**Kelley Manning:** Hello, this is Kelley Manning, financial advisor at Beyond Wealth Advisors. You are listening to the 2nd episode of Women Going Beyond Wealth podcast and I am so glad you are here! As we talked about in the last podcast, the purpose of this women-focused podcast is to help women live joyfully by understanding and acknowledging their own wealth and to provide ideas to actively increase their monetary wealth.

Today, our focus is on saving money. This is not a complex nor a sexy topic, but it is vital to your current and future financial situation, regardless of your age. As women, we wear a multitude of hats that include managing the family finances and budget. Typically, savings is the last budget item to be fulfilled. Yet, as Warren Buffet has been quoted to say, "Do not save what is left after spending, but spend what is left after saving."

One of my favorite personal finance books is 'Smart Women Finish Rich' by David Bach. What I like most about it is it helps equate your values to your financial goals. So, when your goal has a purpose or a vision, it is easier to make decisions that help you reach your goal. Saving money is not an easy task – it takes intention and discipline. When you assign a purpose to your savings, it makes walking away from temptations, such as a sale at your favorite shoe store, a little easier!

Let's start first with the importance of an emergency fund. This is a savings account in which the goal is to maintain a balance that is equal to at least three months of your income. This is to assist with 'emergencies', such as unexpected bills, home or car repairs or loss of job. If you do not have funds to tackle unexpected events, how are you going to pay for them? Borrow from family or friends? Use a credit card with a high interest rate? Neither of those options are better than having a savings account to cover the costs. When you understand and commit to the need of an emergency account, it makes it easier to save for it. Once you reach your goal amount, you simply maintain the balance – using as needed and building back up. How should you invest this money? Conservatively – a savings or money market account is a good option, because you never know when you are going to need it.

The next savings goal is for your retirement. The amount you need is entirely dependent upon the retirement lifestyle that you want to live – and that is where you give value or purpose to your retirement goal. What does your retirement look like? Do you plan to work part time? Do you want to travel? Maybe spend time with your grandchildren? Maybe volunteer at a non-profit organization? Hone your green thumb and spend time in your garden? It is easier to focus on your savings goal when you have a more detailed retirement picture. Funding retirement takes time and discipline but a clear vision makes it easier.

There are several ways to participate in retirement savings plans. These are more complicated than a savings account and the following gives you a general idea of the different options. At some point in the future, we will dedicate an entire podcast to the specifics of retirement savings plans.

For now, let us look at an overview of these different retirement options.

Employer Sponsored Plans – the most common are: 401k, 403b, SEP, which stands for Simplified Employer Pension.

401k and 403b accounts are employer sponsored plans that allow you to make pre-tax contributions. Often, the employer will match your percentage contribution up to a certain limit. For example, your

employer will match 5% in your 401k.  If you contribute 5% of your salary to your 401k per year, your employer will match your 5%, so your 401k is receiving 10% of your salary every year. These funds should be invested in accordance with your risk tolerance and time horizon.

A SEP plan only allows contributions from your employer – as the employee, you are not allowed to make any contributions to your SEP. These accounts are also invested, and the investment vehicles are based on your investment knowledge, risk tolerance and other factors.

All of these employer-sponsored plans grow tax deferred – meaning you have not paid taxes on the contributions and you do not pay taxes on the account as it grows – you are 'deferring' taxes until you make a withdrawal from the account after age 59 ½. You are taxed on the amount of the withdrawal and it is considered as ordinary income.

As you think about making contributions to your retirement accounts, as working women our working years can be limited, sometimes by choice, to care for our children or later in life, our parents. As a result, our ability to contribute to retirement accounts is more limited. Because of this, consider making higher contributions to your employer sponsored plan during your working years.

Other ways to save for retirement, outside of employer-sponsored plans, are a Traditional IRA (which stands for Individual Retirement Account) or a Roth IRA.

These are similar savings vehicles but have significant differences. Let us look at the similarities first. The first similarity is the annual contribution amounts for an IRA and a Roth are the same - $6,000 a year. If you are over 50 years old, you can contribute an additional $1,000 per year (it is called a catch-up contribution).

The second similarity is that you can invest these retirement funds as you see fit – as aggressive or as conservative in which you are comfortable and suited. The longer you have until retirement, the more aggressive your account can be because you have more time in the market. As you get closer to retirement, your investment should become more conservative.

Another similarity is that your contributions to either an IRA or Roth are dependent upon your household income. For an IRA, the ability to deduct your contributions is dependent upon your household income and whether you are participating in an employer-sponsored retirement plan. You may make contributions, but you may not be able to deduct the entire amount; yet that does not change the tax deferred status of the IRA.

There are more stringent income limitations for a Roth. If you earn more than the limit, you are ineligible to make a contribution. For your specific situation, I suggest you talk to your financial advisor. If you do not have a financial advisor, I am happy to help you.

Another similarity is that you have to have earned income to fund an IRA or Roth. If you are married and are not currently working, you can use the income of your spouse.

That is where the similarities end.

The tax treatment is the biggest difference between an IRA and a Roth.  An IRA grows tax-deferred, just like the retirement plans we discussed a moment ago. You make annual contributions to your IRA and you get a tax deduction (if you fall under the income limitation). So, this money has never been taxed; it grows 'tax deferred.'  You pay taxes on the amount that you withdrawal after you reach age of 59½ and it is considered as ordinary income.

If you take a distribution from a 401k or an IRA before you turn 59½ years old, you could be assessed a 10% penalty in addition to the taxes. There are a few instances where the penalty is not applied. Again, chat with your accountant or financial advisor for your specific situation.

Additionally, you must take annual distributions from your IRA when you turn 72 years old. This annual required minimum distribution, RMD for short, is determined by an IRS created calculation that takes a percentage of your account value and your life expectancy.

A Roth IRA is a retirement account that is funded with after tax money. You receive no tax deduction for your contributions to a Roth. The funds in the Roth account grow tax free. When you withdrawal your funds from a Roth during retirement, you do not pay any taxes. If you fall under the income limitations for a Roth, this is a great retirement savings option!

Another benefit of the Roth is that you do not have to take the required distribution when you turn 72.

Your emergency and retirement accounts are by far the most important savings accounts. If you are behind or think you are behind, be sure to talk to your financial advisor or give me a call to discuss your specific situation.

After your emergency fund is fully funded and you are making adequate contributions to your retirement accounts, the next account to consider is a 529 college savings account for your child or children (or grandchildren). This is an account in which you get a state tax deduction for your contributions and the funds grow tax free if the funds are used for college. Investors should carefully consider the investment objectives, risks, charges and expenses associated with 529 college savings plans. More information about 529 college savings plans is available in the issuer's official statement, and should be read carefully before investing.

Whew! This is a lot and overwhelming. Where do you start? You start first by participating in your employer-sponsored plan – up to your employer's match. Second, you fund your emergency fund with at least 3 months income. Once you have reached your emergency fund goal, you should make larger contributions to your retirement accounts – either through your employer-sponsored plans, IRA or Roth.

You can never save too much! Once you determine your 'why' for saving – for your emergency fund or for your retirement account – it becomes a little easier to sacrifice and make savings a priority in your budget.

Thanks for spending some time with me today. If you have any questions or comments about today's topic, please reach out to me at 816.246.8450. You can also follow me on Facebook and LinkedIn. Please join us on our next podcast!

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