# [401(k)? It’s All Greek to Me](http://blog.smartdollar.com/blog/2015/6/4/401k-its-all-greek-to-me)

You know that investing for retirement is important—but why does it have to be so confusing? **Almost 75% of workers under the age of 40 say they don’t invest because they don’t understand all the terminology.** And because they don’t understand, they don’t want to talk with anyone about investing.

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You’re wise to avoid investing in things you don’t understand, but do you know what happens when you don’t invest any money for retirement? Yep, that’s right—you end up with no money at retirement.

Before you think, “Great, now what am I supposed to do?” Don’t worry. We’re here to help you understand a handful of these confusing terms.

### ****• 401(k)****

A 401(k) is simply a retirement savings plan that a company can offer to its employees. The term 401(k) just refers to the specific legal code that makes this possible. A 403(b) is the same type of thing. Don’t get confused by the numbers—and don’t let that keep you from investing.

**With a 401(k) where you work, the money you invest for retirement can come directly out of your paycheck before you ever get paid.** That’s great because it makes saving for retirement automatic. You don’t have to think or do anything. It just happens month after month. And when the money comes out of your check before you get it, that lowers your taxable income—that’s always a good thing!

And even better—many companies offer some sort of matching funds where they add their own money to your 401(k) account when you do. **You know what we call that? Free money!** And who doesn’t want free money?

### ****• IRA****

An Individual Retirement Account (IRA) is just that—an investment account that you (the individual) establish to save for your retirement. Contributions to an IRA are made with pretax money, and taxes are paid when you make withdrawals at the allocated time. If your company doesn’t offer a 401(k) plan, talk with a professional investment advisor to help you set up an IRA. You can open an IRA for as little as $50 per month and be on your way to building some wealth for retirement.

Before you think that $50 per month won’t help you in retirement, check this out. Investing $50 per month for 30 years earning an 8% rate of return would end up close to $74,000. And if you keep going for 40 years you would end up with about $169,000! So, what do you think about that $50 investment now? And even better, if you can make a $100 investment every month for 40 years you could end up with around $338,000!

### ****• Roth****

You will run across terms such as Roth 401(k) and Roth IRA. They work pretty much the same way as a regular 401(k) and IRA with one very important difference: **Roth accounts grow tax-free!** You contribute money after you get your take-home pay, but then all the money in the account grows completely tax-free. When you retire, you’ll be able to use that money without paying any taxes when you withdraw it—and that is a great thing!

### ****• Diversification****

Diversification is a complicated-sounding term for a simple idea. **Basically, it means you have a bunch of different types of retirement investments.** Why would you want to be diversified?

Imagine you have a nice little basket with maybe 20 eggs in it. You place your basket of eggs on the table and forget about them for a couple of hours. Then the unthinkable happens. The light fixture above the table comes crashing down into your basket of eggs. Yuck! All of your eggs are destroyed.

Now, if you were to put five eggs each into four separate baskets and spread them out, if one basket gets smashed by another light fixture (we know, just go with us), you still have three baskets of eggs left. That is diversification—spreading your investments around into different “baskets.”

The way that works within your 401(k) is that you divide your investing dollars between four or five types of funds (the “baskets”) rather than putting it all into one type of fund. **This helps protect your investments from the inevitable highs and lows of the stock market.**

### ****• Stocks and Mutual Funds****

Stock simply represents personal ownership of a small piece of a company. Mutual funds represent a collection of individual stock funds all bundled together into one larger fund.

Many of the options for investing in your 401(k) or IRA will include mutual fund selections. Choose a variety of different mutual fund options—remember, diversification is a good thing.

**Don’t be afraid of investing.** We promise you’ll thank yourself years from now.