

What are 401(k) and IRA plans? What are the differences between these two plans and which one should I be investing my money in?

A 401(k) (or 403(b) for non-profit organizations) is a type of employer-sponsored retirement plan that allows you to save and invest for your retirement while deferring the interest until your money is withdrawn. A certain amount of each of your paychecks is withdrawn before taxes (e.g., 10%). You typically can select from a number of investment options for your money. Mutual funds with varying amounts of stocks, bonds, and money market investments are most common.

An IRA (Individual Retirement Account) is a personal retirement savings plan that is available to anyone who receives taxable compensation. There are two main types of IRAs - the traditional and the Roth. The major difference between these two IRAs is when your money is taxed.

Traditional IRA Profile	Roth IRA Profile
Tax deductible contributions (depending on income level)	Contributions are not tax deductible
Withdrawals begin at age 59 1/2 and are mandatory by 70 1/2	No mandatory age distribution
Taxes are paid on earnings when withdrawn from the IRA	All earnings and principal are 100% tax free if rules and regulations are followed
Funds can be used to purchase a variety of investments	Funds can be used to purchase a variety of investments
Is available to everyone with no income restrictions	Is available only to single-filers making up to \$95,000 or married couples making a combined maximum of \$150,000 annually
All funds withdrawn before 59 1/2 are generally subject to a 10% penalty	Principal contributions can be withdrawn any time without penalty (subject to some minimal conditions)

Many individuals choose to invest their money in both a 401(k) and an IRA because the federal government has set certain limits to the amount of money that can be invested in each type of plan. Wherever you choose to invest your money, it is important to invest and invest early.

More information regarding this topic can be found in the following internet websites.

- <http://www.investopedia.com/>
- <http://www.fool.com/>
- <http://www.fidelity.com>
- <http://www.irs.gov/retirement/sponsor/article/0,,id=155347,00.html>

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