AOF Financial Planning

Lesson 18

Planning for Retirement

Teacher Resources

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

Teacher Resource 18.1

Presentation Notes: Planning for Retirement

Before you show this presentation, use the text accompanying each slide to develop presentation notes. Writing the notes yourself enables you to approach the subject matter in a way that is comfortable to you and engaging for your students. Make this presentation as interactive as possible by stopping frequently to ask questions and encourage class discussion.

|  |  |
| --- | --- |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson18_Presentation_ROOT_030815\Slide1.JPG  This presentation covers some of the most important aspects of retirement planning:   * Why investment planning is important * Our government safety net * Key retirement planning strategies | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson18_Presentation_ROOT_030815\Slide2.JPG  Most experts agree that you should strive to keep earning at about 70% of your preretirement paycheck during your retirement. As we live longer and healthier lives, some are suggesting that 100% of your preretirement paycheck is a better goal to try for.  In either case, you need to be aware of inflation, which reduces the amount that your money can buy each year. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson18_Presentation_ROOT_030815\Slide3.JPG  In the recent past, many large employers offered retirement plans as a benefit of employment. These plans, known as defined benefit plans, guaranteed a specified income to qualifying employees, depending on how long they worked at the company and how much they were making when they left.  Today, more and more companies are moving to defined contribution plans, where each employee is responsible for choosing how to invest retirement savings using such tools as IRAs (including Roth IRAs) and 401(k) accounts. Most of these plans have tax advantages and are often matched by employer contributions.  Defined contribution plans have limits as to how much can be invested each year. These limits are rising regularly. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson18_Presentation_ROOT_030815\Slide4.JPG  For those people who have not prepared for retirement or who experienced some financial hardship and no longer have sufficient funds for retirement, there are some safety nets in place.  In the United States, all workers pay into the Social Security system. Through this system, we receive monthly income when we retire, depending on how long we work and how much money we put into the Social Security system during our working life.  While the regular income from Social Security is helpful, for most people it does not provide for all their expenses during retirement. There are some questions about whether the Social Security system may go through some changes in the future, because there currently is not enough money in the system to provide coverage at current levels as the baby boomer generation enters into retirement.  For people who do not have adequate income for retirement, many cities have special subsidized senior housing developments. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson18_Presentation_ROOT_030815\Slide5.JPG  The sooner you begin saving for retirement, the easier it will be to be ready when it comes.  By letting the power of compound interest work for you, your money will grow rapidly over the years. Also, take advantage of your employer’s contributions to your retirement plan. Some companies will even match your savings, which is a really great benefit. There are several types of plans, known as IRAs and 401(k) accounts, that allow you to invest money and pay taxes only when you withdraw.  One way to reduce housing costs in retirement is to pay off the mortgage. Many retired people only pay their homeowners insurance and property taxes. Others sell their home and buy a smaller one, keeping the difference to help fund their retirement. There is a special tax law that allows people to sell their home and not pay any taxes on the gains (up to $250,000 for single owners and $500,000 for married couples).  Annuities are an insurance product that you pay into during your earning years and that pay out a regular amount, or annuity, when you are retired.  Health care costs can be one of the largest expenses. Having a health care plan in place that covers unexpected costs is one of the most important steps in retirement planning. Most Americans over the age of 65 are eligible to participate in Medicare. Those premiums are then deducted from your Social Security check. Something everyone should keep in mind is that the recent Patient Protection and Affordable Care Act (sometimes referred to as Obamacare) requires that all individuals have health insurance or face a penalty tax. | Presentation notes |

Teacher Resource 18.2

Assessment Criteria: Me at 75 Letter

*Student Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

*Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

*Using the following criteria, assess whether student met each one.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Met | Partially Met | Didn’t Meet |
| The letter offers three detailed actions the student took that resulted in financial independence. |  | □ | □ | □ |
| The letter includes information about effective approaches to retirement planning or about investment instruments that are appropriate for retirement planning. |  | □ | □ | □ |
| The letter uses the correct letter-writing format. |  | □ | □ | □ |
| The letter is neat and legible, and uses proper spelling and grammar. |  | □ | □ | □ |
|  | | | |

*Additional Comments:*

*\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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Teacher Resource 18.3

Key Vocabulary: Planning for Retirement

| Term | Definition |
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| annuity | A type of investment that guarantees payments of specific amounts at specific times. Annuities come in two forms: fixed and variable. Fixed annuities are like CDs that pay a set rate of return. Variable annuities allow you to invest in stocks and bonds, and the rate of return depends on how your investments perform. |
| defined benefit plan | A company retirement plan, such as a pension plan, in which a retired employee receives a specific amount based on salary history and years of service, and in which the employer bears the investment risk. Contributions may be made by the employee, the employer, or both. |
| defined contribution plan | A company retirement plan, such as a 401(k) plan or 403(b) plan, in which the employee elects to defer some amount of his or her salary into the plan, and he or she bears the investment risk. |
| 401(k) | A type of employer-sponsored defined contribution retirement plan under section 401(k) of the Internal Revenue Code. It allows a worker to save for retirement while deferring [income taxes](http://en.wikipedia.org/wiki/Income_tax) on the saved money and earnings until withdrawal. The employee elects to have a portion of wages paid directly, or deferred, into a 401(k) account. |
| individual retirement account (IRA) | A tax-deferred retirement plan account that provides some tax advantages for retirement savings in the United States. |
| inflation | A rise in the general level of prices over time. |
| mutual fund | A professionally managed investment vehicle that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. |
| pension | A steady income given to a person (usually after retirement). Most pensions are created by an employer for the benefit of an employee. . Pensions are a form of deferred compensation, usually advantageous to the employee and employer for tax reasons. Many pensions also contain an insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries, while annuity income insures against the risk of longevity. |
| Roth IRA | An individual retirement account that provides tax-free growth, with contributions to the account made post-tax. Roth IRAs may be opened through various investment options, including stocks or mutual funds. |
| Social Security | A social insurance program funded through dedicated payroll taxes called the Federal Insurance Contributions Act (FICA). The Social Security Administration keeps track of all workers’ earnings throughout their career. The amount of the monthly benefit to which a worker is entitled depends upon that person’s earnings record and the age at which he or she chooses to begin receiving benefits. |

Teacher Resource 18.4

Bibliography: Planning for Retirement

The following sources were used in the preparation of this lesson and may be useful for your reference or as classroom resources. We check and update the URLs annually to ensure that they continue to be useful.

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