**401(k)**

From Wikipedia, the free encyclopedia

In the [United States](https://en.wikipedia.org/wiki/United_States), a **401(k)** plan is the tax-qualified, [defined-contribution](https://en.wikipedia.org/wiki/Defined_contribution) [pension](https://en.wikipedia.org/wiki/Pension) account defined in subsection 401(k) of the [Internal Revenue Code](https://en.wikipedia.org/wiki/Internal_Revenue_Code).[[1]](https://en.wikipedia.org/wiki/401%28k%29#cite_note-cornell-1) Under the plan, retirement savings contributions are provided (and sometimes proportionately matched) by an employer, deducted from the employee's paycheck before taxation (therefore [tax-deferred](https://en.wikipedia.org/wiki/Tax_deferral) until withdrawn after retirement or as otherwise permitted by applicable law), and limited to a maximum pre-tax annual contribution of $18,000 (as of 2015).[[2]](https://en.wikipedia.org/wiki/401%28k%29#cite_note-2)[[3]](https://en.wikipedia.org/wiki/401%28k%29#cite_note-3)

Other employer-provided defined-contribution plans include [403(b)](https://en.wikipedia.org/wiki/403%28b%29) plans, for nonprofit institutions, and [457(b)](https://en.wikipedia.org/wiki/457_plan#457.28b.29_.28eligible.29_plans) plans for governmental employers. These plans are all established under section [401(a)](https://en.wikipedia.org/wiki/401%28a%29) of the Internal Revenue Code. 401(a) plans may provide total annual addition of $53,000 (as of 2015) per plan participant, including both employee and employer contributions. 401(k) plans, named for the section of the tax code that governs them, arose during the 1980s as a supplement to pensions.

With a 401(k), you control how your money is invested. Most plans offer a spread of mutual funds composed of stocks, bonds, and money market investments. The most popular option tends to be target-date funds, a combination of stocks and bonds that gradually become more conservative as you reach retirement.

Vesting is the amount of time you must work for your company before gaining access to its payments to your 401(k). (Your payments, on the other hand, vest immediately.) It’s an insurance against employees leaving early. On top of that, there are complex rules about when you can withdraw your money and costly penalties for pulling funds out before retirement age.

With that settled, how much should you put in? As much as possible, being mindful that you’ll need to have enough money to live, eat and pay down any debt you have. At the very least, invest enough to get the full matching amount that your company pays to match your contributions.

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| **401k type**  | **Tax rules**  | **Withdrawal rules**  |
| Traditional | * Wages are contributed before taxes from each paycheck, like a deferred salary.
* Taxable income drops by the amount you contribute.
* You pay income taxes on contributions and earnings upon withdrawal.
 | * No access to your funds before age 59 ½ or if you leave your employer at age 55 or older.
* If you dip in early, expect a 10% penalty — on top of the usual tax bill.
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| Roth | * Contributions are made with money that’s already been taxed.
* No taxes paid upon withdrawal.
 | * Better flexibility: free access to your money as long as you’ve held the account for 5 years.
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Finally, if your company is on shaky ground, don’t fret. Your 401(k) is off-limits. If your company goes under, the plan would most likely be terminated. If that happens, you should roll the money over into a traditional IRA to avoid paying the 10% withdrawal penalty and income taxes.

**Individual Retirement Account (IRA)**

From Wikipedia, the free encyclopedia

An **individual retirement account**[[1]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-1) or **IRA** is a form of ["individual retirement plan"](https://en.wikipedia.org/wiki/Retirement_plan),[[2]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-2) provided by many financial institutions, that provides [tax advantages](https://en.wikipedia.org/wiki/Tax_advantage) for [retirement](https://en.wikipedia.org/wiki/Retirement) savings in the United States. An individual retirement account is a type of "individual retirement arrangement"[[3]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-3) as described in IRS Publication 590, **individual retirement arrangements** (**IRAs**).[[4]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-autogenerated45-4) The term *IRA*, used to describe both individual retirement accounts and the broader category of individual retirement arrangements, encompasses an individual retirement account; a trust or custodial account set up for the exclusive benefit of taxpayers or their beneficiaries; **and** an individual retirement [annuity](https://en.wikipedia.org/wiki/Annuity_%28US_financial_products%29),[[5]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-5) by which the taxpayers purchase an annuity contract or an endowment contract from a life insurance company.[[6]](https://en.wikipedia.org/wiki/Individual_retirement_account#cite_note-IRS.2C1-6)

There are several types of IRA:

* [Traditional IRA](https://en.wikipedia.org/wiki/Traditional_IRA) – contributions are often tax-deductible (often simplified as “money is deposited before tax” or “contributions are made with pre-tax assets”), all transactions and earnings within the IRA have no tax impact, and withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were not deducted). Depending upon the nature of the contribution, a traditional IRA may be referred to as a “deductible IRA” or a “non-deductible IRA.” It was introduced with the [Employee Retirement Income Security Act of 1974](https://en.wikipedia.org/wiki/Employee_Retirement_Income_Security_Act) (ERISA) and made popular with the [Economic Recovery Tax Act of 1981](https://en.wikipedia.org/wiki/Economic_Recovery_Tax_Act_of_1981).
* [Roth IRA](https://en.wikipedia.org/wiki/Roth_IRA) – contributions are made with after-tax assets, all transactions within the IRA have no tax impact, and withdrawals are usually tax-free. Named for Senator [William V. Roth, Jr.](https://en.wikipedia.org/wiki/William_V._Roth%2C_Jr.), the Roth IRA was introduced as part of the [Taxpayer Relief Act of 1997](https://en.wikipedia.org/wiki/Taxpayer_Relief_Act_of_1997).
	+ [myRA](https://en.wikipedia.org/wiki/MyRA) - a 2014 Obama administration initiative based on the Roth IRA
* [SEP IRA](https://en.wikipedia.org/wiki/SEP_IRA) – a provision that allows an employer (typically a small business or self-employed individual) to make retirement plan contributions into a Traditional IRA established in the employee’s name, instead of to a pension fund in the company's name.
* [SIMPLE IRA](https://en.wikipedia.org/wiki/SIMPLE_IRA) – a Savings Incentive Match Plan for Employees that requires employer matching contributions to the plan whenever an employee makes a contribution. The plan is similar to a [401(k)](https://en.wikipedia.org/wiki/401%28k%29) plan, but with lower contribution limits and simpler (and thus less costly) administration. Although it is termed an IRA, it is treated separately.

2014 and 2015: the total contributions a person can make to all of their traditional and Roth IRAs cannot be more than the lesser amount of either: $5,500 ($6,500 if you’re age 50 or older), or your earned income for the year.

Once money is inside an IRA, the IRA owner can direct the custodian to use the cash to purchase most types of publicly traded [securities](https://en.wikipedia.org/wiki/Security_%28finance%29) (traditional investments), and non-publicly traded securities ([alternative investments](https://en.wikipedia.org/wiki/Alternative_investments)). Specific assets such as collectibles (e.g., art, baseball cards, and rare coins) and [life insurance](https://en.wikipedia.org/wiki/Life_insurance) cannot be held in an IRA

money can typically be withdrawn penalty free as taxable income from an IRA once the owner reaches age 59 1/2. Also, non-Roth owners must begin taking distributions of at least the calculated minimum amounts by April 1 of the year after reaching age 70 ½

There are several exceptions to the rule that penalties apply to distributions before age 59½. This group of penalty exemptions are popularly known as hardship withdrawals. The exceptions include:[[14]](https://en.wikipedia.org/wiki/Individual_retirement_account%22%20%5Cl%20%22cite_note-14)

* The portion of unreimbursed medical expenses that are more than 7.5% of adjusted gross income
* Distributions that are not more than the cost of medical insurance while unemployed
* Disability (defined as not being able to engage in any substantial gainful activity)
* Amounts distributed to beneficiaries of a deceased IRA owner
* Distributions in the form of an annuity (see [substantially equal periodic payments](https://en.wikipedia.org/wiki/Substantially_equal_periodic_payments))
* Distributions that are not more than the qualified higher education expenses of the owner or their children or grandchildren
* Distributions to buy, build, or rebuild a first home ($10,000 lifetime maximum)
* Distribution due to an IRS levy of the plan

**Keogh Plan**

* From Wikipedia, the free encyclopedia
* Eugene J. Keogh, Congressman from New York.
* Keogh plans are a type of retirement plan for [self-employed people](https://en.wikipedia.org/wiki/Self-employment) and [small businesses](https://en.wikipedia.org/wiki/Small_businesses) in the United States.
* There are 2 basic types of Keogh Plan: defined-benefit, and defined-contribution.
* In a defined-contribution plan, a fixed contribution (percentage of total paycheck or a fixed sum) is made per pay period. It may be set up as a profit-sharing plan, where the pension that one can withdraw after retirement depends on how much they invested in the plan while they worked.
* The defined-benefits plan is more complex. It relies on an IRS formula to calculate the rate of contributions.
* In either case, as in other retirement plans, the funds in the plan can be invested in [stocks](https://en.wikipedia.org/wiki/Stocks), [bonds](https://en.wikipedia.org/wiki/Bond_%28finance%29), [mutual funds](https://en.wikipedia.org/wiki/Mutual_funds), etc.

For 2011, employees can generally contribute up to $16,500 per year, and the employer can contribute up to $32,500, for a total annual contribution of $49,000.[[1]](https://en.wikipedia.org/wiki/Keogh_Plan#cite_note-1) The total contribution cap is $50,000 for 2012, $51,000 for 2013, $52,000 for 2014.

A person with a Keogh Plan can also contribute to an IRA (traditional or [Roth](https://en.wikipedia.org/wiki/Roth_IRA)).

Keogh Plans are applicable to self-employed individuals who own their own unincorporated business (sole proprietorships, partnerships & LLC.). Keogh Plans cannot be used for “self-employed” individuals who work in the capacity of an independent contractor.

The main benefit of a Keogh Plan vs. other plans (Keogh’s high contribution limit) is lost in individuals who do not make a high level of income. These individuals may get the same benefits of a Keogh Plan with less administrative cost by using another type of retirement plan ([401k](https://en.wikipedia.org/wiki/401k), [SEP-IRA](https://en.wikipedia.org/wiki/SEP-IRA), etc.)