

Financial Literacy Lesson: Types of Retirement Accounts



Grade Levels: 9 - 12th

Lesson Purpose:

To introduce students to the purpose of 401k plans and the difference between a traditional IRA and Roth IRA.

Objective:

Students should be able to explain the importance of a retirement account and the benefits of an IRA vs a Roth IRA account.

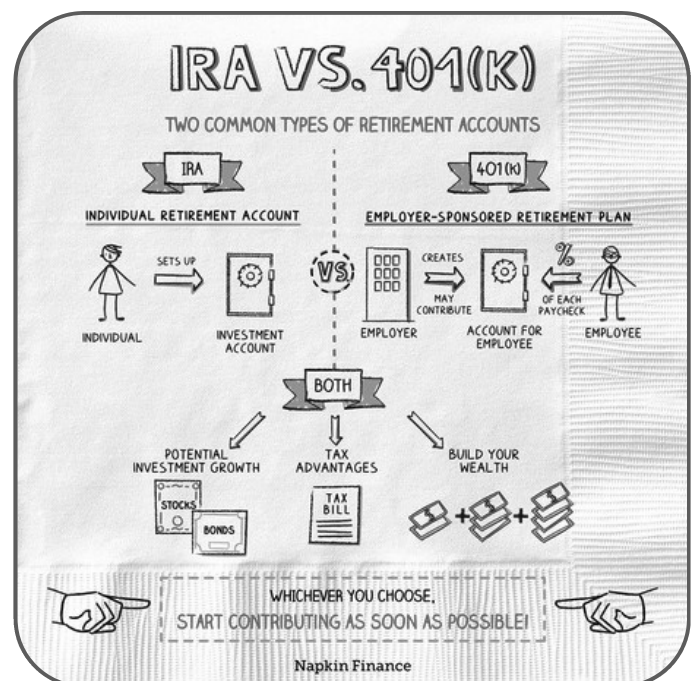
Teacher Lesson Outline:

- **Planned to A.T. Introduction Video (7 min)**

Have students watch the introduction video and fill in their notes as they do. Be sure to ask students if they need any answers repeated when the video ends.

- **Class Discussion: Retirement Chart Comparison (7 min)**

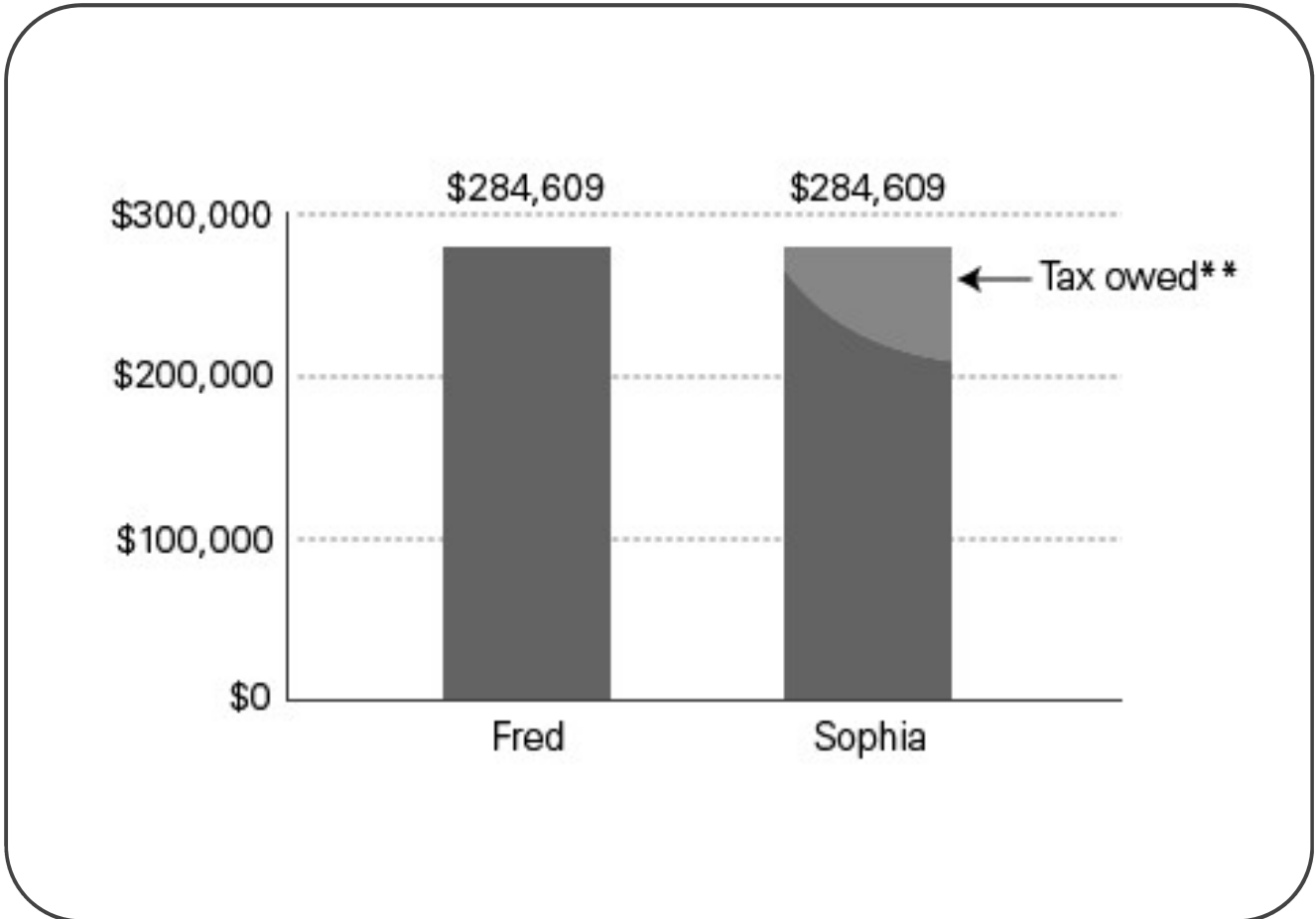
Display the chart below and review the types of accounts discussed in the video by walking the class through filling in the following chart:



	401K	IRA	Roth IRA
Set up through job or employer	X		
Set up individually		X	X
Purpose is to save for retirement over a long time	X	X	X
Employer contributes a match	X		
Can move money around in various mutual funds	X	X	X
You pay taxes on the money you pull out of your account when you retire	X	X	
You pay taxes on the money you contribute to the account instead of when you retire			X
Can't take money out without penalty before 59.5 yrs old	X	X	X

Follow it up with Student Question and display the following graph:

What is ONE main difference between a Roth IRA and a 401K?



Explain that both Fred and Sophia are the same age, have invested the same amount, and have the same amount in their investment accounts. The difference is that Fred invested post tax into a Roth IRA and Sophia invested pre tax in a 401K.

Ask: Who would you rather be? Why?

There is no right or wrong here. The goal is for them to understand the differences to make the best choices for themselves.

401K Match Activity:

Walk students through the first example of calculating the match.

START : Essential Question(s)

Q: What is the purpose of retirement accounts like 401ks and IRAs?

To have money put away to live on when a person is older and may not have the ability or want to work.

Q: How are 401ks different from IRAs?

401ks are provided by an employer, while IRAs are set up individually.

Education Standards Addressed:

SS.912.FL.2.7

Describe the purpose of the following accounts that hold investments: various retirement accounts (e.g., 401(k), 403(b), Traditional IRA, Roth IRA), education accounts (e.g., 529 savings plan, Coverdell Education Savings Account (ESA)), and taxable investment brokerage accounts.



Clarifications

Clarification 1: Instruction includes understanding that each account that holds an investment has its own risk, and the consumer must decide whether the risk is worth the reward.

Clarification 2: Instruction includes analyzing the advantages and disadvantages of each account that holds an investment.

Clarification 3: Instruction includes understanding various investment applications (mobile applications) that may be used to hold investment accounts.

Video Note-taking Guide: Retirement Accounts

1. **401k accounts are** usually offered to full-time employees that work _____hrs a week on their job.
2. 401k plans allow you to decide an amount of money that you would like to contribute to a retirement account AKA an_____ account.
3. You decide an amount from your paycheck that you want to invest in your retirement and it will automatically come out of your paycheck before _____ are taken out, and be put into your investment/401k account.
4. The great thing about these types of plans is that your employer will typically offer a _____ to the amount you invest up to a certain percent.
That means FREE MONEY!

So for example, you might be working for a company like IKEA in their marketing department, designing package containers making \$65,000 a year or about \$5,416 a month.

IKEA might have a 401k plan that offers a 4% match to what you contribute.

5. That means if you decided to contribute a full 4% of your check or _____ a month to your 401k retirement account, then IKEA will match your \$216 dollars with another \$216 and your contribution will be _____ instead of your \$216 by itself.
6. You won't be able to take money from the account without a _____, until you are 59.5 years old. At that time the money you take out will be taxed like your paycheck.
7. Another type of retirement account is called an _____ or an Individual Retirement Account. And just like the name suggests, this is a type of account where you invest on your own or individually outside of your employer.
8. Because you are investing on your own there will be no _____ for your contribution. But you can still grow your money in this type of account.
9. IRAs can be set up with a _____ or financial institution and they can help advise you on what to invest in.
10. When you are ready to use the money in this account on down the road, the money you pull out will be taxed like your paycheck, just like the _____ account.
11. The last type of retirement account you want to be familiar with is a _____ IRA.
12. These types of accounts work exactly the same as IRAs except _____ major difference, you pay taxes when you contribute your money to the account initially so as your money grows over time the money in your account is all yours.

Activity #1: The Difference Between 401k, IRA, and Roth IRA

Directions: As your class discusses the difference between the 401k, IRA, and Roth IRA accounts, fill in your chart below by placing an "X" in each box that characterizes each account.

	401K	IRA	Roth IRA
Set up through job or employer			
Set up individually			
Purpose is to save for retirement over a long time			
Employer contributes a match			
Can move money around in various mutual funds			
You pay taxes on the money you pull out of your account when you retire			
You pay taxes on the money you contribute to the account instead of when you retire			
Can't take money out without penalty before 59.5 yrs old			

Activity #2: 401k Employer Match Research

Directions: Research each company and their retirement match. Calculate the match that each person's job would contribute to their 401k account if they maximize their contribution and contribute the full percent available to them.

Example: Procter & Gamble

Job Title: Product Compliance Officer

Monthly salary: \$5,600

Max Percent Match: 4%

Calculate match (free money!):

$\$5,600 \times (0.04) = \mathbf{\$224}$

So if you contribute \$224 a month, Procter & Gamble will contribute \$224 and your total investment each month will be \$448

#1 Apple

Job Title: Software Engineer

Monthly Salary: \$6,100

Max Percent Match:

Calculate match:

#2 Professional Athletic Team (of your choice)

Job Title: Marketing Specialist

Monthly Salary: \$7,350

Max Percent Match:

Calculate match:

Directions: Now, research companies you potentially would want to work for, the job title you are interested in, monthly salary, and the company's retirement match. Then calculate your potential match.

#3 Your Company: _____

Job Title: Marketing Specialist

Monthly Salary:

Max Percent Match:

Calculate match:

#4 Your Company: _____

Job Title: Marketing Specialist

Monthly Salary:

Max Percent Match:

Calculate match:

Activity #3 (HOME FU): Custodial IRA Intro and Research/ Family discussion

A custodial IRA is a retirement savings account set up for a minor, with an adult (the custodian) managing the account until the minor reaches the age of majority.

Directions: Research the following questions and discuss them with your guardian.

1. What is the minimum age a child has to be in order for a custodian to open an IRA account for them?
2. Is there a minimum contribution required in order to open a custodial IRA?
3. Ask ChatGPT the following question and record its response: "What is the trajectory of contributing \$25 a month to a custodial IRA account?"