Avoid retirement pitfalls

By Ruth Suapein

You can increase the odds of a secure retirement by avoiding some common, costly mistakes you plan for the “golden” years ahead.

Managing your accounts

Don’t miss out on matching funds. If your employer matches all or part of your contributions in a 401(k) or similar retirement savings plan, contribute to the plan. That’s found money—income that’s not taxed until you use it.

Don’t overlook the chance to

play catch-up. Starting at age 50, you can contribute an extra $1,000 a year ($6,500 total) to an individual retirement account (IRA), and an extra $6,000 to a 401(k), 403(b) or 457(b) retirement account ($24,000 total). (Depending on your salary level, your contributions may be limited.)

Avoid losing savings to high-cost investments. If you are working with a financial adviser, be aware of investment advisory fees, which can be 1 percent or more of your investment each year. Some advisers recommend investment products with guaranteed returns, but it pays to know what percentage of your investment will be eaten away by fees and commissions each year.

Good retirement planning moves

• Get rid of debt (mortgage, car payment, credit card balances).
• Review your long-term care insurance and life insurance.
• Know your net worth (cash, real estate value, investments).
• Estimate your annual living expenses in retirement.
• Prepare a budget and live within those parameters.
• Planning to remodel? Do it pre-retirement.
• Be sure your will, medical directives and beneficiary designations are up-to-date.
• Cut costs: Are there expenses that can be avoided during retirement (for example, a disability insurance plan that you no longer need, or vacation, dining or clothing costs that can be pared down)?
• Ease into retirement—consider getting a part-time job.


Retirement Planning Issue

Retirement accounts offer tax advantages

By Monica Steinisch

What makes retirement savings accounts different from non-retirement savings accounts are the tax breaks and special features that give savers a boost. There are a slew of retirement accounts to choose from—all with their own advantages—though not every one will be available to every saver. Here’s a rundown of the most commonly available retirement accounts, along with their advantages and basic eligibility requirements.

Employer-sponsored

Consider yourself lucky if you work for an employer that provides a good pension. The traditional defined-benefit retirement plan has all but disappeared for anyone other than government employees, public service workers and teachers. 

Pension plans provide a set monthly income (“defined benefit”) in retirement without employee contributions or input into investment decisions. Your monthly check in your retirement years is based on salary history and years of employment.

The traditional pension plan has mostly been supplanted by the 401(k) and similar plans (403(b)s) for non-profit workers or SIMPLE IRAs for small employers, for example. The retirement benefit you receive in these plans is based on the amount you and/or your employer contributed on a regular basis during your working years.

When you enroll in a defined-contribution plan, you tell your employer how much of your earnings to deduct and deposit into an account, before taxes are taken out, and where to invest the money.

Most employers who offer such a plan provide a “matching contribution”—an amount they kick in on top of your savings. A common matching formula is 50 percent of every dollar you contribute, up to a percentage of your salary, though it varies among employers. You should always take advantage of your employer match, because this is free money that increases your retirement savings.

In 2016, you can contribute up to $18,000 to a 401(k) or similar plan, plus an additional $6,000 if you’re 50 or older.

Even if your employer doesn’t offer a matching contribution, the tax benefits of a 401(k) or similar plan are pretty attractive. You won’t have to pay taxes on the money you save until you withdraw it in retirement. That tax-deferral can have a significant impact on your bottom line.

Participation in a 401(k) or similar plan is so vital to a financially secure retirement that Congress passed legislation—the Pension Protection Act of 2006—that encourages employers to automatically enroll “Tax-advantaged” continues on page 3

Solid planning for comfortable retirement

We can’t all ‘be like Kobe’

By Linda Williams

Many Americans dream of leaving the workforce early and being able to live longer to enjoy it, but not everyone can “be like Kobe,” the LA Lakers superstar, and retire at age 37. If retiring early is your goal, create a solid financial plan that will fund the kind of retirement lifestyle you can live.

Start saving for retirement early. While retirement may seem far away when you’re in your 20s or 30s, the longer you wait, the longer it will take to save those pennies—especially for women. Having no retirement plan in place is one of the biggest financial mistakes you can make.

Last November, I flew back to my hometown to celebrate the Thanksgiving holiday with my mother. When Monday morning rolled around, it was time for me to head to the airport. About a half mile from mom’s house, I got an alert that my flight was delayed. So, with a couple of hours to kill, I circled the old neighborhood, and dropped in on an old friend, Mike. After an hour of reminiscing, Mike proudly announced that he was retiring in the spring. Knowing that he was at least four years away from normal retirement age, I couldn’t believe my ears. “What? At 62?”

“All of my friends are retired and I’m the only one still hitting the pavement,” said Mike. “I started working at a union job right out of high school, until the company went out of business, so I have a retirement account I can claim at 62. I’ve also been contributing to the retirement plan at my current job for the last ten years.”

I stood there with my eyes bugged out as I tried to wrap my brain around what he was saying. He’s hanging up the work boots at age 62! Since we were kids, Mike has never beaten me at anything—until now. Because, if I’m lucky, I’ll be able to retire at 75.

According to AARP, when to stop working is probably the most important decision in terms of influencing how long your retirement fund the kind of retirement lifestyle you can live.

“Right moves” continues on page 3
Consumer Action

Consumer Action has been a champion of underrepresented consumers for more than 50 years. A non-profit 501(c)(3) organization, Consumer Action focuses on financial education that empowers low- and moderate-income and limited-English-speaking consumers to financially prosper. By providing financial education materials in multiple languages, a free hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

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Dodging a retirement savings shortfall

By Lauren Hall

Near one-third of Ameri- cans believe that their retire- ment savings are not adequate. (I am looking at you, Mike.) Let’s think about the median age of retirement in the U.S. (67) (assuming you retire at that age). So how does one get there?

As a general rule, when you start saving in your 20s or 30s, advisors recommend that you put at least 10 percent of your paycheck into a 401(k) or other retirement account. That’s $100 per $1,000 of pay if (you can save 15 percent, that’s even better) These dollars have decades to grow. When you’re young, you have the time to invest more aggressively, in mutual funds or higher-risk investments, which may, after years of invest- ment, yield the highest overall returns for your retirement years.

You should also take advantage of employer-sponsored retirement plans with pre-tax benefits. As a rule, contribute at least as much as needed to receive your employer’s full matching dollars. More than half of 40-somethings report feeling financially savvy despite the fact that these are prime years for retirement saving. When you’re in your 40s and 50s, you’ll still want to invest as much as you comfortably can for retirement, but often you need to save for family financial needs, like college tuition. As overwhelming as it can be, start with a retirement calculator like Ballpark Estimate, from the Employee Bene- fit Research Institute (EBRI) (www.choosetosave.org/ballpark), to give you an estimate of what you should be saving for your retirement years. Since your savings and circum- stances will change as you get older, you may need to adjust your retirement planning strategy.

Kobe
Continued from page 1

ment savings will last. Each year you work is a year you don’t need to be supported by your savings, and possibly another year you can add to your savings. With a kid in college and 12 years left on my mortgage, it will be while before I will be able to kiss sweet retirement on the lips.

I wanted to “be like Mike.” What did he know that I didn’t? I had to know his path so I began pepper- ing him with questions. Are you okay with receiving a 25 percent reduction in your Social Security benefits? What type of retirement plan do you have? What about medical? You can’t get Medicare at 50? How much will you have to pay for insurance? Do you have a long-term care insurance policy? When you’re eligible for Medicare, how will you win it out? Do you know that your Medicare premium will be taken out of your Social Security benefits? Are you getting a medicare supplement (looking at AARP, are you?) I wanted to hear every detail of Mike’s plan. But my friend’s body language signaled I was getting a tad too personal, so I backed off, said my goodbyes and headed to the airport.

As the pilot announced our final descent into LAX, my thoughts re- turned to Mike’s retirement. What did Mike know that I didn’t? Every financial decision I had made in life passed before my eyes during that six-hour flight, and I went over my retirement plan at least 10 times in my head. Like many women, my retirement savings lag far behind my male counterparts. When Mike was in his 20s, and working that union job, his employer was matching his contributions to his retirement plan. In my 20s, I was out of the workforce raising a family. Mike inherited his family home. I am working hard to avoid dragging a mortgage into retirement. Mike is content sitting on his front porch, while I love vacationing, traveling and exploring exotic places with my kids and grandchildren. Mike’s needs are very different from mine. I have to choose the sav- ings and investment tools that will meet my retirement challenges and unique needs and I have to stick to them.

When it comes to retirement planning, there is no one-size-fits- all approach. People have to follow their own path based on their unique needs, goals, values and lifestyle. As overwhelming as it can be, start with a retirement calculator like Ballpark Estimate, from the Employee Bene- fit Research Institute (EBRI) (www.choosetosave.org/ballpark), to give you an estimate of what you should be saving for your retirement years. Since your savings and circum- stances will change as you get older, you may need to adjust your retirement planning strategy.

Take advantage of free advice from sources such as EBRI, AARP and the American Savings Education Council (www.choosetosave.org). Or, if you prefer, seek help from a fee-only financial planner.

Falling short on saving

So why aren’t people saving enough? Two things to watch are people lose their investments and home equity in the recession are understandably limited.

High demands of student loan or credit card debt. Meanwhile, only about a third of 30-somethings are actually invest- ing more aggressively, in mutual funds or higher-risk investments, which may, after years of invest- ment, yield the highest overall returns for your retirement years.

You should also take advantage of employer-sponsored retirement plans with pre-tax benefits. As a rule, contribute at least as much as needed to receive your employer’s full matching dollars. More than half of 40-somethings report feeling financially savvy despite the fact that these are prime years for retirement saving. When you’re in your 40s and 50s, you’ll still want to invest as much as you comfortably can for retirement, but often you need to save for family financial needs, like college tuition. As overwhelming as it can be, start with a retirement calculator like Ballpark Estimate, from the Employee Bene- fit Research Institute (EBRI) (www.choosetosave.org/ballpark), to give you an estimate of what you should be saving for your retirement years. Since your savings and circum- stances will change as you get older, you may need to adjust your retirement planning strategy.

The good news is that retirement funding still does not depend strictly from individual retirement savings. You might earn a substantial sum from the sale of your home before you retire, and that could make a major difference in your retirement income. Despite more than 80 percent of 20-somethings believing that Social Security won’t be there for them when they’re ready to retire, the Social Security Ad- ministration’s Young Workers Survey found that even young workers that even if full benefits are not available, the program has enough to fund the majority of scheduled benefits through the future. But the housing market, prudent investing and Social Security don’t negate the need to sock away as much money as possible from each paycheck during your working years. Some recent entrants to the workforce haven’t written the message. TransAmerica reports that some of the newest workers have started saving for retirement at the ripe age of 22. Good move!

A few days later, I was in the middle of my six-month financial checkup to ensure that I’m reaching my financial goals and on track to pay off my mortgage before I retire when the phone rang. It was Mike: “I’m sorry I appeared defensive when you called, and I didn’t have answers to a lot of your questions. Your questions got me thinking that I need to look into things a little more before I hand in my retirement papers.”

I wasn’t trying to call Mike out, but my questions revealed that my own financial plan was far from solid. I was curious if there was any new financial roadmap for retirement. We can’t all be Kobe and retire at the tender age of 57, but we can all do our homework and work on building a solid financial plan that will sup- port a comfortable lifestyle when we decide to retire. After all, retire- ment is something we need to plan for a lifetime of hard work.

Linda Williams is a Consumer Ac- tion outreach and training manager.
workers in their company's retire- ment plan. However, don't get a false sense of security from simply being enrolled. The minimum au- tomatic deposits are typically set so low that you won't end up with the account balance you need in order to retire comfortably unless you increase the contribution. (A few plans have an automatic escalation feature, increasing the weekly or monthly amount by one percent each year for a few years.)

If you leave the company before retirement, you can reallocate your ac- count where it is, or you can roll it over to a "Roth IRA" at a financial institution of your choice. Your final account balance when you retire will depend on (1) what you put into the account, (2) how much is reallocated each year, (3) contributions account earnings and the "vested" portion of your employer's contributions. (It is common for employers to set up their plan so that their contribu- tions fully vest only after a period of employment—a vesting schedule. However, if the company before being fully vested, you will forfeit some or all of the employer's matching dollars.)

For help understanding your employer-sponsored retirement plan, visit the Department of Labor's Employee Benefits Security Administration's website at www.dol.gov/whd/publications/wykapt.html. Or contact your employer's Human Resources (HR) department.

IRAs

Individual retirement accounts (IRAs) are just that—individual, meaning they're not tied to your employer's group plan. The account holder chooses the financial institution to open an IRA, makes contributions directly to the account (by automatic transfer from a checking account on payday, if desired) and makes all investment choices. IRAs are a great choice for those who do not have access to an employer-sponsored retirement plan, or who do but are able to save more.

Traditional IRA. Almost anyone under age 70½ who earns taxable income can contribute to a traditional IRA, up to certain age-dependent limits. In 2016, if neither you nor your spouse has access to a retirement plan at work, you can contribute $5,500 ($6,500 if you are 50 or older) to an IRA and deduct the entire amount from your taxes. (A non-income-earning spouse may also have a separate IRA into which the income-earning spouse can contribute.)

If you have access to an employer-sponsored plan, your IRA contribu- tion is fully tax deductible if your modified adjusted gross income (MAGI) is below $61,000 (single) or $98,000 (married filing jointly). Partial tax deductibility is allowed at higher income levels, up to $118,000. For further information, visit the IRS website.

You will be taxed on the funds when you withdraw in retirement, which you must begin to do at age 70½.

Roth IRA. You can save the same amount each year ($5,500, or $6,500 if you're 50 or older) in a Roth IRA as you can in a traditional IRA. The big difference between the two is that Roth contributions are not tax-deductible when you make them, but account earnings are tax-free (not just tax- deferred). The other big difference is that Roth IRAs require you to make withdrawals from a Roth IRA. You can leave the account to your heirs, who will be responsible for the tax liability. Consequently, you can withdraw your Roth IRA contributions (but not the earnings) before age 59½ without paying tax or a penalty if you've had the account for at least five years.

To contribute to a Roth IRA, in 2016, your MAGI must be $118,000 or less. You can contribute up to $18,000 ($19,000 if married filing jointly). You can make partial contributions at higher incomes, up to $12,000 ($12,500 if married filing jointly). Most banks, brokerage firms and mutual fund companies offer IRAs. Look for an account that has a good range of investment options, no account opening or maintenance fees, low fees for buying and selling investments and a low (or no) minimum investment requirement. For example, TD Ameritrade and E*Trade have minimum opening deposits and no or low maintenance fees for new IRAs. Charles Schwab and Fidelity both waive their minimum opening deposit requirement but charge fees for IRAs when you set up automatic monthly transfers from your bank account, also with no opening or mainte- nance fees.

If you qualify for both a tradi- tional and a Roth IRA, which one to contribute to requires some careful thought. (You can contrib- ute to both an employer-sponsored plan to both accounts can't exceed the annual limit.) To get insights from multiple reputable sources (Nerd- vy.org/153rVA), visit the government's Retirement estimator for 2016 was $1,341. Check out Social Security's Retirement estimator for more. (For other helpful resources, see page 4.)

How long would you guess you'll be living off your retirement sav- ings? Perhaps you figure, "Well, if it's longer?" According to the Social Security Administration, most men will live to about 84, and women to about 87, with a quarter of us living past age 90. Once you take your overall health, age and finan- cial situation into consideration, do you feel you have saved enough to fund what could be several decades of retirement living? If you're like most people, you'll probably con- clude you haven't saved enough.

Don't spend blindly. Know how much you spend each year on necessities and extra expenses and estimate how much you'll need to have a financially independent life. By some estimates, you'll need 70 to 80 percent of your current household income to live comfortably in the same standard of living. Once you've tracked your current spending, you'll have a more realistic idea of how much you'll need to save.

Avoid carrying debt and large expenses into retirement. Want to pay off the mortgage before retirement? Fine. But some say with housing values rising in many locations and interest rates still low, you might want to con- tinue to pay the mortgage, assuming you can afford it, until you choose to move. Try an online mortgage calculator (e.g., MortgageCalculator.net) to figure out your repayment options, choosing different payment amounts.

If you plan to stay put, consider tackling large home maintenance or repair expenses while you are young that you won't be using for awhile. If you're investing in low-cost mutual funds through a previous employer, you may want to let the money continue to grow. But if you're near or at retirement age, recommend that those with multiple accounts roll them into one IRA to make it easier to manage investment options and avoid fees.

Avoiding health care costs

Before you settle into a retirement lifestyle, take a look at your health care and long-term care costs. Your overall health is only about one-third of the equation—how much can you afford it, until you choose to move. Try an online mortgage calculator (e.g., MortgageCalculator.net) to figure out your repayment options, choosing different payment amounts.

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Tools to help you plan for the ‘golden years’

By Alegra Howard

There’s no shortage of free financial websites and mobile apps that can help you plan for retirement, investing, saving and other financial essentials. Before you try these tools, have on hand as many of your financial details as possible. If you’re nearing retirement, gather the value of your retirement accounts—pension benefits, 401(k) or IRA accounts and projected profits from the sale of a home. It also helps to have an estimated retirement date.

How much can you expect from Social Security? To calculate your expected benefits, visit https://www.ssa.gov/retire/calculator to see how much you can expect to receive based on your earnings history. A few facts that may impact your actual benefits are an increase or decrease in your earnings, changes in cost-of-living calculations and changes to the laws impacting Social Security benefits.

How long will you live? Understanding your life expectancy can cause you to underestimate the retirement income you’ll need. The University of Minnesota School of Public Health’s Life Span (http://www.cshl.edu/lifespan) analyzes 29 factors linked to lengthening life expectancy. The calculator also can forecast healthy-life expectancy—the age someone will likely reach where retirement planning, investing, saving and other financial essentials will likely/27E9ILo derestimating your life expectancy. The calculator can provide you with estimates of how long you might live and why. It can help you plan if you’re planning for retirement in 20 or 30 years or a couple of years away. You can use the calculator to help you understand your potential lifespan and plan for it.

Retirement calculators. These tools ask you to provide current and potential income, such as Social Security, pensions, retirement accounts and any other retirement savings, so that they can estimate how much money you will need to save from now until retirement to reach your balanced retirement lifestyle. The calculator should include your estimated retirement age. For example, the program might ask you to enter your estimated retirement age and how long you intended to work. You can enter as many details about other retirement income (such as a pension or Social Security), how long you intend to work and the way you want to live when you retire. Fidelity’s Retirement Calculator requires a minimal amount of information and presents its findings quickly. This tool uses interactive graphs and a witty narration in its personalized financial projections. You don’t need to be a Fidelity customer to use the tool.

The ESPlannerBASIC (http://basic.esplanner.com) is another excellent tool. This tool provides a comprehensive overview of your transactions and bill due dates and when you’re over your budget more efficiently. Based on your information for all of your accounts, the tool allows you to set up an account and track your spending and keep track of your monthly budget. This tool also allows you to add outside investment, credit and debit cards, bank accounts, bills and when you’re over your budget.

Other resources

For caregivers. If you’re worried about your elderly father’s spending, BillGuard (www.billguard.com) is a free service that can help you keep tabs on his financial accounts. The mobile app monitors credit and debit card transactions and sends notifications if any unusual activity is made (it is typical a one-day lag between transactions and the time you receive notification). BillGuard also sends alerts about offers consumers that have been identified as possible scammer, and recently added data breach alerts for major companies.

The CFPB’s Guide to Pension Payoffs (https://www.consumerfinance.gov/tips/44b) gives near- relatives information to understand the pros and cons of taking that pension as a monthly payment versus a lump sum.

Making savings automatic

ARP says about 55 million employees in the U.S. have no retirement savings plans at work. To fill the gap, 28 states are developing plans that automatically enroll employees in state-run retirement savings plans. Typically, they work by automatically depositing a portion of workers’ paychecks into a special retirement savings account. Employees can choose not to save (opt out), but once they’re enrolled, they cannot opt out. AARP estimates 40 percent of employees tend to stick with it.

California is working on becoming the first state to roll out automatic retirement savings at work. A law requires all businesses with five or more employees to automatically enroll workers in a 401(k)-style retirement savings plan. The state-operated California Secure Choice Retirement Plan is geared to private sector employees who don’t have retirement plans at work. Employers will automatically deduct 2 to 5 percent of wages and invest the funds in the state plan. (Employees can opt out.)

The state has yet to decide details such as whether workers will be allowed to withdraw funds prior to retirement and how funds will be managed. California is hoping to make these retirement accounts available within a year or so.

Illinois’ automatic retirement savings plan, the Secure Choice Savings Program, is expected to start in mid-2017. Similar plans have been proposed in Massachusetts, Maryland, Connecticut, Oregon and elsewhere. For more details, broken down by state, see bit.ly/1Hd1TD.

The federal government’s myRA is a direct retirement account, designed for those without access to a workplace retirement plan, is also an option. Your earnings will be matched up to a private-sector Roth IRA once it reaches $15,000, or after 30 years. (See more on myRA on page 3.)