### 401(k) Plans vs. Individual Retirement Accounts (IRAs)

| **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. |
| **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. |
| **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. |
| **Individual Retirement Accounts** | 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** | 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 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. |