

Structuring Your Savings Strategy



Once you have a foundation in place, it is important to understand how the different types of savings work together. Each account type serves a distinct purpose, the order in which you fund them matters, and the way each is taxed affects your long-term outcome. This module brings those three ideas together.

Understanding Different Types of Savings

Not All Savings Serve the Same Purpose

Some savings are designed to protect you from the unexpected. Others are built for long-term growth. Still others offer flexibility for goals that fall outside of retirement. A strong financial plan includes all three.

Emergency Savings

Your financial safety net. Emergency savings are designed to protect you when life does not go as planned.

- Medical expenses and urgent care
- Car repairs or unexpected replacement
- Temporary income disruption or job loss
- Any urgent cost you did not plan for

Build this first. Without a cushion, every surprise becomes debt.

Additional Investment Accounts

Taxable investment accounts provide flexibility for goals outside of retirement, such as a large purchase, a business opportunity, or building long-term wealth without contribution limits.

- No contribution limits
- No restrictions on when you can access your money
- Subject to capital gains taxes when investments are sold

Retirement Savings

Accounts like a 401k or IRA are built for long-term growth. They offer tax advantages and are designed specifically to support you in retirement.

- 401k: employer-sponsored, often includes a match
- Traditional IRA: tax-deductible contributions, taxes paid at withdrawal
- Roth IRA: after-tax contributions, tax-free growth and withdrawal

Prioritizing Where Your Money Goes

The Order Matters

When it comes to saving, where you put your money first shapes how stable and effective your overall plan becomes. Building from the ground up helps each step support the next.

Step 1: Emergency Savings

Start here. Before investing, make sure you have a cushion for unexpected expenses. This protects every other part of your financial plan.

Step 3: Additional Retirement Savings

Once the foundation is in place, increase your retirement contributions or add an IRA. This strengthens long-term growth and expands your tax advantages.

- Maximize your 401k contribution if able
- Consider adding a Roth IRA for tax-free growth
- Increasing contributions by 1 percent a year adds up significantly over time

Step 2: Employer Match in Your 401k

As long as this doesn't cause you financial harm or to take on debt, contribute at least enough to capture your full employer match. This is the highest guaranteed return available to most people.

Step 4: Additional Investments

Once steps 1 through 3 are in place, taxable investment accounts can add flexibility for goals beyond retirement. This is where broader investment strategies may come into play.

- No contribution limits or withdrawal restrictions
- Useful for mid-term goals, large purchases, or wealth beyond retirement limits

A strong foundation helps every dollar work more effectively.

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Tax Treatment and Why It Matters

Different Accounts Are Taxed Differently

Understanding how each account type is taxed helps you build a more balanced strategy and gives you more options in retirement. Having savings across all three tax buckets creates flexibility.

Tax-Deferred Accounts

Traditional 401k plans and Traditional IRAs allow you to defer taxes. You contribute pre-tax dollars today, reducing your taxable income now. Taxes are paid when you withdraw the money in retirement.

- Reduces taxable income in the year you contribute
- Good if you expect to be in a lower tax bracket in retirement
- Required minimum distributions apply starting at age 73

Tax-Free Growth (Roth)

Roth accounts, including Roth 401k and Roth IRA, are funded with after-tax dollars. Your money grows tax-free, and qualified withdrawals in retirement are not taxed at all.

- No tax deduction today, but no taxes owed on growth
- Good if you expect to be in a higher tax bracket in retirement
- No required minimum distributions on Roth IRAs

Taxable Accounts

Taxable investment accounts do not have the same tax advantages, but they offer full flexibility. You can access funds at any time without penalties or restrictions.

- Capital gains taxes apply when you sell investments at a profit
- Dividends and interest are taxed in the year received
- No limits on contributions or withdrawals

Why Having All Three Buckets Helps

Having savings across all three account types gives you flexibility in retirement. You can draw from different sources depending on your tax situation each year, which can help reduce what you owe over time.

Understanding how accounts are taxed helps you build a more balanced strategy.

Questions to Ask Yourself

- Do I have emergency savings before I invest?
- Am I capturing my full employer match?
- Do I understand the difference between pre-tax and Roth contributions?
- Am I building savings across more than one type of account?
- Do I know which step I am on in the savings priority order?

Take Action

- Confirm you have at least a starter emergency fund in place
- Check that you are receiving your full employer match
- Review whether your contributions are pre-tax, Roth, or both
- Identify which step in the priority order you are currently on

A strong financial plan includes more than one type of savings.