

# [Example of essay on 401(k) retirement plan](https://assignbuster.com/example-of-essay-on-401k-retirement-plan/)

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A 401(K) is a retirement saving plan which is sponsored by the employer of an employee. The plan is popular among the working people as the provisions allow them to save and invest their money in the plan before the taxes are deducted. In other words, the workers will not be required to pay any taxes on the money invested in the account. This also means that the taxable income of each individual will be lower and he will be paying lower taxes to the federal government. Some of the other benefits of 401(k) plan include:
i) High Contribution Limits: Any employee who is of age 49 years or younger is permitted to invest $17000 per year into their 401(k) plan, while the employee who is aged 50 years or more can contribute $22500 into his 401(k) plan.
ii) Income Tax deduction: As already discussed, contribution to 401(K) attracts tax deduction.
iii) Deferred Taxes: The investor will not be liable to pay any tax on capital gains or interest received on his investment until he starts receiving the amount.
iv) Emergency Withdrawals: The investors can also borrow from their 401(k) plan at times of any emergency.
However, just like any other investment plan, the 401(k) also has some disadvantages associated with it and the same are discussed below:
i) Limited Flexibility: Since 401(k) plan is sponsored by the employer, they always offer very limited option of investing your funds and the employee suffers from the limited flexibility.
ii) Penalties: If an employee withdraws funds from his plan before the age of 59 ½, he will be penalized with tax rate of 20% and an additional penalty of 10%

## Works Cited

Lynskey, J. (2011, June 26). The Pros and Cons of IRAs and 401(k)s. Retrieved June 7, 2014, from http://www. investinganswers. com/personal-finance/retirement-planning/pros-and-cons-iras-and-401ks-3183