401(k) *fast facts*

DIFFERENCES BETWEEN 401(K) PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

	401(k) Plans	Individual Retirement Accounts
Purpose	Originally created by the Employee Retirement Income Security Act of 1974 (ERISA) to supplement an existing traditional defined benefit plan using tax-deferred savings vehicles, with some employers offering them as stand-alone retirement plans; use of 401(k) plans expanded in 1980s and 1990s due to simplicity of design and competitive global economic environment.	To supplement employer-sponsored defined benefit or defined contribution plan through personal tax-deferred savings vehicles; also give retiring or relocating workers a way to preserve employer-sponsored plan assets via rollover.
How it Works	Enrollment facilitated or automated by employer, which acts as a fiduciary to the plan, responsible for oversight of the quality of service and investment providers selected for the plan, and often provides a fixed or matching contribution to the employee's account; service providers offer select investment options as well as investment and retirement planning education; participants choose their preferred investment option and their own contribution level for saving on an ongoing basis.	Individual must independently search out education and information about establishing an IRA and choosing a provider, sometimes with the assistance; education and planning may be provided through a financial professional or directly by the IRA provider; individual generally monitors and funds the account on a self-serve, occasional basis.
Key Features	• The contribution limit for 2007 is $15,500; the amount is tax deferred. Highly compensated employees may be limited in the amount they can defer. • Most employers offer a matching contribution. • Most service providers and employers offer ongoing retirement planning and investment education. • Generally, a range of diversified investment options are made available, with no minimum contribution levels. Asset allocation assistance, rebalancing services, and investment advisory services are generally provided through the plan. • *401(k) mutual fund investors tend to pay lower investment expenses than the industry average.*	• The maximum contribution limit for 2007 is $4,000 to all IRAs. Tax deductibility is dependant upon the individual's total earnings and type of IRA. • Different types of IRAs are available allowing individuals to select the type that best fits their needs (Roth IRA for tax-free growth, Education IRAs for college savings, etc.) • The individual chooses the IRA provider and investment options. A minimum dollar amount is usually required to start a new mutual fund investment option in an IRA, as well as for periodic contributions to each fund. This may limit investment options for portfolio diversification for the average investor. • Depending on the investment provider the individual chooses and/or whether they retain a financial professional, mutual funds selected for the IRA are typically offered at a "retail" price.