

# 401(k)s: The Tool They Never Truly Explain.....

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*"Your job might already be investing for you — or not. But \*you\* should be the one making the moves."*

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## Learning Objectives

- Understand how a 401(k) works and why it's a powerful wealth-building tool.
- Identify the connection between market trends, 401(k) performance, and economic cycles.
- Recognize employer match programs and the importance of contribution levels.
- Develop the confidence to evaluate, adjust, and manage your own retirement strategy.

## What is a 401(k)?

A 401(k) is an employer-sponsored retirement savings account that allows employees to contribute a portion of their paycheck before taxes. This reduces your taxable income and allows money to grow tax-deferred until you withdraw it at retirement. Many employers offer a matching contribution — essentially free money — to encourage saving.

## Why It Matters More Than You Think

Most people don't realize they have the power to adjust their 401(k) — including what funds it's invested in and how aggressive or conservative it is. Default options often include high-fee or underperforming funds. Over decades, small differences in fees or contributions can cost you hundreds of thousands of dollars.

If you're not paying attention, your money could be sitting in a poorly managed fund, growing slower than inflation. Meanwhile, someone else in the same job could retire with double the money — just because they optimized their 401(k).

## Real-World Examples

1. Carlos works for Good Yard and contributes 3% of his income to his 401(k). His employer matches up to 6%. After learning more, he increases his contribution to 10% and selects a low-fee S&P 500 index fund instead of a target-date fund. Over 25 years, this shift could increase his retirement balance by over \$150,000.

2. Tasha is a 28-year-old graphic designer. Her 401(k) was auto-enrolled at 2%, and she never checked it. After reviewing, she realized her plan had a 1.5% fee and no diversification. She moved to a diversified ETF mix with a 0.15% fee. In 30 years, that change alone could save her over \$100,000 in fees.

### Student Activity

Complete the following steps:

- Log into your 401(k) portal (ask HR for help if needed).
- Find your current contribution rate. Are you getting the full employer match?
- Explore your investment options. What are the names, fees, and performances of the funds you're in?
- Use a retirement calculator (like NerdWallet or SmartAsset) to estimate how much you'll have at retirement.

### Journal Prompt

“What’s one thing I could do this week to take more ownership of my financial future — and why haven’t I done it yet?”

### Research Challenge

Pick ONE of these and write a 3-point summary:

- Search YouTube: 'How to manage my 401(k)'
- Visit NerdWallet or Investopedia’s 401(k) beginner’s guide
- Ask your HR rep for a list of your investment options and compare two of them using Morningstar

### Mini Glossary

**401(k):** A retirement savings plan sponsored by an employer. Contributions reduce your taxable income.

**Employer Match:** Extra money your employer contributes, usually based on how much you contribute.

**Expense Ratio:** The annual fee charged by a fund to manage your investments.

**Target-Date Fund:** A fund that adjusts its risk level as you get closer to a retirement date.

**Vesting:** The period you must work before your employer contributions become fully yours.

**Contribution Limit:** The maximum amount you can put into your 401(k) each year.

**Diversification:** Spreading your investments across different assets to reduce risk.

**Index Fund:** A low-cost fund that tracks a major index like the S&P 500.

**Market Risk:** The possibility that your investments could lose value due to market fluctuations.

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