What is a 401(k)?

Worksheet

A 401(k) is an employer-sponsored retirement plan where you contribute pre-tax dollars, your employer often matches, and earnings grow tax-deferred until retirement withdrawal.

Questions

1. A 401(k) contribution reduces which tax?

A) Sales tax
B) Property tax
C) Payroll/income tax
D) Capital gains tax

2. Employer match on a 401(k)...

A) Reduces your contribution
B) Is added to your balance
C) Must be matched by you
D) Is rare

3. Withdrawing at 45 from a 401(k) typically results in...

A) No penalty
B) 10% penalty + income tax
C) Tax credit
D) Double match

4. Required Minimum Distributions (RMD) start at age...

A) 59½
B) 62
C) 65
D) 73

5. You earn $60,000/year and contribute 5% to your 401(k). Your employer matches 100% up to 3%. How much does the employer add?

6. Your 401(k) balance is 150,000 at age 60. You withdraw10,000. Any penalties?

7. At 73, your 401(k) has $500,000. Life expectancy factor is 26.5 (IRS table). What's your RMD?

8. Define: What is a 401(k)?

9. Define: Is 401(k) money taxed when contributed?

10. Define: What's the 2024 contribution limit?

Answer Key

1. C) Payroll/income tax — Traditional 401(k) contributions are pre-tax, lowering your taxable income and payroll taxes.

2. B) Is added to your balance — Employer match is additional free money added to your 401(k) account.

3. B) 10% penalty + income tax — Early withdrawal (before 59½) incurs 10% penalty + income tax on the amount (with few exceptions).

4. D) 73 — As of 2023, RMDs begin at age 73 (previously 72).

5. Your contribution: 5% × 60,000 =3,000 Employer match (100% of first 3%): 3% × 60,000 =1,800 Total for the year: 3,000 +1,800 = $4,800

6. You're 60, under the 59½ rule. Standard rules: early withdrawal penalty = 10% + income tax. Penalty = 10% × 10,000 =1,000 (plus income tax on the $10,000)

7. Required Minimum Distribution = Balance / Life expectancy factor RMD = 500,000 / 26.5 =18,868.37

8. An employer-sponsored retirement plan where you contribute pre-tax dollars and your employer may match.

9. No — traditional 401(k) contributions are pre-tax, reducing your taxable income now.

10. 23,500 for ages under 50;30,500 for ages 50+ (catch-up contribution).