

What kinds of tax-favored retirement accounts are there?

Tax-favored retirement accounts can be sliced and diced in various ways. There are three big differences, though: who sponsors them, who bears the risk, and when Uncle Sam takes his cut.

Defined-benefit plans generally distribute funds on a regular basis during retirement according to formulas that account for employees' years of work and earnings. In defined-contribution plans, of which the 401(k) plan is the most common, balances depend on the size of past employee and employer contributions and on the investment returns accumulated on those contributions.

Accounts established by individuals include two types of individual retirement accounts (IRAs): traditional IRAs and Roth IRAs. Like 401(k)s, traditional IRAs allow taxpayers to deduct their contributions, up to a preset limit, from taxable income. Tax liability is only triggered when funds are distributed to the account owners. By contrast, contributions to Roth IRAs and Roth 401(k)s yield no tax breaks when they are made, but distributions to retirees, including accumulated investment income, are tax-free.

Employers are not required to offer retirement benefits to their employees, and only about half of all workers receive them. Employees of large companies are more likely to receive employer-sponsored retirement benefits than their counterparts in small firms. In 2013, about two-thirds of workers at medium-size and large firms received retirement benefits, compared with about one-third of workers at small firms. In 2013, almost all government employees (94 percent) received retirement benefits of one sort or another.

Participation in retirement accounts initiated by individuals rather than employers is less common. In 2013, only around 12 percent of households contributed to any type of IRA.

FURTHER READING

Congressional Budget Office 2011. "[Use of Tax Incentives for Retirement Saving in 2006.](#)" Washington, DC: Congressional Budget Office.

Employee Benefit Research Institute. 2014. [*EBRI Databook on Employee Benefits*](#). Washington, DC: Employee Benefit Research Institute.

Holden, Sarah, and Daniel Schrass. 2015. "[The Role of IRAs in U.S. Households' Saving for Retirement, 2014](#)." Washington, DC: Investment Company Institute.