IRA vs 401k - Which One is Right for YOU?

Thinking about your retirement plan? We are too! Whether retirement is a long way off or closer than you anticipated, it is never too early (or late) to have a solid plan in place; people of all ages can start now to prepare and save.

Meticulous planning will help you settle into retirement stress free, and the good news is that retirement planning doesn't have to be stressful. Nowadays, there are incredible resources that outline different products available to consumers. Two of the most common products are IRAs and 401(k)s. Whether you are just beginning your search for a retirement solution or you are researching which options are best for you, knowing the difference between IRAs and 401(k)s can be helpful as you make your decision.

What is an IRA?

An Individual Retirement Account (IRA) is a money-saving account with certain tax advantages that can help someone save money for retirement. This type of account is set up by an individual and is provided by a financial institution. There are two kinds of IRAs: Traditional and Roth. Traditional IRAs are typically tax-deductible in the year that a consumer makes contributions; with a Roth IRA, the consumer makes contributions that have already been taxed. Many people use an IRA as a supplement to a 401(k) or as an alternative to 401(K). Keep in mind that contribution eligibility and deduction amounts can be limited or ineligible based on income and retirement plan participation.

As long as you have income that is tax deductible, you can open a Traditional IRA or a Roth IRA. However, there are penalties for withdrawing contributions early, which is something to keep in mind when deciding which product is right for you.

Additionally, Traditional and Roth IRAs are FDIC insured when opened at a bank, but are not FDIC insured when opened with an Investment firm. Here is an Traditional IRA Calculator.

What is a 401(k)?

A 401(k) works a little differently than an IRA. A 401(k) is a retirement savings account that is specifically set up by an employer for the employees of a company. Employees can divert part of their salary into the account, and those contributions are invested. Most of the time, an employer will match (or match up to a certain limit) employee's contributions, so employees can save faster.

401(K)s have an annual limit on how much money an employee can contribute, and in most cases there is a penalty for withdrawing the funds before retirement.

One benefit of a 401(k), though, is even if you switch employers, you can typically roll over the existing 401(k) to the new employer's plan.

Something to keep in mind, though, is that 401(k) accounts are not FDIC insured.

Which one is right for you?

Knowing whether you should open an IRA or a 401(k) (or maybe both) can be a challenge. It all depends on what your financial goals for retirement are and how quickly you want to save and invest. Once you nail down a few details for your retirement plan, making a decision about retirement saving plans will be easier.

The ever-changing market can make it difficult figure out which option is best. However, you will never regret planning ahead and making smart decisions about your future.