Planning for Retirement

Name: ____________________
Date: ____________________

The Challenge: Using the 50/30/20 budgeting rule, if you want to maximize contributions to a 401(k) ($23,000), a Traditional IRA ($7,000), and a Roth IRA ($7,000), how much would you need to earn annually to allocate these investments while keeping them at 20% of your total income? By the end of this packet, you'll calculate your target annual income.

Core Concepts: Saving vs. Investing

SAVING

- Short-term needs (1-3 years)
- Lower risk
- Lower returns (1-3%)
- Goal: Preserve capital
- Examples: Savings accounts, CDs

INVESTING

- Long-term goals (3+ years)
- Higher risk (varies)
- Higher potential returns (7-10%)
- Goal: Grow capital
- Examples: Stocks, bonds, mutual funds

Risk-Return Relationship

- Higher potential returns = Higher risk
- Lower risk = Lower potential returns
- Time horizon affects appropriate risk level

Time Horizon Guidelines

- **Short (1-3 yrs):** Low-risk savings
- **Medium (3-10 yrs):** Mix of saving/conservative investing
- **Long (10+ yrs):** Can handle higher risk for growth

Part A: Financial Products Comparison

Product	Risk Level	Typical Returns	Liquidity	Best Time Horizon
High-Yield Savings	Very Low	3-5% APY	High (immediate)	Short-term, Emergency fund
Certificate of Deposit (CD)	Low	4-5% APY	Low (early withdrawal penalty)	Short to Medium-term
Corporate Bonds	Moderate	4-7%	Moderate	Medium-term
Index Funds	Moderate-High	7-10% historically	High (but value fluctuates)	Long-term (10+ years)
Individual Stocks	High	Varies widely	High (but value fluctuates)	Long-term with diversification

Product Analysis Questions

1. Which product would you recommend for an emergency fund? Why?

2. Why are index funds better suited for retirement than individual stocks?

Part B: Retirement Account Comparison

Account Type	Tax Treatment	2024 Max Contribution	Key Features
Traditional 401(k)	Pre-tax contributions; taxed at withdrawal	$23,000 ($30,500 if 50+)	Employer match possible; reduces current taxable income
Roth 401(k)	After-tax contributions; tax-free at withdrawal	$23,000 ($30,500 if 50+)	Tax-free growth; no taxes in retirement
Traditional IRA	May be tax-deductible; taxed at withdrawal	$7,000 ($8,000 if 50+)	Anyone can open; not tied to employer
Roth IRA	After-tax contributions; tax-free at withdrawal	$7,000 ($8,000 if 50+)	Tax-free growth; income limits apply
Social Security	Funded by payroll taxes; taxed partially	N/A (automatic payroll deduction)	Government benefit; based on work history

Account Comparison Questions

3. If you expect to be in a HIGHER tax bracket in retirement, which type of account would benefit you more: Traditional or Roth? Explain why.

4. Your employer offers a 401(k) match of 50% up to 6% of your salary. If you earn $50,000 and contribute 6%, how much does your employer add?

Employer Match = Free Money! If your employer matches contributions, always contribute at least enough to get the full match. It's an instant 50-100% return on your investment.

Part C: The 50/30/20 Rule and Retirement

Understanding the 50/30/20 Budget

The 50/30/20 rule allocates your after-tax income: 50% for needs, 30% for wants, 20% for savings and investments.

50% - Needs

- Housing (rent/mortgage)
- Utilities, groceries, insurance
- Minimum debt payments
- Transportation basics

30% - Wants

- Entertainment, dining out
- Hobbies, subscriptions
- Travel, non-essential shopping
- Upgrades beyond basics

20% - Savings & Investments (Including Retirement)

This 20% should cover: Emergency fund, retirement contributions, debt payoff beyond minimums, and other investing.

Part D: Solve the Opening Challenge

Calculate the Required Annual Income

To maximize all retirement accounts while keeping contributions at 20% of income, calculate the target income.

Step 1: Calculate Total Maximum Contributions

401(k) max: $23,000 + Traditional IRA max: $7,000 + Roth IRA max: $7,000

Total Maximum Contribution: $_____________

Step 2: Apply the 20% Rule

If the total contribution equals 20% of your income:

Total Contribution ÷ 0.20 = Required Annual Income

Calculation: $_____________ ÷ 0.20 = $_____________

5. Your calculated target annual income to maximize all retirement contributions at 20%:

6. Is this a realistic income for someone just starting their career? What alternatives might a young worker consider?

Part E: Your Retirement Strategy

Build Your Personalized Plan

Design a retirement strategy based on your expected career and goals.

Expected starting salary: $_____________

20% of that salary: $_____________/year = $_____________/month

7. How would you allocate your 20% savings? Fill in your monthly plan:

Category	Monthly Amount	Reasoning
401(k) (if employer match)	$	
Roth IRA	$	
Emergency Fund	$	
Other	$	

8. Imagine yourself at age 65. Describe the lifestyle you envision and what steps you can start taking now.

Check Your Understanding

1. Which of the following is the PRIMARY advantage of a Roth IRA over a Traditional IRA?

- [ ] A. Higher contribution limits
- [ ] B. Tax-free withdrawals in retirement
- [ ] C. No income restrictions
- [ ] D. Employer matching contributions

2. Why should you "always get the employer match" on a 401(k)?

3. A 25-year-old starts contributing $500/month to retirement at 7% returns. A 35-year-old starts contributing $750/month at the same rate. Who will have more at age 65? Why?