Retirement Products and Terms to Know

Planning for retirement doesn’t have to be difficult or confusing. Here's a list of retirement terms that can help clarify questions you may have:

401(k): Retirement savings plan funded by employee contributions and, often, by partially matching contributions from the employer. Most 401(k) contributions are made on a tax-deferred basis. Interest, dividends, and capital gains generally accumulate tax-free until you withdraw them.

403(b): Retirement savings plan generally offered by public schools, colleges, and universities, as well as charitable organizations that are tax-exempt under section 501(c)(3). Contributions are tax-deductible, growth is tax-deferred, and you can contribute more per year than you can with an IRA.

Annuity: A contract between a consumer and an insurance company. The consumer invests money with the insurance company in return for a stream of retirement income.

Beneficiary: Someone who benefits by receiving money from an insurance policy, will, or trust fund.

Catch-up provisions: Allow people who are 50 years and older to save additional money in IRAs (individual retirement accounts) and 401(k)s.

Compound interest: Interest calculated not only on the original principal that was saved, but also on the interest earned and left in the account.

Individual retirement account (IRA): A personal savings account that offers the potential for tax-advantaged growth of retirement savings. There are two types: Traditional and Roth. These IRAs have important differences with respect to income limits and tax benefits.

Money market account: A type of savings account that pays a higher rate of return (dividends) than a regular savings account, in return for higher minimum balances and check-writing restrictions.

Pension: A government-approved employee retirement plan offered and funded by the employer.

Roth 401(k): An employer-sponsored investment savings account funded with after-tax money. The account grows tax-free, and the withdrawals of earnings taken in retirement aren't subject to income tax if you're at least 59½ years old and have held the account at least five years.

Roth IRA: Retirement savings plan where you make contributions on an after-tax basis, and earnings grow free of federal taxes. This means you don't get a tax deduction now, but you won't need to pay taxes on the earnings later.

Share certificate/certificate of deposit (CD): A credit union savings account that will earn dividends at a particular rate if held to maturity. If you withdraw any or all of the principal before maturity, you may have to pay a penalty of a percentage of the amount withdrawn.

Traditional IRA: Retirement savings plan where you may be able to deduct your contributions from your current taxes, and earnings grow tax-deferred until retirement.

To read more about these products and terms, check out the Retirement Plans webpage at irs.gov.