

## Worksheet

### Chapter 15: Retirement and Estate Planning

Now you will estimate the effect of a 401(k) contribution on after-tax income for two hypothetical investors. Follow your teacher's directions to either print out the activity, close this Web site, and go the S&P Web site; or click on Standard & Poor's now and go back and forth between Web pages.

**Step 1** Go to the S&P Web site by clicking the link on this page. Click on 401(k) Contribution Calculator and then press Start.

**Step 2** Enter the following values for Investor A:

Current gross income per pay period: 2000

Frequency of payment: Monthly

Percentage of contribution: 6

Employer's matching contribution: 1<sup>st</sup> tier: 100% up to 3%  
2<sup>nd</sup> tier: 50% up to 6%  
3<sup>rd</sup> tier: leave blank

Federal tax rate: 15%

State tax rate: 5%

**Step 3** Press Submit and use the results to answer the following questions:

1. By how much is Investor A's monthly gross pay reduced?
2. What is Investor A's resulting after-tax net take home pay?
3. How much does Investor A save in federal and state income taxes each pay period?
4. What is the amount of the matching contribution each month from Investor A's employer?
5. What is the combined benefit to Investor A of the reduction in taxes and the employer's matching contribution?

**Step 4** Investor B is married and has a higher joint income than Investor A. Use your browser's back button to return to the calculator screen and change the federal income tax rate to 28 percent.

**Step 5** Press Submit and compare the results to those for Investor A to answer the following questions:

6. Is Investor B's after-tax net take home pay higher or lower than Investor A's?
  
7. How much more does Investor B save in federal and state income taxes each pay period, compared to Investor A?
  
8. How might this result affect your plan to save for retirement?