, if you're in the 12% tax bracket, you can use the full $100 from your FSA account versus $88 dollars, which is $100 after taxes, if you don't have an FSA account.

When to start: Anytime, but you get more "bang for your buck" if you have consistent annual or significant single expenses not fully covered by insurance, such as braces, birth control, vision surgery, etc., or when you have kids. Kids are expensive! FSA will help with co-pays, over the counter medicines (i.e. children's Tylenol, band aids, cold medicine), emergency room visits, etc.

Reason to do it: You're going to spend the money anyway, so you might as well make it stretch. Besides, you can carry over $500+ of unused funds if you participate in program the following year; otherwise, any unused amount is "forfeited."

529 Savings Plan – Savings account where the interest grows tax free as long as the money is used for qualified educational expenses such as tuition, fees, books, supplies (laptop, printer, even internet) and certain room and board expenses. Account can be open for any student (don't have to be related to you) and can be used for undergrad or grad school! Can lower the amount of taxable income on the Illinois tax return, if a 529 plan from the Illinois Treasurer's Office is opened (Bright Start or Bright Directions).

When to start: Preferably when the beneficiary is born to take advantage of the power of compound interest!

Reason to do it: College is expensive, and if you're comfortably middle class (congrats!), you will likely get very little, if any, grant money. Having money saved up can increase the number of colleges that can become financially viable! As the owner, you can change beneficiaries within certain parameters, if you so desire.

Financial Advisor – Professional that helps you create strategies for eliminating financial risk and building wealth over the long term. A "fiduciary" financial advisor is supposed to have your best interest at heart versus trying to steer you to high commission investments or other investments that may not be as beneficial to you.

When to start: When you have extra money to invest or when you have a major life change, specifically marriage and/or kids. Interview several advisors and ask about the fees they charge/earn. Don't go with someone just because they're your friend from college.

Reason to do it: Can help answer questions regarding various types of investments; can give you an outside view of your financial situation; and can provide advice to get on the right track to be financially healthy, if not already there.

Life Insurance – Contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.

Term Life: Premiums are low, but if you don't die (which is a good thing) during the set timeframe, there is no payout to your beneficiaries.

Whole, Variable or Universal Life Insurance: Permanent life insurance that also serves as an investment vehicle. Premiums are high and has high surrender fees if policy is cancelled in first 7 years or so. Proceed with caution, since many financial advisors will push this vehicle due to the high commissions they earn.

When to start: When you're young and healthy and have others that depend on your paycheck, such as a spouse, child, or other dependent. When you develop a health condition and try to get life insurance, the premiums will be significantly higher, and in some cases, the individual will not be able to get life insurance.

Reason to do it: Dying is expensive; funeral costs can range from $10K to $20K+, which can cause the surviving family members to struggle financially. Hope for the best but prepare for the worst!

Helpful Resources:

- Pre-Tax Savings Calculator: https://ffcalcs.com/pretax_savings
- Investment Calculator - https://smartasset.com/investing/investment-calculator
- Bright Start (529) FAQs - https://www.brightstart.com/faqs