AOF Financial Planning

Lesson 18

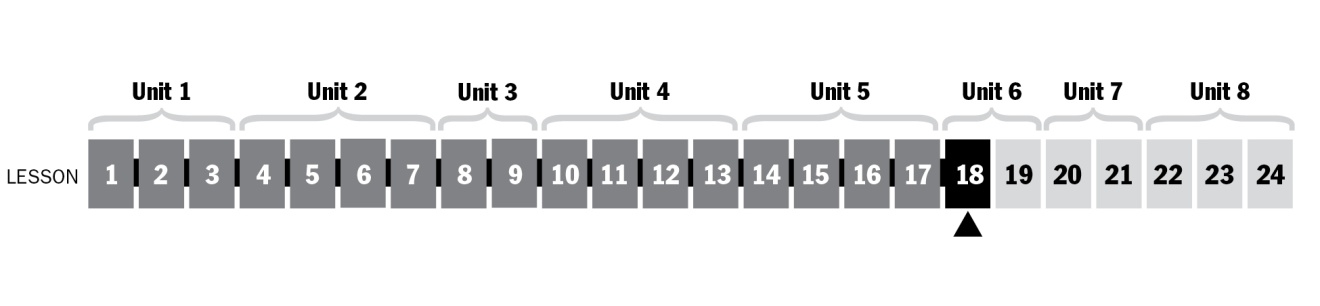
Planning for Retirement

In this lesson, students learn about the important role of retirement planning in the financial planning profession. They explore what a comfortable retirement might be like as well as what happens when people fail to adequately prepare for retirement. They also learn about the importance of including certain instruments such as IRAs and annuities in a portfolio as a retirement strategy. Students then apply what they’ve learned by writing a letter to themselves describing their retirement strategies and what their lives are like during retirement.

Advance Preparation

In Class Period 4, students should have access to computers with word processing software, with one student per computer.

This lesson is expected to take 4 class periods.



Lesson Framework

Learning Objectives

Each student will:

* Compare the differences between a comfortable and well-planned retirement and one for which there was not sufficient preparation
* Describe the key retirement planning tools and strategies, such as IRAs, annuities, and other long-term investments
* Explain how and why retirement planning is important and how it can impact one’s senior years

Academic Standards

The relevant Common Core State Standards are too extensive to list here but are an important basis for this lesson. For details, please refer to the separate document “Correlations to the Common Core Standards” (available in the Course Planning Tools section of the course materials).

* Students will learn that employer benefit programs create incentives and disincentives to save (National Standards for Financial Literacy, Standard III, Grade 12, Benchmark 8)
* Evaluate savings and investment options to meet short- and long-term goals (NBEA National Business Economics Association 2013, Personal Finance IV. Saving and Investing)
* Interpret and create basic financial statements (McREL Business Education Standards 1999, Standard 3)
* Understand the concepts of assets, liabilities, and owner’s equity (McREL Business Education Standards 1999, Standard 5)
* Analyze choices available to consumers for protection against risk and financial loss (NBEA National Business Economics Association 2013, Personal Finance VIII. Protecting Against Risk)

Assessment

|  |  |
| --- | --- |
| Assessment Product | Means of Assessment |
| Letter in which students describe their own retirement (Student Resource 18.1) | Assessment Criteria: Me at 75 Letter (Teacher Resource 18.2) |

Prerequisites

* Understanding of the importance of goal-setting in financial planning
* Knowledge of growth and income investment products and strategies
* Knowledge of compound interest
* Working knowledge of life insurance and annuities

Instructional Materials

Teacher Resources

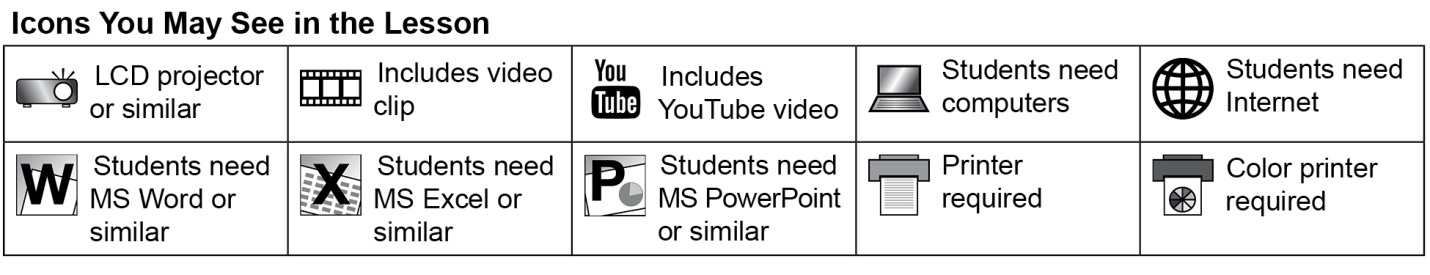
* Teacher Resource 18.1, Presentation and Notes: Planning for Retirement (includes separate PowerPoint file)
* Teacher Resource 18.2, Assessment Criteria: Me at 75 Letter
* Teacher Resource 18.3, Key Vocabulary: Planning for Retirement

Student Resources

* Student Resource 18.1, Letter-Writing Frame: Me at 75
* Student Resource 18.2, Chart: Retirement Planning
* Student Resource 18.3, Reading: Planning for Retirement
* Student Resource 18.4, Scenarios and Strategies: Exploring Retirement
* Student Resource 18.5, Reading: Retirement Planning Instruments

Equipment and Supplies

* Computer and LCD projector for PowerPoint presentation
* Blackboard, whiteboard, or flip chart
* Computers with word-processing software, one computer per student, and access to a printer



Lesson Steps

| Step | Min. | Activity |
| --- | --- | --- |
|  |  | class period 1 |
| 1 | 10 | Springboard: Compounding Interest Revisited  In this activity, students are introduced to the concept of retirement planning and learn more about the important role of compounding interest.  Explain to the students that the topic for this lesson is retirement planning, which is primarily concerned with helping clients to ensure that they have enough money to live comfortably when they stop working.  Remind students that one of the most potent forces in long-term investing is the power of compounding interest. Instruct students to turn to a neighbor and attempt to explain how compounding interest works. After a few moments, invite pairs to share their responses with the class. Emphasize to the class that compounding depends on three factors:  How much money you invest (and how regularly)  The time period with which you let your money grow  Your interest rate  Explain to the class that *interest* is an amount charged or earned for the use of money, and *compound interest* is interest paid on the original amount (or *principal*) and on any accumulated past interest. Compound interest can be earned daily, weekly, monthly, or yearly. The more money you have earning interest, the more money you can make off of compound interest, because each time the interest is compounded, the money earned gets added to the total.  Now ask students to write down their guess as to how much they have to save each month, at 10% annual interest, in order to retire in 52 years (at around age 67) as a millionaire. Explain to students that the bank will credit the interest earned at the end of each month—in other words, this is monthly compounding. Have some students share their guesses. Reveal to students that the amount needed each month is only $46.85!  Close this activity by asking students to work in pairs and answer these two questions:  Why is it important to begin saving early in life?  Do they think having $1 million saved will be enough to retire on when they turn 67? Why or why not?  Have a few students volunteer to share their answers. |
| 2 | 15 | Culminating Project Work: Planning for Retirement  This activity introduces students to the assessment product for this lesson.  Remind students that financial planning is a fluid process, and an individual’s investment portfolio should change as needs change. Aging brings the need for safer investments, because investors have less time to recover from losses, and in retirement there is no income from a job that the investor can use as a safety net. Because of these changing needs, investors change their portfolio mix so that they hold a larger proportion of investments that are considered safer.  Have students look at Student Resource 18.1, Letter-Writing Frame: Me at 75. Let them know that during this lesson they will be imagining themselves during retirement and writing a letter to themselves using the format in the resource. Have them quickly read through the frame and the assessment criteria to become acquainted with everything they will need in order to complete the assignment.  Next, have them look at Student Resource 18.2, Chart: Retirement Planning. Tell them that they will be considering the investment instruments listed in the left-most column and deciding whether they are appropriate to hold in large proportion when they are retired or are nearing retirement. You may wish to tell them not to assume that just because the instruments are listed on the resource it does not mean that they are all appropriate for a retiree’s portfolio—it is up to them to determine whether they will hold each one when they themselves are retired. Gauge for understanding, and answer any questions students have.  Let students know that in the next activity they will be learning about some of the strategies investors use when they are planning for retirement and that they should pay close attention with the assignment in mind—there will be information they might decide to use as they write their letters. |
| 3 | 25 | Presentation: Planning for Retirement  This activity gives students an in-depth look at basic retirement planning strategies. It covers key retirement concepts and strategies such as social security, IRAs and other retirement savings plans, and annuities. It also develops students’ listening and note-taking skills.  To prepare, make notes to guide class discussion using Teacher Resource 18.1, Presentation Notes: Planning for Retirement. Have Teacher Resource 18.1, Presentation: Planning for Retirement (separate PowerPoint file), ready to show as a full-screen slideshow using an LCD projector.  Emphasize to the class that the information being delivered in the presentation will be extremely useful as they write their letters, so they should take notes on information they think will be important to a person’s retirement.  Present the slideshow. Use the notes you prepared and the questions on the slides to encourage class discussion.  This presentation is duplicated as Student Resource 18.3, Reading: Planning for Retirement. If an LCD projector is unavailable, students can read the presentation, answer the discussion questions in their notebook, and discuss their answers as a class. This student resource is also useful for review.  After the presentation, divide the class into pairs or groups of three and have them compare their notes for completeness and accuracy. Invite each pair or triad to share their thoughts and questions.  Let students know that in the next class period they will begin work on their letters. |
|  |  | class period 2 |
| 4 | 10 | Matching Activity: Exploring Retirement  This lesson begins by giving students vivid examples of how prior planning and preparation can enable people to live comfortably during retirement, and conversely, how failing to prepare for retirement can lead to a retirement filled with financial hardship. While thinking about retirement might be a stretch for some students to imagine, it is important that they begin to conceive of what retirement might be like.  Ask students to pair up and complete Student Resource 18.4, Scenarios and Strategies: Exploring Retirement. The activity illustrates how four people are living in retirement and asks students to match them with four summary descriptions of retirement funding portfolios/funding situations.  Present the following questions to the class:  What role does Social Security play in financing retirement?  What are some strategies to follow when preparing for retirement?  Let students know they can use the information from their notes on the presentation and/or knowledge they’ve gained from other lessons to answer these questions.  Have students share their responses with the class, making sure that they understand the basic concepts. If not, provide clarifying explanation as needed. You might also mention that Social Security is not guaranteed to be as robust by the time they retire, so it might be wise for them to keep that in mind while devising retirement strategies.  You may want to gauge student understanding by assessing this resource on a credit/no credit basis. |
| 5 | 40 | Culminating Project Work: Retirement Planning Investments Reading  In this activity, students delve into the specifics of retirement planning in order to meet the assessment criteria as they write their letter. This activity focuses on the following college and career skills:  Demonstrating teamwork and collaboration  Utilizing time efficiently when managing complex tasks  Ask students to form company groups and look over Student Resource 18.5, Reading: Retirement Planning Instruments. Explain that the reading is fairly long and covers a lot of information, so each group should come up with a fair way to divide up the reading and make sure everyone has the information they need to write their letter. They will have until the end of the class period, so after about 15 minutes of reading, they should begin to share information with the rest of the group. You may wish to let them know after about 15 minutes that it’s time to switch from reading to sharing information.  Let students know that in the next period they will use the information they have from the reading, the presentation, and class discussion to write their letter, so as homework they should begin to think about what they want their lives to be like during retirement and what their finances need to be in order for them to meet their long-term goals. |
|  |  | class period 3 |
| 6 | 30 | Culminating Project Work: Writing a Creative Essay  In this activity, students begin to work independently on their letters describing themselves in retirement.  Ask students to complete Student Resource 18.1, Letter-Writing Frame: Me at 75. They should use any information they’ve learned from the presentation and the reading, along with any other knowledge they’ve learned during the course, to demonstrate that they have a solid understanding of retirement planning strategies overall and the specific investments they will make in order to achieve their financial goals during retirement. You may wish to let them work quietly with one other student or with the other students in their company to solidify their knowledge through discussion.  Let them know that they will have just 30 minutes to complete the resource before the next activity: giving and receiving feedback from other students. |
| 7 | 20 | Culminating Project Work: Peer Review  In this activity, students review and comment on one another’s letter draft.  Have students form into their company teams, and ask each of them to share their letter with another student. Let them know they will have between 5 and 10 minutes to provide feedback on the first letter. After 5 or 10 minutes, have students rotate papers clockwise so they have another student’s paper, and have them provide feedback for another 5 or 10 minutes.  Let students know they’ll have the first part of the next class period to create final draft of their letter. |
|  |  | class period 4 |
| 8 | 35 | Culminating Project Work: Essay Revision  In this activity, students have the opportunity to make final revisions to their letter based on the feedback they received from their peers.  Ask students to spend 5 or 10 minutes considering the comments that their fellow students wrote on their letter-writing frame. Explain that students are not obligated to make changes based on the comments, but they should think about the comments and decide whether to implement them.  Next, have students use word-processing software to type a final draft, print it out, and hand it in. I Assess the letters using Teacher Resource 18.2, Assessment Criteria: Me at 75 Letter. |
| 9 | 15 | Think, Pair, Share: Concepts Learned  As a way to summarize and reflect on what they’ve learned, have students pair up and describe to each other the concepts they learned in the lesson.  Ask the whole class to share the most important concepts that they’ve learned about retirement planning. Write their answers on the board or on chart paper. |

Extensions

Enrichment

* Oral History/Video: Have students record an interview with a neighbor, friend, or family member who is retired. Questions that could be asked in the interview include: Did the interviewee have retirement goals prior to retiring? How well has the retiree met any retirement goals? How does the retiree earn the income needed to meet expenses? How did the interviewee prepare for retirement? Does the interview have any advice for those preparing for retirement? This activity will result in a video that can be used to teach others about retirement planning. Or you could invite some retirees to come and speak in the class or after school and videotape their interview. Have students edit their stories and suggestions, adding in the information learned in the lesson, to create a short documentary about the importance of retirement planning.
* <http://www.pbs.org/wgbh/pages/frontline/retirement-gamble/>

Cross-Curricular Integration

* History: Some say that the concept of retirement is fairly recent, arising after the Great Depression as a way to make room for younger workers in the workforce, but that the tide is shifting as more and more people are working until later in life (both out of necessity and a desire to stay active). Ask students to research the subject of retirement, either online or in a library, and create a report or essay outlining their findings.
* Social Studies: The history and the future of the Social Security program have a major impact on the life of retired persons. Ask students to write a research paper or develop a presentation summarizing the purpose and history of the Social Security program, as well as the current challenges it is facing. As a challenge, ask students to suggest their recommendations for overhauling the Social Security program for future generations.
* Math: Many financial planning concepts, such as inflation and compounding interest, are rich sources for math activities. Ask students to figure out the cost of a set of common items (such as a loaf of bread, a gallon of gasoline, and a pair of shoes) when they are 65, if the rate of inflation remains the same. What would the price be if the inflation rate goes up two percentage points? Another way to look at this problem is to figure out what the value of $1 million would be when the students are 65 if the rate of inflation remains constant.