My husband and I are reaching that age — the panic point about retirement. Do we retire next year, in five years, or never? I’m a money person and running the numbers can sometimes be confusing. How we hold our money determines how well we live for the rest of our lives, but do you understand what all the alternatives are? A friend of mine at Oklahoma State Extension wrote the following article. She does a nice job of explaining pensions, 401(k)s and annuities. I thought you might want to hear what she has to say:

We’ve all heard it before. Putting away a little something for those much-anticipated golden retirement years is a good thing. However, knowing exactly where to stash that cash until it is time to ditch the briefcase and head for the nearest hammock can be confusing and even a little scary.

Most of us simply don’t understand what our alternatives are. Having a clearer understanding of what is available to us can go a long way toward lessening that worry.

When you consider that many of us could spend 30 to 35 years as a retired person and you want to live as comfortably as possible, making informed decisions during your working years about your retirement is important.

Common options for retirement are 401(k)s and pensions. One of the biggest differences between the two is who is responsible for investing funds — the employee or the employer. With pensions, employers do the investing and in return, promise their workers a fixed monthly amount at retirement. The size of the monthly check is based on a formula, usually depending on salary and number of years of service.

Meanwhile, in the case of 401(k)s, it is up to employees to invest their money, and how well they do determines the amount they have to live on for the rest of their lives. By law, there is a limit of how much you can feed into it each year, though. This year, the maximum is $17,000. Workers age 50 and over are allowed an additional $5,500.
As pensions are replaced with 401(k)s, more employees now have to bear the risk of their retirement portfolio. This scares a lot of people.

However, there is something of a safety net for those who decide to take the plunge. If you take the 401(k) option, but do not designate how to invest the funds, the company is legally required to pour the money into a target-date retirement fund. That fund, chosen by your employer, will invest a certain percentage in stocks and lower that percentage as you close in on your target retirement date.

Given the widespread jitters among employees at their lack of investment know-how, many consumer advocates have been pushing to require companies to offer another investment option called an annuity.

According to the U.S. Securities and Exchange Commission website (www.sec.gov), an annuity is a contract between an individual and an insurance company that is designed to meet retirement goals or other long-term objectives. With annuities, workers make either a lump sum or a series of payments and in return the insurance company will make periodic payments to the investor either immediately or on a specified later date.

Having this option would let workers put some of their dollars in an annuity portfolio, and at retirement, the annuity would provide a monthly stream of income for the rest of their lives. Annuities would essentially offer the steady income stream that used to come from traditional pensions.

Pension, 401(k), annuity. Still confused about what to do? You might want to try a combination approach. Start by keeping your retirement portfolio invested in stocks and bonds, or in the target-date funds. As that retirement day closely approaches, think about transferring a certain amount — but not all — into annuities within the retirement plan, and be sure you know when it is scheduled to begin paying out.

That portion remaining in stocks and bonds will continue to grow, and could become really important if your annuity payments don’t increase with inflation. At some point you may really need this extra retirement nest egg.

Roxie Rodgers Dinstel is a professor of extension on the Tanana District Extension Faculty. Questions or column requests can be e-mailed to her at rrdinstel@alaska.edu or by calling 907-474-2426. The Cooperative Extension Service is part of the University of Alaska Fairbanks, working in cooperation with the U.S. Department of Agriculture.