

Oklahoma's Personal Financial Literacy Passport

Standard 6: The student explain and evaluate the importance of planning for retirement.

Standard 6. Retirement Planning

Lesson 6.1- Planning for Your Retirement


Handout 6.1.1- Risky Business

Lesson 6.2 - Longevity and Retirement

Handout 6.2.1 - Analyzing Your Retirement Needs



Teacher Presentation Series 6

- 
- Describe the necessity of accumulating financial resources needed for specific retirement goals, activities, and lifestyles, based on life expectancy.
 - Explain the roles of Social Security, employer retirement plans, and personal investments (e.g., annuities, IRAs, real estate, stocks, and bonds) as sources of retirement income.



Standard 6.1

Retirement Planning

Planning for Your Retirement

Down Payment



Grandma Eliza:

- Invested in her company 401(k).
- Helped her four children attend college.
- Is not responsible for raising any of her grandchildren.
- Has established a college savings plan for each of them.



Down Payment



Grandma Jessie:

- Put five children through college.
- Helped three start businesses.
- Is raising her two granddaughters.
- Planning to rely on Social Security for retirement income.

Which grandmother made the best financial choices for her retirement?

Payoff



- Identify and evaluate different retirement options.
- Explain the different types of risk associated with long-term planning.
- Apply the different types of risk to the various investment products, such as stocks, bonds, mutual funds, etc.

== *Cache* ==



- 💰 Annuity
- 💰 Financial Risk
- 💰 401(k)
- 💰 Fraud Risk
- 💰 Individual Retirement Account
- 💰 Inflation Risk
- 💰 Market Risk
- 💰 Social Security



Building Interest



- 💰 What do you want your life to be like when you retire?
- 💰 Do you have an idea of how you might reach that goal?
- 💰 How will you support yourself when you no longer work?

Social Security



💰 Social Security is:

- Most common form of retirement benefit
- Provided by the Federal Government
- Supported with payroll taxes
- One of the largest government programs in the world and the greatest single expense in the Federal budget

💰 Currently, the average social security check is only about \$1,000.

Social Security



- 👉 Benefits are based on the number of years you work and income earned.
- 👉 Not designed to be a sole source of income, but supplemental income for people over age 65.
- 👉 Develop savings and investment strategies for a financially secure retirement.

Company Retirement Plans



401(k)

- Most common type of company retirement plan is a 401(k)
- Two basic features:
 - Allows you and/or your employer to put money in an investment account each month.
 - Taxes are not due on the amount invested until you withdraw the money.



Company Retirement Plans



💰 401(k) - continued

- Many young employees fail to see the benefit of participating in a company retirement plan.
- Can be an expensive choice, particularly if the employer matches the money you place in the fund.

💰 Annuities

- Annuities are a specific amount paid in each month in exchange for a guaranteed retirement payment.

Company Retirement Plans



Annuities - continued

- Tend to generate less overall earnings than a 401k
- Annuity benefits are guaranteed, while benefits from a 401(k) are not guaranteed.

Individual Retirement Accounts (IRAs)

- Consider IRAs if your company does not offer a retirement plan or to supplement an existing retirement plan.

Company Retirement Plans




IRAs - continued

- Most IRAs are invested in mutual funds, which tend to have lower risks than other retirement options.
- Two basic types of IRAs:
 - Traditional IRA – you contribute money to your account, deduct contribution from your personal income tax, and postpone payment of taxes until you withdraw the funds after age 59 ½.
 - Roth IRA – you pay the taxes before placing money in a Roth account, so no taxes are due when you withdraw the money.

Different Types of Investment Risk



 Investing in a retirement account has both potential costs and benefits.

- Cost – cannot spend the money now and risks associated with investing
- Benefit – having more money in the future

 Four specific kinds of risk to understand

1. **Market risk** – Your investment will be worth less tomorrow because of dropping prices/values.
2. **Financial risk** – The business you invest in goes bankrupt or fails to make a profit.

Different Types of Investment Risk



 Four specific kinds of risk to understand (continued):

3. **Inflation risk** – The price you pay for goods and services will rise faster than the rate of return on your investment.

4. **Fraud risk** – Someone either deceived or tricked you into investing in something where you get nothing in return.



== *Earnings* ==



- 🏆 You are responsible for deciding how to invest your money.
- 🏆 Educate yourself to make the best choices possible.
- 🏆 Establishing a diversified retirement plan, avoiding investments that seem “too good to be true, and understanding your potential risk are three keys to building your financial independence later in life.

Balance Sheet



- ⚠️ What kind of risk is associated with a company not having enough money to stay in business?
- ⚠️ Which company sponsored plan requires you to determine how you want your money invested?
- ⚠️ When do you pay taxes on the money deposited into a Roth account?
- ⚠️ What is the basic rule of risk?

≡ ***Paid in Full*** ≡

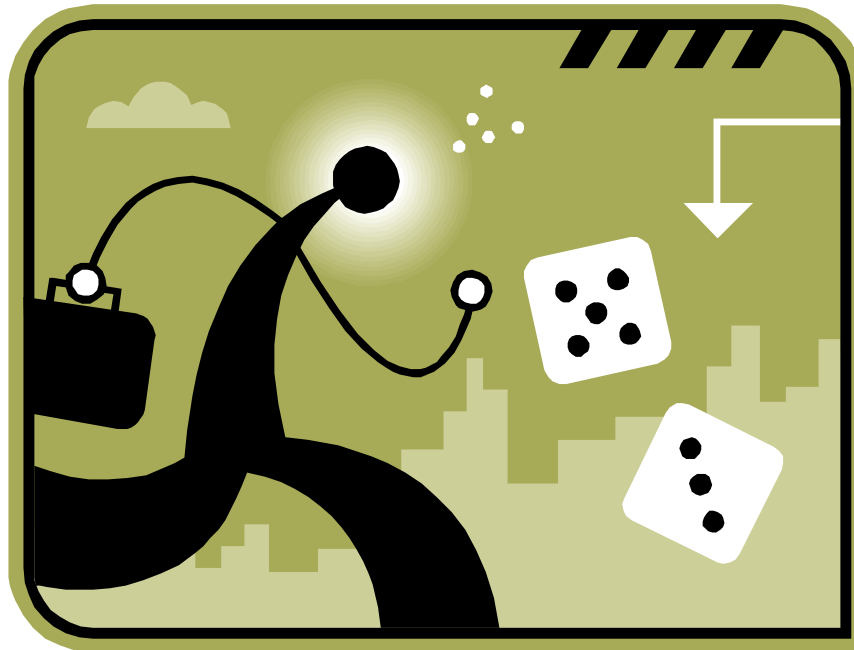


- 👤 Grandma Jessie will have very limited, set income from Social Security and may not be able to cover monthly expenses.
- 👤 Grandma Eliza should be able to live a more financially independent life.



Handout 6.1.1 – Risky Business

- 🍷 How would you order the scenarios in this exercise if your choices were from most risky to least risky?





Standard 6.2

Retirement Planning

Longevity and Retirement

≡ Down Payment ≡



- 🍷 Keisha and Annie were going to a 90th birthday party for Keisha's great grandmother.
- 🍷 Kiesha asks Annie if she thinks the will live to 90.
- 🍷 Kiesha's great-grandpa had died nearly twenty years ago, before she was even born.

≡ Down Payment ≡



- 🍷 Do you think Keisha and Annie will live until they are 90?
- 🍷 What about you? What is your potential life expectancy?
- 🍷 Will you be financially prepared to live alone and support yourself all those years?

= *Payoff* =



- 📈 Examine the investment needs of different individuals and make recommendations for their retirement strategies.
- 📈 Evaluate longevity and life-span statistics to predict the numbers of years they will live in retirement and expected income needs.

== Cache ==



 Life expectancy

 Lifestyle



Building Interest



- 💰 Why is planning for your financial future so much more important than it used to be 100 years ago?
- 💰 How much money will you need when you retire?
- 💰 How old do you think you will be when you can stop working?

Retirement Income Shortfalls



- 💰 People tend to underestimate their life expectancy.
- 💰 Life expectancy is the statistical measure of the average life span of a specified population.
- 💰 Three steps for increasing your retirement savings:
 - I. Rethink your goals
 - Travel?
 - Cabin on the lake?



Retirement Income Shortfalls



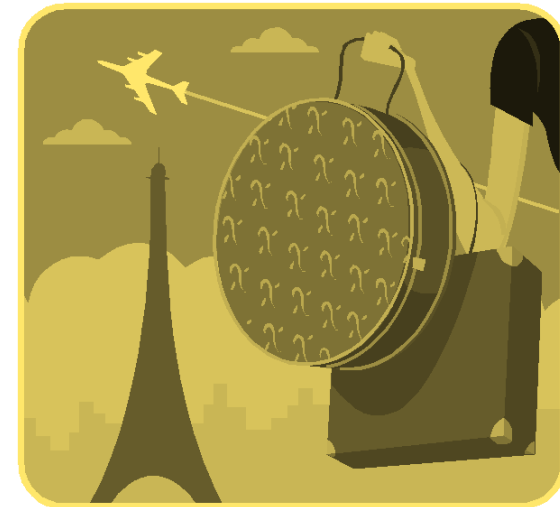
 Three steps for increasing your retirement savings (continued):

2. Postpone your retirement

- To accumulate more money
- To supplement your retirement

3. Increase contributions to your retirement account

- Putting more money aside now increases possibility of having more money later



== *Earnings* ==



- 💰 Your long-term goals are as important as your short-term goals.
- 💰 Most people fail to plan early enough for retirement.
- 💰 Work because you want to, not because you have to!
- 💰 Invest early and you can look forward to all of those years later in life.

== *Paid in Full* ==



- 👤 You have a good chance of living well into your 90s.
- 👤 Family history (heredity) accounts for about one-fourth of the factors affecting your life expectancy.
- 👤 Seventy-five percent are based on your personal lifestyle choices.
- 👤 Living financially independent will depend on your investment choices.

Handout 6.2.1 – Analyzing Your Retirement Needs

- 👤 Based on information included in the handout, what are some of the most significant factors that will affect your ability to meet your retirement needs?
- 👤 How can you benefit by thinking about your retirement at a very young age?

