Retirement savings tips: 401(k) vs IRA

Published November 24, 2017 **Retirement FOXBusiness**

As the end of the year approaches and investors begin to take stock of their savings, one consideration they may want to take into account is how they should allocate money across 401(k) and IRA plans.

In a traditional, employer-sponsored 401(k) plan, employees can contribute tax-deferred money that is generally matched by a company up to a certain percentage. Traditional IRAs are accounts individuals set up independently, where earnings grow tax-free until they are withdrawn in retirement. For a Roth IRA, contributions are taxed first and then withdrawn tax-free, and a Rollover IRA allows individuals to transfer money over from employer-sponsored plans.

Here are some tips to help you navigate the retirement planning process.

Contribution levels

The maximum amount an individual can contribute to a 401(k) plan is significantly higher than what is allowed for an IRA. Beginning next year, the Internal Revenue Service (IRS) will increase the contribution threshold for 401(k) plans by another $500 to $18,500 per year. The maximum allowable, cumulative contribution per year across both traditional and Roth IRA plans is $5,500, or $6,500 for those ages 50 and older.

Uses

"Most of the time people work for an employer and obviously the easiest way to invest is to make it automatic … [that's also] typically the most advantageous," David Hays, president of Comprehensive Financial Consultants, told FOX Business.

IRAs can be useful for a variety of purposes, however, including higher education expenses for yourself or your children or a down payment for a first-time homebuyer. If funds are withdrawn for these purposes when an investor is under the age of 59.5, they can generally be exempt from the 10% distribution penalty.

401(k) plans don't provide those options, but Hays said the plans do offer loans for up to 50% of the vested account balance, or $50,000, whichever is less. Not all plans include this allowance.

Investment options and fees

While a traditional 401(k) usually offers limited investment options, IRA choices tend to be limitless, offering investors more flexibility to curate a unique portfolio.

In terms of fees, Hays said IRAs, which tend to be more on the retail side, sometimes comes with higher fees. With 401(k) plans, big companies can offer really low, competitive fees.

Withdrawal

For a 401(k), if you are no longer working with an employer, you can generally withdraw funds if you are age 59.5 or older. In some cases, you only need to be over the age of 55. If you withdraw early, you will pay income taxes and a 10% penalty.

On the other hand, you can rollover your 401(k) savings into an IRA plan, should you choose to continue stashing cash away.

For IRA plans, the age 59.5 rule applies, and early withdrawal would also result in a 10% penalty on top of income taxes.