

Activity 2

RETIREMENT READINESS

Practice choosing how to invest in your retirement, whether through an employer-sponsored program or independently, as you read the scenarios below and answer the questions.



Scenario 1: You are investing \$4,000 per year in a 401(k) and you have a 30% annual employer match.

- What formula could you use to add up both your deposit and your employer's match?

- Over the course of 5 years, you invest \$20,000. How much does your employer invest?
\$ _____
- If your employer offered a match of \$1,000 per year instead of 30%, which would be a better option?

Would that always be true? _____

Scenario 2: You have accepted a job offer and are excited to take advantage of compound interest by investing immediately in a retirement fund. You are 25, have an annual starting salary of \$31,000, and there are two plans you are considering:

- Your employer offers a 401(k) account that averages 4% annual interest. This account is tax-deferred and your employer will match 50% of your annual contribution to the account.
- You also found a Roth IRA that you really like because its average annual interest rate is 4.25%, but your employer would not match investments in this account. Deposits into this account are taxed, but you would not pay tax on the final distributions.

Use the compound interest calculator at www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator to calculate how much your account will grow if you contribute \$1,200 per year into each of the retirement account options for the next 10 years.

1. What will the total value of each account be at the end of the 10-year period?
 - a. 401(k): \$ _____
 - b. IRA: \$ _____
2. If you continue depositing this same amount into each account throughout your working years, what will be the total value of each account when you retire at 65?
 - a. 401(k): \$ _____
 - b. IRA: \$ _____

