

Choosing Your 401(k) Or Your IRA

When determining where to place your money to save for retirement, you may want to consider the following questions from Bankrate.com:

Do you get an employer match and do you plan to stay with your employer? – If your employer makes matching contributions to your 401(k), you don't want to pass up that free money. But, that free money won't do you any good if you change employers and your previous employer's matches don't move with you. Some employers have a vesting schedule, where employer matches become yours only after a predetermined length of time.

How much do you want to save? – For 2011, you can put up to \$11,500 into a simple 401(k), \$16,500 into a traditional 401(k) and \$22,000 if you're 50 or older. You can only contribute up to \$5,000 to an IRA, or \$6,000 if you are 50 or older.

Which option offers the investments you want? – With a 401(k), you may be limited to your employer's investment selections, while IRAs generally provide more variety by allowing you to select the investment vehicles. Also, you can make investment and contribution changes to an IRA at any time, while many 401(k) plans may only allow changes to be made every couple of months.

Are you planning to retire early? – You can make retirement withdrawals from both 401(k)s and traditional IRAs at the standard age of 59 ½. For certain withdrawals before that age, you may owe a 10 percent penalty.

Will you want to borrow from your savings? – You can take a loan penalty-free from some 401(k) plans, but if you leave your job and can't repay the loan immediately, you may be subject to a 10 percent early withdrawal penalty. With IRAs, you can withdraw money penalty-free only for important life expenses such as healthcare, higher education and first-time home purchase costs.

Are you (or your spouse) not working? – If you need to save for yourself and a non-working spouse's retirement, a 401(k)'s higher saving limit provides greater opportunity. The unemployed spouse may also consider building a spousal IRA in his or her name using the family's earned income.

For more information on the differences between 401(k)s and IRAs, or to review your retirement plan, contact our office today for a consultation.

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