

Main Differences Between a 401(k) and an IRA

Feature	401(k)	IRA (Individual Retirement Account)
Who Can Open	Only through an employer	Anyone with earned income
Contribution Limits	Much higher: \$23,000 in 2024 (\$30,500 if 50+)	Lower: \$7,000 in 2024 (\$8,000 if 50+)
Employer Match	Often includes employer matching contributions	No employer match
How to Contribute	Payroll deductions (pre-tax or Roth)	Direct contributions from your bank account
Investment Options	Limited, chosen by employer	Broad range, chosen by you
Tax Benefits	Traditional: Pre-tax contributions, taxed at withdrawal; Roth: after-tax, tax-free withdrawals	Traditional: Pre-tax, taxed at withdrawal; Roth: after-tax, tax-free withdrawals
Required Minimum Distributions (RMDs)	Yes, starting at age 73 (except Roth 401(k)s after 2024)	Yes for traditional IRAs, not for Roth IRAs
Portability	Tied to employer; may need to roll over if you leave	Belongs to you, regardless of employer

Key Points

- **401(k)s** are employer-sponsored plans with higher contribution limits and often include employer matching, but have limited investment choices set by the plan administrator^{[1] [2] [3] [4] [5] [6] [7]}.
- **IRAs** are individual accounts you set up yourself, offering a wider range of investment options but with lower annual contribution limits and no employer match^{[1] [2] [3] [4] [5] [6] [7]}.
- Both offer traditional (pre-tax) and Roth (after-tax) options, but Roth IRAs have no required minimum distributions, unlike traditional IRAs and 401(k)s^{[3] [6]}.
- You can contribute to both a 401(k) and an IRA in the same year, but tax deductibility for IRA contributions may be limited if you also participate in a 401(k) and your income exceeds certain thresholds^[5].

In summary, 401(k)s are best for maximizing your annual contributions and leveraging employer matching, while IRAs provide more flexibility and investment choices. Many people use both to optimize their retirement savings.

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1. <https://www.fidelity.com/learning-center/smart-money/ira-vs-401k>

2. <https://www.bankrate.com/retirement/ira-vs-401k/>

3. <https://www.investopedia.com/ask/answers/12/401k.asp>
4. <https://www.nerdwallet.com/article/investing/ira-vs-401k-retirement-accounts>
5. <https://smartasset.com/retirement/ira-vs-401k>
6. <https://www.mutualofomaha.com/advice/financial-planning/understand-investment-options/what-is-the-difference-between-an-ira-and-401k>
7. <https://www.principal.com/individuals/build-your-knowledge/ways-401k-and-ira-are-same-and-ways-theyre-different>