

# 10-1B RETIREMENT

**To do now:**

- 1. Write down the objective**
- 2. Take out earbuds**

**You will need:**

- **Student Notes**
- **Textbook**
- **Calculator**
- **Notebook Paper**
- **Pen or Pencil**

Items in red are needed for the lecture.

## **OBJECTIVES**

**Calculate** the tax penalty and implications of an **early withdrawal** from a retirement investment.

**Calculate** the amount you should save for retirement if your **employer matches your savings**.

Should you remove money  
from your IRA before you  
retire?



# Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income for the year, excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 1: Determine the taxes before the withdrawal. (Use a table or worksheet)

According to the table in the textbook on page 731:  
**\$20,413**

If line 43 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household
Your tax is—					
<b>96,000</b>					
<b>96,000</b>	<b>96,050</b>	19,958	15,594	20,413	18,329
<b>96,050</b>	<b>96,100</b>	19,972	15,606	20,427	18,341
<b>96,100</b>	<b>96,150</b>	19,986	15,619	20,441	18,354

## Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income for the year, excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 2: Determine the new taxable income with the withdrawal.

$$\begin{aligned}\text{New taxable income} &= \text{income without withdrawal} + \text{withdrawal} \\ &= 96,000 + 50,000 \\ &= \$146,000\end{aligned}$$

## Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income (line 15 on his 1040), excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

**Step 3: Determine the taxes with the withdrawal.** (Use a table or worksheet)

<b>Taxable income</b> If line 15 is—	<b>(a)</b> Enter the amount from line 15	<b>(b)</b> Multiplication amount	<b>(c)</b> Multiply (a) by (b)	<b>(d)</b> Subtraction amount	<b>Tax</b> Subtract (d) from (c). Enter the result here and on Form 1040, line 16
At least \$100,000 but not over \$115,225	\$	x 28% (0.28)	\$	\$6,474.25	\$
Over \$115,225 but not over \$205,750	\$	x 33% (0.33)	\$	\$12,235.50	\$
Over \$205,750 but not over \$232,425	\$	x 35% (0.35)	\$	\$16,350.50	\$
Over \$232,425	\$	x 39.6% (0.396)	\$	\$27,042.50	\$

## Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income for the year, excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 4: Determine the tax increase as a result of the withdrawal.

$$\begin{aligned}\text{Tax increase} &= \text{Post-withdrawal} - \text{Pre-withdrawal} \\ &= 35,944.50 - 20,413 \\ &= \$15,531.50\end{aligned}$$

## Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income for the year, excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 5: Determine the 10% tax **PENALTY** as a result of the withdrawal.

$$\begin{aligned}\text{Tax penalty} &= \text{Withdrawal} \times .10 \\ &= 50,000 \times .10 \\ &= \$5,000\end{aligned}$$

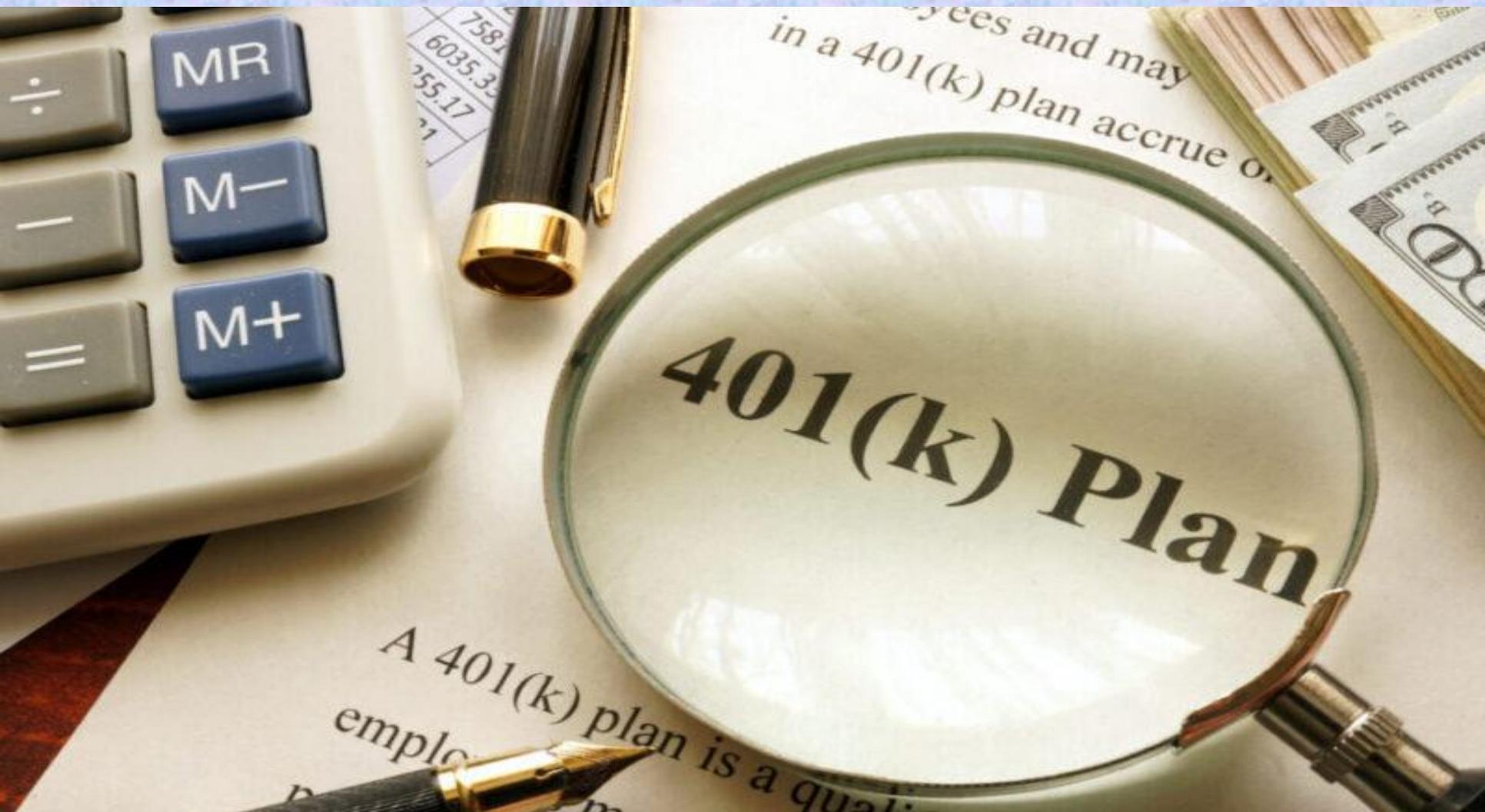
## Example 4

- Zander is a 50-year-old married man who files taxes separately from his wife.
- He has been making monthly contributions into his traditional IRA for many years.
- Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership.
- Zander's taxable income for the year, excluding the \$50,000 from his IRA, was \$96,000.
- How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 6: Determine the total extra taxes paid because of the withdrawal.

$$\begin{aligned}\text{Extra taxes paid} &= \text{tax increase} + \text{tax penalty} \\ &= 15,531.50 + 5,000 \\ &= \mathbf{\$20,531.50}\end{aligned}$$

If your employer offers a 401K  
should you participate in it?



## Example 5

- Leo makes \$75,000 per year.
- His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
- The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
  - a. What is the maximum Leo is allowed to contribute per month?

Step 1: Determine the maximum his employer allows him to contribute.

$$\begin{aligned}\text{Your Annual Maximum Contribution} &= \text{income} \times \% \text{ allowed (converted)} \\ &= 75,000 \times .15 \\ &= \$11,250\end{aligned}$$

## Example 5

- Leo makes \$75,000 per year.
  - His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
  - The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
- a. What is the maximum Leo is allowed to contribute per month?

Step 2: Determine the monthly contribution.

Your Maximum Monthly contribution = (Step 1 answer)/12

$$= 11,250/12$$

$$= \mathbf{\$937.50}$$

## Example 5

- Leo makes \$75,000 per year.
- His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
- The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.

Leo decides he can't save this much every month but he still wants to maximize his employer's contribution.

## Example 5

- Leo makes \$75,000 per year.
  - His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
  - The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
  - The maximum allowable contribution to any 401k is \$18,000.
- b. How much should Leo contribute per month in order to maximize his employer's matching contribution?

Step 1: Determine the maximum % his employer will contribute.  
Your Annual Maximum Match Contribution =

$$= \text{income} \times \text{up to \% (converted)}$$

$$= 75,000 \times .06$$

$$= \$4,500$$

## Example 5

- Leo makes \$75,000 per year.
  - His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
  - The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
  - The maximum allowable contribution to any 401k is \$18,000.
- b. How much should Leo contribute per month in order to maximize his employer's matching contribution?

Step 2: Determine the maximum per month.

Your Monthly Contribution = (Step 1 answer)/12

$$= 4,500/12$$

$$= \$375$$

## Example 5

- Leo makes \$75,000 per year.
- His company offers a 401k retirement plan in which they **match 50%** of his contributions to the 401k up to 6% of his salary.
- The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
- The maximum allowable contribution to any 401k is \$18,000.

c. How much will the employer contribute per month?

Step 3: Determine the maximum match per month.

Monthly Employer Contribution =

= (Step 2 answer) x % of company match(converted)

= 375 x .50

= \$187.50

## Example 5

- Leo makes \$75,000 per year.
  - His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary.
  - The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.
  - The maximum allowable contribution to any 401k is \$18,000.
- d. How much will be put in Leo's 401K every month?

Step 4: Add the employee and employer's contributions.

Total Contribution = your contribution + employer's contribution

$$= 375 + 187.50$$

$$= \mathbf{\$562.50}$$

# Life Lesson from Ms. Brown

- ❖ Do not remove money from your IRA until you retire.
  - If you need money for something important, borrow the money using the IRA as collateral rather than pay penalties and taxes.
- ❖ Always participate in a 401K so that you get the maximum matching funds.

What do I do now?

The 10-1B Assignment

**When is it due?**

**Next Class**