# 401K INTRODUCTION GUIDE



### What is a 401(k)?

A 401(k) is a retirement savings account offered through employers. It allows you to save and invest a portion of your paycheck, with tax advantages.

#### Two Main Types:

- <u>Traditional 401(k)</u>: Pre-tax contributions, lowers taxable income today. Pay taxes later in retirement.
- Roth 401(k): After-tax contributions. Pay taxes now, but withdrawals in retirement are tax-free.

Interactive Prompt: Would you rather lower your	
taxes now (Traditional) or never pay taxes in	
retirement (Roth)? Write your choice	



#### WHY IS A 401(K) IMPORTANT?

- Wealth Growth: Investments grow through compound interest.
- **Employer Match:** Free money your company contributes to your account.
- <u>Tax Advantages:</u> Either upfront or in retirement.
- **Security:** Social Security alone won't cover all expenses.

#### **™** Visual Example - Compound Growth

- Start saving \$200/month at age 22 →
   ~\$750,000 by 65.
- Wait until age  $32 \rightarrow ~\$335,000$  by 65.
- That's a \$415,000 difference just by starting earlier.

Interactive Prompt: How old are you now? If you	U
invested \$100/month for 20 years, how much do y	o u
think it could grow?	



#### HOW TO OBTAIN A 401(K)

- Through Your Employer: Ask HR if they offer one and how to enroll.
- **Self-Employed?** Open a Solo 401(k).
- **Enrollment:** Decide what % of your paycheck you'll contribute.
- Investments: Choose from options like index funds or target-date funds.

Worksheet:

Employer:	
Does your company offer a 401(k)? Yes / No	
If yes, how much can you contribute?	



## REQUIREMENTS FOR A 401(K)

Not everyone can immediately start a 401(k). There are rules set by the IRS and employers.

#### Eligibility Requirements:



- Age: Many plans require you to be at least 21 years old.
- Work: Employers may require 1 year (1,000 hours) of service.
- Part-Time Workers: As of 2024, if you work 500+ hours for 3 consecutive years, you may qualify.

#### Contribution Requirements:



- Limits (2025): \$23,000 per year (under 50). \$30,500 if 50+ (catch-up contributions).
- Employer Match Rules: Must contribute a minimum % to get the match (varies).
- Vesting: You always own your contributions; employer contributions may vest over time.

#### Withdrawal Requirements:



- 59½: Withdrawals without penalty.
- RMDs: Must start at 73 for Traditional accounts.
- Early Withdrawals: Usually taxed + 10% penalty unless exception applies.
- Activity: Which requirement would impact you the most — Age, Years Worked, Contribution Limits, or Vesting? Write here: \_\_\_\_\_\_\_\_

#### EMPLOYER CONTRIBUTIONS

- <u>Match Example:</u> Employer matches 3% if you contribute 3%.
- **Vesting:** Some require you to stay before keeping employer funds.
- Example: Salary = \$50,000. You contribute 5% (\$2,500). Employer matches 3% (\$1,500). Total
   = \$4,000/year.
- Visual Table: Show how a \$1,500 match grows to over \$45,000 in 20 years.
- \*\* Activity: If your salary is \$40,000 and employer matches 4%, how much free money per year do you get?



# GREAT WAYS TO LEVERAGE A 401(K)

- Always contribute at least enough for the match.
- Increase contributions with raises.
- Use low-cost index or target-date funds.
- Let compound growth work don't withdraw early.
- Prompt: What percentage of your paycheck could you realistically contribute today?

AL FORCE

# TAX BENEFITS

- <u>Traditional 401(k)</u>: Saves on taxes now. Withdrawals taxed later.
- Roth 401(k): Pay taxes now. Withdrawals tax-free later.
- Contribution Limits (2025): \$23,000 / \$30,500
   (50+).
- III Visual Table: Traditional vs. Roth taxes now vs. later.

	appeals more to you? Lower taxes
today or tax-free	withdrawals later? Write here:



#### WITHDRAWAL OPTIONS

- Standard (59½+): Normal withdrawals.
- **RMDs:** Required at 73 (Traditional only).
- Hardship Withdrawals: Emergencies like foreclosure or medical bills.
- **Loans:** Borrow from your account, repay with interest.
- <u>Early (<59½):</u> Taxed + 10% penalty unless exception.

Activity: Which withdrawal option do you think is
safest? Which is riskiest? Write both below:



#### COMMON MISTAKES TO AVOID

- Not contributing enough to get the employer match.
- Cashing out when leaving a job.
- Forgetting about old accounts.
- Investing too conservatively or too aggressively.
- Ignoring fees.
- Activity: Put a check by the mistake you think most people make and star the one you will avoid.







- What if I leave my job? → Roll into a new employer plan or IRA.
- Can I have both a 401(k) and an IRA?  $\rightarrow$  Yes.
- 401(k) vs. pension? → Pension = employerfunded, 401(k) = employee + employer.
- What if I don't pick investments? → Money may sit in cash, growing little.



#### **NEXT STEPS CHECKLIST**

- 1. Ask HR if your job offers a 401(k).
- 2. Enroll and contribute at least up to the employer match.
- 3. Decide Traditional vs. Roth.
- 4. Pick your investments.
- 5. Increase contributions yearly.
- 6. Avoid early withdrawals.
- 7. Review annually.

Worksheet:
Employer offers 401(k)? Yes / No
Contribution %:
Employer Match %:
Goal Contribution %:

#### **RESOURCES**

- IRS 401(k) Guide: irs.gov
- Investopedia 401(k) Beginner's Guide
- Retirement Calculators: Fidelity, Vanguard,
   NerdWallet
- Books: The Simple Path to Wealth by JL Collins, I
   Will Teach You to Be Rich by Ramit Sethi



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