The information provided in this section refers to retirement plans in general and is designed for all audiences. For specific information on CU’s mandatory and voluntary retirement plans, follow the link at the bottom of this page.

There are two types of retirement plans commonly offered by employers: Defined Contribution and Defined Benefit.

**Defined Contribution Plans**

In a defined contribution plan, the employee contributes money into an investment account in their own name. The value of their retirement savings is determined by how much they contribute over time as well as their returns from the market.

**Tax Treatment**

Many retirement plans have special treatment when it comes to taxes. Individuals do not pay income tax on the amount they contribute but instead pay income tax when withdrawing the money during retirement. Additionally, the individual does not pay income or capital gains taxes on the money while it is invested. The tax liability comes into effect when the funds are withdrawn.
If a retirement plan has a Roth option, the individual does pay income tax on the contributions but does not pay income taxes on the withdrawals during retirement. The individual may or may not have to pay taxes on the value of the earnings - it depends on how long after the first contributions were made into the Roth and the individual's age.

**Contributions**

In most defined contribution plans, you'll get to choose how much to contribute (some plans have a mandatory contribution rate). It is common to contribute a percentage of your salary as opposed to a particular dollar amount each pay period.

Because of the special tax treatment, there is a limit on how much you can contribute to a retirement plan each year. The IRS sets these limits and announces them annually.

**Matching and vesting**

Some employers will make contributions into their employees' retirement accounts as long as the employee contributes, too. This is called matching. For example, your employer might match "100 percent up to the first 6 percent." This means if you contribute 4 percent of your salary, your employer also contributes the equivalent of 4 percent of your salary into your retirement account. If you contribute 8 percent of your salary, your employer would contribute 6 percent because that is the maximum match for the retirement plan benefit.

Another example would be a match that is "50 percent up to the first 10 percent." In this case, if you contribute 8 percent, your employer would contribute 4 percent. It's worth noting that some employers have mandatory participation in their retirement plans.

If your employer's retirement plan has a match, you'll want to pay close attention to whether or not there is a vesting period (e.g., fully vested after one year or 20 percent vested each year for five years). If you leave your employment before you are vested in the retirement plan, you'll forfeit a portion or even all of the contributions that your employer made into your account (depending on the vesting schedule). The contributions that you made to the retirement plan are not subject to forfeiture even if you leave before being vested.

**Investments and fees**

In a defined contribution plan, you'll get to choose how your money is invested. Investment options will vary by plan and by which retirement vendor or record keeper is servicing the plan. Most vendors and record keepers offer robust online tools and access to financial professionals to help you construct a diversified portfolio from the available investment options.

All defined contribution plans have fees associated with them. The fees go towards things like
paying investment managers, customer account administration and service and educational support. You have the right to know exactly what fees you are paying on your investments and for administrative aspects of your account. Call or visit the website of the retirement plan vendor or record keeper to learn about fees.

**Withdrawals**

There are many rules and regulations surrounding withdrawals from retirement accounts. Some are specified by your employer's retirement plan while others come directly from the IRS. Here is some very general information about withdrawals from traditional defined contribution plans (i.e., not Roth). Be sure to understand the rules of your specific retirement plan and consult with a tax or financial professional before taking a withdrawal!

**Withdrawal at separation of service**

If you leave your employer before you reach a specified retirement age, many retirement plans will allow you to access your retirement account funds.

You often have the option of "rolling over" the funds into another employer's retirement plan or an IRA (Individual Retirement Account). When rolling over your retirement funds, you are not subject to taxes because you are simply moving your funds into another qualified retirement account and not withdrawing the money for spending or other purposes.

You may also have the option of "cashing out" your retirement account. Be advised that if you do this before you are of retirement age, you'll have to pay a penalty to the IRS in addition to paying income taxes on the amount.

**Withdrawal during retirement**

If you have reached a specified retirement age and are no longer working, you may withdraw from your retirement account without IRS penalty and pay ordinary income tax on your withdrawals. After a certain age, you are required to comply with the IRS's [Required Minimum Distribution](#) rules.

**Withdrawal while still working**

Some retirement plans allow you to withdraw money while you are still working for that employer and you reach a certain age - often called "in-service withdrawals." You will need to pay income tax on your withdrawals but are not subject to an additional IRS penalty because you have attained a certain age.
Loans

Some retirement plans offer a loan feature, which allows the individual to borrow money from the amount they've saved for retirement. Like other withdrawals, there are many rules and regulations surrounding loans from a retirement account. You should be sure to understand the rules of your specific retirement plan and consult with a tax or financial professional before taking a loan against your account.

Defined Benefit Plans

Typically in these types of retirement plans, the employee contributes to the plan at a specified rate. The employer also contributes, and a formula determines the employee's benefit during retirement. This benefit is typically paid out for the duration of the retiree's lifetime and may be subject to cost-of-living adjustments. Defined benefit plans, or pensions, are less common than they once were, with the exception of public or government employees.

Benefit calculation

If you participate in a defined benefit plan, you'll need to understand how your retirement benefit will be calculated. Typically it will be based on things like your age at retirement, your salary, when you were hired and your length of service. Plans often have multiple benefit schedules, which apply to employees who were hired at different points in time. Be sure you know which benefit schedule will be used for calculating your benefit. If you have a break in service, ask how your retirement benefit calculation is impacted.

Vesting

You'll want to pay close attention to the the vesting schedule associated with your retirement plan. If you leave your employer before you are fully vested in the plan, you'll forfeit some or all of the contributions that your employer made into the plan on your behalf. Five-year vesting periods are common in defined benefit plans.

Tax treatment

Individuals do not pay income tax on contributions but instead pay income tax when receiving their retirement benefits.

Investments and fees
In a defined benefit plan, you do not get to choose how your money is invested. Plan funds are pooled and collectively invested for all participants. Fees are paid by the plan as a whole and netted out of plan returns.

A note about Social Security

Only about 70 percent of US employees pay into Social Security. The other 30 percent don't pay in because they work for a particular public or governmental employer who is exempt, typically because those employers offer a defined benefit plan.

You should verify whether or not you are contributing to Social Security at your employer. Individuals must pay into Social Security for 40 quarters over a lifetime in order to receive Social Security benefits upon retirement (non-working spouses may be eligible if they have a spouse who met the 40 quarter requirement.) Learn more on the Social Security Administration website [3].

If a member of your household was ever exempt from paying Social Security as part of employment and participated in a defined benefit plan, you'll want to learn about the Government Pension Offset [4] and the Windfall Elimination Provision [5].

University of Colorado Retirement Plan Information

CU plan info.

Available Retirement Plans

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Groups audience:
Employee Services

Right Sidebar:
Source URL: https://www.cu.edu/employee-services/retirement-plan-basics

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[1] https://www.cu.edu/employee-services/retirement-plan-basics