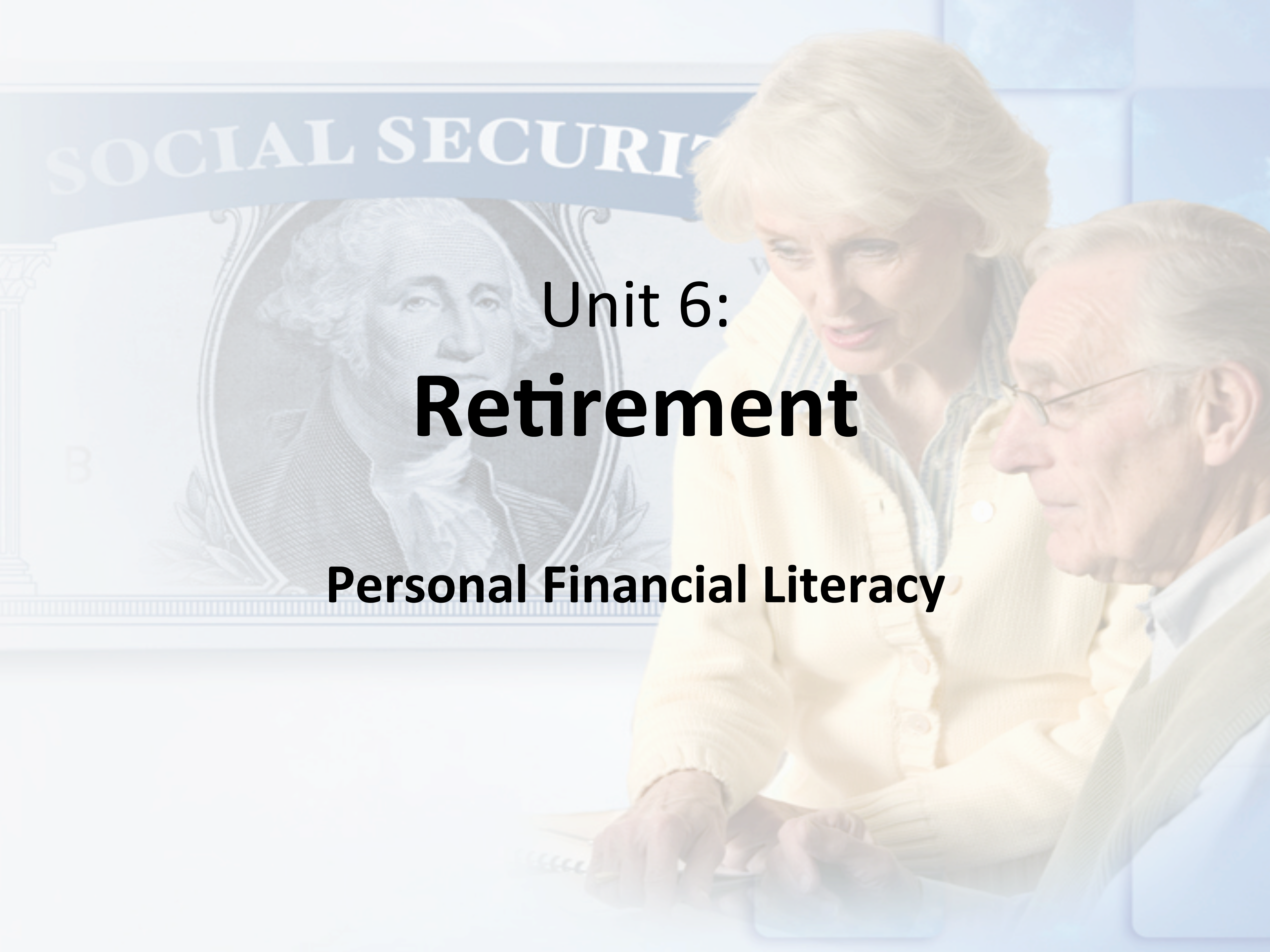


Unit 6:

Retirement

Personal Financial Literacy

Objectives

- Consider possible long-term investment needs.
- Discuss the function of Social Security and its role in retirement income.
- Examine how Social Security benefits are calculated.
- Discuss how life stages affect the appropriate amount of risk in investments.
- Describe various financial options for retirement planning.

Objectives - Continued

- Evaluate a Roth IRA as an investment option for teenagers.
- Critique 401(k) funds.

Retirement Planning NOW

- Compounding interest causes savings and investments to grow faster, the earlier you start!
- Consider how much income you will need to live on and how to make sure you have that income after you retire.
- A good financial plan includes goals for long-term needs.

You'll Need More Than You Think

- Today's dollar won't buy as much at retirement
- People are living longer
- Long-term care is expensive

Don’t Count on Social Security

- Growing senior population, longer life expectancy = limited financial reserves
- Government is increasing age to receive full benefits
- Born 1960 or later, full retirement = 67
- Reduced benefits at 62
- Wait until age 70 and benefits increase slightly.

SS Statement of Earnings

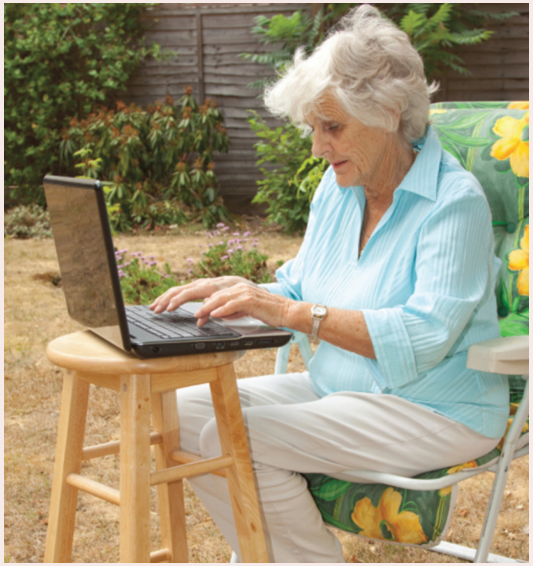
- Available upon request or sent automatically before birthdays
- Shows year-by-year earnings
- Check against your own records
- Shows how much you can receive at retirement or if you're disabled

Calculating Social Security

- SSA adjusts past earnings for inflation.
- Average highest 35 income years and divide by 12 = Average Indexed Monthly Earnings.
- Social Security benefit formula applied to average monthly earnings to come up with the benefit payable at full retirement age.

Life Stages and Investment Risk

- Investment risk should vary depending on your life stage
- Should diversify regardless of life stage



Defined Benefit Plan

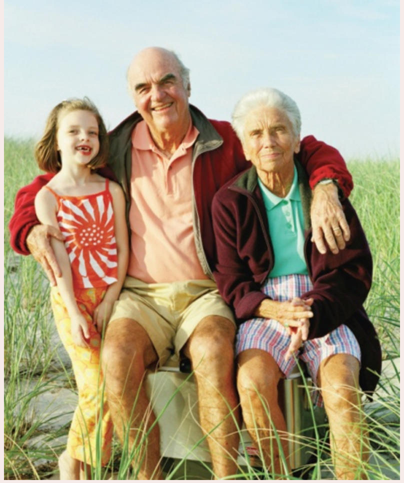
- Funded solely by employer
- Typically pays retirees a percentage of their monthly income , multiplied by years of employment

Defined-Contribution Plan

- Retirement account invested on employee's behalf
- At retirement, employee receives contributions plus any earnings from investment
- Employee and sometimes the employer make contributions

Pension Plans

- Pension Plan - retirement plan offered by employer
  - 401(k)
  - 403(b)
  - TSP
  - Simplified employee pension
  - Savings Incentive Match Plans for Employees



Annuities

- Not technically retirement plans
- Funded by employees
- No limit to contributions
- Have fees and charges
- Not guaranteed by the government or any financial institution

IRAs

- Retirement plan set up with your financial institution, insurance company, or brokerage
- Funded solely by your contributions
- May be tax-deductible
- Traditional and Roth

Roth IRAs

- Funded with after-tax dollars; no immediate tax advantage.
- Must be in place for at least five years before withdrawal

401 (k)

- Invested in stocks, bonds, mutual funds, etc.
- Maximum annual contribution in 2011: $16,500
- Roth version of 401(k) – contributions made with after-tax dollars; money free from federal taxes upon retirement
- Taxes are paid when you begin receiving distributions upon retirement

Borrowing from 401 (k)

- When you borrow from 401 (k), you pay back loan with after-tax dollars. You' ll pay tax on the money twice!
- Penalty applies when you take money out of a 401(k) before age 59-1/2
- One-time loan origination fee as much as $75

Unit Review

1. Discuss the importance of long-range planning for retirement.
2. Describe how Social Security benefits are calculated.
3. Explain why the Social Security system is in financial trouble.
4. How and why has the retirement age changed?

Unit Review - Continued

5. Describe what information you can get from a Statement of Earnings.
6. Discuss the effects of life stages on investment planning.
7. Compare and contrast defined-benefit plans and defined-contribution plans.
8. Distinguish between the investments designed for retirement planning.

Unit Review - Continued

9. What tax advantages do the 401(k) and traditional IRA share?
10. Compare a Roth IRA to a traditional IRA.
11. Discuss the benefits to a young investor opening a Roth IRA.
12. Explain why an employee should be concerned about vesting.
13. What are the advantages to saving and investing early for retirement? The consequences of waiting?

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