INDIVIDUAL AND EMPLOYER SAVINGS PLANS 101

Retirement Savings Plan: Individual Plans

Individual retirement savings plans have tax benefits that make them attractive ways to save for retirement on your own, either in addition to an employer plan or when you're not covered by such a plan. To be eligible to contribute, you must have earned income. Alimony counts as earned income. While you can have more than one individual IRA account, and even more than one type of account, your total contributions to all of your individual accounts cannot exceed the annual contribution limit or the amount that you earn in one year.

In return for these benefits, however, you must follow specific rules on how much you put aside each year and how you take money out. You must also take the initiative to set up and contribute to these plans on your own, but you have the right to choose where to open your account and which investments to make. Below are three types of plans available.

Product	Who Can Use It	Maximum Contribution	Withdrawal Rules	Tax Rules	Portability	Comments
Deductible Traditional IRA	Anyone who earns income, but not after age 70 ½. Spousal IRAs for non-working spouses.	$5,000 for 2008 plus $1,000 catch up if 50 or older.	Before 59 ½ taxes and 10% penalty due on most withdrawals. Must start minimum required distribution (MRDs) at 70 ½.	Earnings and contributions taxed at regular income tax rate at withdrawal.	Can roll over to another IRA or employer plan that accepts rollovers. May qualify to convert to Roth IRA, but must pay taxes due.	Deductible contributions mean immediate tax savings. Income limits affect amount that is deductible. No loans.
Non-deductible Traditional IRA	Anyone who earns income, but not after age 70 ½. Spousal IRAs for non-working spouses.	$5,000 for 2008 plus $1,000 catch up if 50 or older.	Before 59 ½, taxes and 10% penalty due on most withdrawals. Must start MRDs by 70 ½	Earnings but not contributions taxed at regular tax rate at withdrawal.	Can roll over to another IRA. May qualify to convert to Roth IRA but must pay taxes due.	Contributions never tax deductible. No loans.
Roth IRA	Anyone who earns income and has a MAGI up to $116,000 as a single tax filer or $169,000 as a joint filer. Spousal IRAs for non-working spouse.	$5,000 for 2008 plus $1,000 catch up if 50 or older.	Before 59 ½, taxes and 10% penalty due on most withdrawals. Up to $10,000 in earnings may be withdrawn tax free to buy first home.	No tax on withdrawals if at least 59 ½ and account has been open at least 5 years.	Can roll over to another Roth IRA.	No required withdrawals. No age limit on contributions if still earning. Income limits affect eligibility to contribute. Contributions never tax deductible. No loans. Contributions may be withdrawn at any time without penalty.

Retirement Savings Plan: Employer Plans

Your employer may offer a retirement plan as part of an employee's benefits package. Sometimes employees must be on the job a specific period of time before qualifying to participate. Employees fund traditional employer plans by deferring a portion of your pretax salary, reducing your current taxable income. However, with a Roth 401k or Roth 403b, contributions are after-tax income and may qualify for tax-free withdrawals. Some employers match part of an employee's contribution. A typical formula might be 50% of your contribution, up to a specific percentage of your salary.

All contributions to employer-sponsored retirement plans have the opportunity to grow tax-deferred. As with individual retirement plans, in exchange for tax advantages, there are certain contribution limits and withdrawal restrictions. Below is a general outline of the provisions of employer plans.

Product	Who Can Use It	Maximum Contribution	Withdrawal Rules	Tax Rules	Portability	Comments
Traditional 401(k)	Corporations and non-profit organizations.	$15,500 for 2008 plus $5,000 catch up if 50 or older.	Must start minimum required distribution (MRDs) at 70 ½ in most cases. Withdrawals permitted only when you change jobs or retire, unless you qualify for hardship withdrawal.	Withdrawals taxed at regular income tax rate. 10% tax penalty for withdrawals before 59 ½.	Can roll over contributions to an IRA and to other employer plan that accepts rollovers. Can roll over matching money if vested.	Contributions lower taxable income. Loans permitted in some plans.
Traditional 403(b)	Non-profit organizations.	$15,500 for 2008 plus $5,000 catch up if 50 or older.	Must start MRDs by 70 ½ unless still working. Withdrawals permitted only when you change jobs or retire, unless you qualify for hardship withdrawal.	Withdrawals taxed at regular income tax rate. 10% tax penalty for withdrawals before 59 ½.	Can roll over contributions to an IRA and to other employer plan that accepts rollovers. Can roll over matching money if vested.	Contributions lower taxable income. Loans permitted in some plans. Investments limited to mutual funds and annuities.
Roth 401(k), **Roth 403(b)**	Any organization that also offers 401(k) or 403(b).	$15,500 for 2008 plus $5,000 catch up if 50 or older.	Must start MRDs by 70 ½. Withdrawals permitted only when you change jobs or retire, unless you qualify for hardship withdrawal.	No tax on withdrawals if at least 59 ½ and account has been open at least 5 years. Tax at regular rate plus 10% tax penalty for withdrawals before 59 ½.	May roll over into Roth IRA if retiring or leaving job. Cannot move assets to traditional 401 (k) or 403(b), except matching funds, if vested.	Contributions made with after-tax income. Unlike Roth IRA, no income restrictions on eligibility to contribute. Matching funds made to a parallel traditional account.

Product	Who May Offer It	Maximum Contribution	Withdrawal Restrictions	Tax Rules	Portability	Comments
457	State and local government agencies and non-government tax-exempt organizations.	$15,500 for 2008 plus $5,000 catch up if 50 or older, plus additional catch up when approaching retirement.	Penalty-free withdrawals any time after retiring from government service. Must start MRDs by 70 ½	Withdrawals taxed at regular income tax rate.	Contributions 100% vested. Government employees only may roll over to other employer plans.	Contributions lower taxable income. Can also participate in 401(k) or 403(b) if offered. No matching. No loans.
Thrift Savings Plan (TSP)	Federal agencies and organizations.	$15,500 in 2008 or up to 100% of salary plus $5,000 catch up if 50 or older. Up to $46,000 in 2008 for tax-exempt income for qualified military.	Must start MRDs by 70 ½. Withdrawals permitted only when you change jobs or retire, unless you qualify for hardship withdrawal.	Withdrawals taxed at regular income tax rate. 10% tax penalty for withdrawals before 59 ½.	Can roll over to IRA if retiring or leaving job. Contributions 100% vested.	Contributions lower taxable income. For some federal employees, automatic match of 1% of base pay. Investment choices limited to five index funds for one lifecycle fund.

The above is intended to provide you with an overview of the provisions of employer and individual retirement savings plans. The information is an effort to give you an understanding of the different plans. You should always get professional advice.