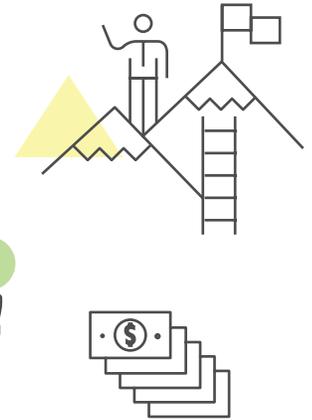


LESSON #4

ACTIVITY

USING YOUR 401(K)



Lauren is a 23-year-old office assistant who makes \$36,000 a year. She spends a lot on clothes and entertainment, but would love to be a millionaire some day. Help Lauren see she CAN be a millionaire if she starts saving to a 401(k) now. Write your answers on a separate sheet of paper.

START IT

Lauren's employer offers a 401(k) plan with a 5% match. What percentage of Lauren's paycheck should she contribute to her 401(k) and why?

RISK IT

Lauren can control the risk for her 401(k) investments—low (3% annual return), medium (6% return), or high (9% return). What risk level do you recommend? Why?

COMPOUND IT

If Lauren takes your advice and starts with \$500 in her 401(k), how much will she have at age 25? At 30? (Go to www.investor.gov/tools/calculators/compound-interest-calculator to help you answer.)

MARKET BOOM

When Lauren turns 30, the market booms. Lowrisk

returns stay at 3%, but medium-risk increases to 7% and high-risk increases to 12%. Should Lauren adjust her risk level? Why or why not? If the boom carries to age 35, how much will Lauren have in her account?

MAX IT

The maximum Lauren can save in her 401(k) is limited by law. If she gets a raise at age 35 and now makes \$200,000, can she contribute to her 401(k) at the same rate? Why or why not? If not, recommend a new contribution rate.

ADD TO IT

Based on Lauren's raise and her new contribution rate, how much will she have in her 401(k) at age 40? 45? 50? Assume the market has leveled to its normal rate of return.

MARKET SETBACK

At age 50, the market experiences a setback. Lowrisk returns stay at 3%, but medium-risk decreases to 4% and high-risk decreases to 7%. Should Lauren adjust her risk level? Why or why not? If the setback carries to age 55, what will Lauren's balance be?

USE IT?

At age 55, Lauren considers withdrawing money from her 401(k) to help pay her daughter's college tuition, but understands there is a penalty. What is the penalty for withdrawing early? Should Lauren make the withdrawal? Why or why not?

DID SHE MAKE IT?

It's retirement time. Did Lauren become a millionaire by using your recommendations? Why or why not?



Dollars & Sense
H&R BLOCK