

## Financial Capability Curriculum



### Lessons On:

Savings | Credit | Loans | Financial Psychology  
Income | Risk Management | Insurance | Debt



**ETRENDS**

— GROUP —

Your Prosperity Advisor

# Introduction to Personal Finance

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# Evaluating Your Current Retirement Situation





# Evaluating Your Current Retirement Situation

In this unit you will gain an understanding of the importance of long-term planning. Within this instruction you will learn the importance of cash flow, personal financial plans, wills and trusts.

Exploration of money, lifestyle choices and relationships will help you proactively prepare for your financial future.



# Questions about Retirement

Even if you do keep working, your goal in this new retirement age is to have enough financial security to earn income doing something you enjoy and feel passionate about.

There are lots of compelling reasons to start your retirement plan as soon as possible:

- Have enough money to feel secure.
- Be able to work if it aligns with your passion.
- Be able to live the lifestyle you want to live.
- Be able to take care of your family.
- Rid yourself of the worries and stress that go hand-in-hand with bills and debt.
- Be free to do what you want when you want.
- Have independence and security.
- Be able to make a difference in the world.
- Freedom from worrying about having enough money to enjoy life.
- Be able to purchase things like toys or travel.

## Retirement Quotes

*“Retirement has been a discovery of beauty for me. I never had the time before to notice the beauty of my grandkids, my wife, the tree outside my very own front door. And, the beauty of time itself.”* Hartman Jule

*“I enjoy waking up and not having to go to work. So I do it three or four times a day.”*  
Gene Perret

*“Retirement gives us the freedom to spend our days following our passions and making a lasting difference in the world.”* Vince Shorb

*“The question isn’t at what age I want to retire; it’s at what income.”* George Foreman

*“It’s nice to get out of the rat race but you have to learn to get along with less cheese.”*  
Gene Perret

*“Retirement is like a long vacation in Las Vegas. The goal is to enjoy it to the fullest, but not so fully that you run out of money.”* Jonathan Clement

## Lesson Activity: Getting Off Course

Following is a list of the most common reasons people get into financial problems. Place a checkmark next to each area on the list where you feel you need to improve.

- Do not clearly define how much money you need to live the lifestyle you desire once you retire.
- Lack a clear financial plan.
- Do not have a trusted financial mentor, advisor, or coach.
- Poor financial choices due to the lack of financial knowledge.
- Lack the confidence they need to make necessary financial moves.
- Poor financial choices due to emotions. Fear and greed motivate most choices.
- Take advice from the wrong people. Most advice comes from unqualified salespeople and friends.
- Had a few problems that snowballed.
- Unrealistic expectations of investment returns.
- Do not invest properly due to lack of knowledge.
- Do not take advantage of employee benefit plans or tax laws.
- Continue with poor financial habits they developed at an early age.
- Do not properly plan their estate.

Many people will have quite a few checkmarks on this list. If you do, it's okay. You're taking the right steps by studying this material.

Now you know some ways people get off course. Let's talk about how to avoid these common pitfalls and stay on track with your dreams.

## Money and Emotions

Managing your money can be scary, exciting, worrisome, motivating, or stressful; but don't wear your heart on your sleeve. Responding to money emotionally could result in hasty decisions based on your emotions instead of on logic. Try to keep your emotions in check.

# Questions about Retirement

Before making a financial move, determine that you're making a decision for the right reason, not just as an emotional response.

Emotions make us do things that we wouldn't normally do. Have you ever liked someone so much that you did something risky to show off, or got so nervous that you put your foot in your mouth? That's because emotions block out logical thinking.

The biggest negative emotions that affect people when they make financial decisions are greed and fear. They want more money and at the same time are scared of losing what they have.

Your levels of happiness, sadness, and stress all have an impact on how you view your money situation and make decisions to change it. People who manage their money while carrying this emotional baggage make bad decisions more often than someone with a clear, relaxed, business-focused mind.

## Lesson Activity: Money and Emotions

List the emotions Cynthia may experience in each of the following situations:

SCENARIO	EMOTION(S)
Cynthia gets her 401K statement and it's gained 10% in one month.	
The next month, Cynthia's 401K statement shows a loss of 12%.	
Cynthia thinks she should move the money, but she's not sure what investment would be best.	
A friend tells Cynthia about a stock that's ready to shoot up. This friend knows someone who works for the company and is putting his entire savings into the investment.	
Cynthia pulls her money out of her investments and uses it all to buy the "hot" stock tip. It's down 35% this week ... but she's holding on.	

Now that you've identified the connection between your emotions and money, it's important to learn how to remain emotionally detached during financial decisions. Consider the following equations:

$$1 + 1 = 2$$

No emotional attachment.

$$1 + 1 + \text{stress, worry, fear} = -1$$

Fear will keep you from taking a risk.

$$1 + 1 + \text{greed, overconfidence} = 5$$

Greed will force you to take a risk that might not be wise.

## Lesson Activity: Financial Stress Indicators

Rank each of the statements below to gain a better understanding how your emotions may play a part in your financial decisions.

How do you feel about your current financial situation?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you make **small** financial decisions?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you make **large** financial decisions?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you think about retirement?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you talk to your loved ones about money?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

# Questions about Retirement

To lessen the impact emotions play on your financial decisions, consider the tips shown below. Check those tips that you choose to follow.

## STRESS REDUCTION TIPS

- Only invest with *risk capital* — that is, money you can afford to lose.
- Gain a high-level knowledge base about any investments you're considering
- Build a team of trusted advisors.
- Before making any decision, take time to evaluate it logically.
- Reduce the influence of emotions by partaking in an activity that reduces your stress levels. Weigh your options at times when your emotions have less impact — during exercise, prayer, meditation, deep breathing, a relaxing morning cup of coffee, or whatever method works for you to reduce your emotional response.

## Lesson Activity: Risk Tolerance

It's important to choose investments with which you are emotionally and financially comfortable. People have different levels of tolerance for risk-taking in financial matters. But with most investments, the greater risk you're willing to take, the greater the potential return.

Take the risk tolerance test below to give yourself a rough idea of the amount of risk with which you are comfortable.

1. You won \$20,000 in a contest. What do you do with that money?
  - a. You invest it all into a hot stock tip that you think will quadruple your money.
  - b. You decide to spread it across various investments that you feel can generate good returns.
  - c. You want to keep the money safe, so you put it into an investment that gives you minimal growth but cannot lose money.
  
2. You invested in a few stocks and now you're down 50%. Your account started at \$20,000; now you're at \$10,000. What do you do?
  - a. You let it ride and hope it goes up.
  - b. You sell and make other investments you believe will be better.
  - c. You sell and put the money into a safe investment that offers low returns but where you can't lose money.
  
3. In which of the following would you rather invest?
  - a. A stock where you can lose all your money but which has the potential for huge returns.
  - b. An investment where you can limit your losses, but your gains are likely to be average.
  - c. An investment where you cannot lose money, but you are making consistent, small returns each year.

For a more comprehensive risk tolerance test, visit [www.njaes.rutgers.edu/money/riskquiz](http://www.njaes.rutgers.edu/money/riskquiz) to take a quiz that was developed by two university personal finance professors: Dr. Ruth Lytton at Virginia Tech, and Dr. John Grable at Kansas State University.

# Questions about Retirement

## Lesson Questions

1. Which of the following is one of the compelling reasons to start retirement planning as soon as possible?
  - a. To indicate what will happen to my dependents if I should pass away.
  - b. To make sure I have adequate insurance coverage for all my properties.
  - c. To avoid feeling emotional about financial decisions.
  - d. To rid myself of the worries and stress associated with debt and bills.
  
2. What are the most common emotions influencing money decisions?
  - a. Greed and anger.
  - b. Love and disgust.
  - c. Fear and greed.
  - d. Trust and respect.

## Essential Questions

What is the new definition of retirement? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What are some important questions people need answered about retirement?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Retirement & Family

### Warm-up Activity

Is there one person in the world to whom you tell everything?

Yes  No

If yes, who is that person? \_\_\_\_\_

Would you give that person complete access to your finances and your financial plans?

Yes  No

Why or why not? \_\_\_\_\_

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### Relationships and Money

It's important to understand how personal relationships and communication affect money. Follow the directions provided by your instructor to use the graphic to answer each of the questions:

Rate your level of communication with your family.

1 2 3 4 5 6 7 8 9 10

Nonexistent

Excellent

Rate your level of communication with your spouse or significant other.

1 2 3 4 5 6 7 8 9 10

Nonexistent

Excellent

Money issues often cause disagreements in relationships. Many couples and families have issues around discussing finances, and have trouble being open with each other about their spending/saving habits.

Family and other loved ones can greatly affect your long-term financial planning, for example:

- You might have to take care of a parent;
- Your decision whether to have children affects your finances;
- Your loved ones' lifestyle choices have an impact on your finances.

## DISCUSSION POINTS FOR FAMILIES

- Do your parents and loved ones have a plan to take care of their own retirement, or ...
- Will you be taking care of them?
- Do your parents or loved ones have health care coverage?
- Do your parents or loved ones have long-term care insurance?
- Can they afford to pay for assisted living on their own, or ...
- Will they need to live with you?
- Do your parents or loved ones have enough funds to pay for their funerals?
- Do your parents or loved ones have a will or living trust in place?
- Is each sibling clear about his/her responsibilities if a parent or loved one passes?

Money is a leading cause of divorce, so it's important to discuss financial matters with your significant other as part of getting to know each other.

- Learn about each other's financial goals. If you're much more frugal than your partner, he/she may have an issue with you saving money. On the other hand, you may have an issue with your partner spending excessively.
- Make sure you ask any new partner about his/her credit history and debt situation.
- Observe a new partner's spending habits. For example, is he always buying things he doesn't need? Is she really cheap? Or is he/she somewhere in the middle? Considering these factors is very important.
- Share and learn about your partner's savings and investments. Ask about any major expenses he/she is planning.

## Homework Activity: Financial Communication Game

Play the **Financial Communication Game** with your spouse or a loved one – anyone who may have an impact on your personal financial situation. Follow these guidelines:

1. Before starting the game, make sure you're currently on good terms and are both open to communicate. If you had a recent argument or if there's tension in the air, wait to play the game. Also, if you are seeking counseling, work with your counselor to facilitate the game.
2. Together, brainstorm your financial and retirement goals. Initially, write down every thought. Just write – do not judge.
3. Once each of you has put ideas on paper, discuss each one together. Prioritize and list them in order of importance. You will disagree on some items. If, after a minute or two, you are unable to reach consensus, mark that item for later discussion.
4. During the game, be sure to remind each other that you're doing this because you care about each other. That will help you stay on course.
5. This game typically requires multiple meetings and planning to ensure proper alignment.

## Lesson Questions

1. What is the leading cause of relationship problems?
  - a. Infidelity
  - b. Children
  - c. Money
  - d. Cooking
2. What financial issues should you discuss with your partner/spouse/significant other?
  - a. Each other's credit and debt history.
  - b. Your plans for major expenses in the future.
  - c. Your financial goals.
  - d. What savings and investments you have.
  - e. All of the above.



## Retirement Income & Net Worth

### Warm-up Activity

When I retire, I expect to receive income from the following sources:

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### Retirement Income Sources

For people who seek financial freedom, planning a retirement budget is essential. The first step in the process is to identify any future income sources you will use to fund your retirement. Then you can adjust your expenditures based on your lifestyle goals and income. Below is a list of potential retirement income sources.

#### 1. Social Security

Social Security is a retirement benefit offered at age 62 and older. If you start claiming SSI at age 62, your benefits will be about 30% less than if you wait until age 67. If you wait until age 67, you qualify for full payments. In 2012, a worker who retired at age 66 received a maximum check of about \$2,500. Get an individualized benefit estimate at the Social Security website <http://www.socialsecurity.gov/estimator/>.

SSI benefits are likely to be significantly reduced in the future. Estimated benefits are based on current law, and the law governing benefit amounts may change. By 2033, the payroll taxes collected will be enough to pay only about 77 cents for each dollar of scheduled benefits. Although SSI suggests using 77 cents to calculate potential benefits, that figure might represent the “best case scenario.” Ideally, you should avoid depending on SSI benefits when you plan retirement income.

#### 2. Pensions

A pension is a type of retirement plan that provides people with an income after they retire. Pensions come in various forms; either defined benefit or defined contribution. A defined contribution distributes income depending on the employee’s contribution and investment performance. A defined benefit provides retirement income based on an employee’s salary and number of years in the plan. A hybrid plan combines features from both.

## 3. Assets

Compared to Social Security and pensions, you have much greater control over your assets. An asset is something of monetary value under your control that you expect will provide future benefits to you and your family. Examples of assets include stock holdings, IRAs, home equity, bonds, treasury notes, rental properties, precious metals, and mutual funds.

Asset income may come from interest, rental payments, royalties, and dividends. You also can sell assets to generate income.

## 4. Annuities

Annuities are insurance products that pay income to investors. Annuities are commonly used as an income source at retirement.

Investors can set up an annuity to provide income for a specific period of time, usually their expected lifetime. Annuity income depends on investment, length of payments, performance, and type of annuity. There are two common types:

**Fixed income** provides a guaranteed payout;

**Variable income** is determined by performance of the underlying investments.

## 5. Employment

Continued employment is another potential source of retirement income. Some retirees choose jobs that provide medical benefits to reduce health insurance costs. To achieve true financial freedom, you want to be in a position where you don't *have* to work, but *choose* to work.

If you decide to work after retirement, try to find a job that aligns with your passions and strengths – fulfilling work that fits your lifestyle goals.

## 6. Entrepreneurship

Entrepreneurship is an investment of time, energy, and money which can yield excellent returns. While it's not for everyone, working for yourself can be rewarding and lucrative. Creating a business around your passions might provide a few hundred dollars of supplemental income, or become your main income source. Your own business can be a fun project to help you stay active. At the end of the day, we're all business owners. We're in the business of building brighter and better futures for ourselves.

Starting a business is an investment, and you must manage risk. Don't invest more than you can afford to lose.

## Lesson Activity: Retirement Income

Estimate your retirement income from each source. If you don't know exact amounts now, just make your best estimate, and do further research on your own to get accurate figures. Then add up the figures to project your total income at retirement.

Lesson Activity: Retirement Income		
Estimate your income at retirement age.	Social Security	\$ _____
For any area about which you're unsure, just try to make your best estimate.	Assets	\$ _____
	Annuities	\$ _____
	Employment	\$ _____
	Entrepreneurship	\$ _____
	Other	\$ _____
Total Estimated Income at Retirement		\$ _____

## Net Worth

When you build up a large enough net worth to live your desired lifestyle, you can live life on your own terms. Net worth is the measure of your net economic position.

You can calculate your current net worth by totaling your assets, then subtracting your liabilities.

Assets	(investments, real estate, savings, etc.)
<b>LESS</b>	Liabilities (debt, liens, etc.)
<b>EQUALS</b>	Net Worth

For example, let's say you have \$65,000 in savings but you owe \$6,000 on personal loans and have credit card debt of \$10,000.

In this example, your net worth would be \$49,000.

\$ 65,000
- 6,000
<u>- 10,000</u>
\$ 49,000

Visit [www.financialeducatorsCouncil.org/calculator/access/NetWorth.html](http://www.financialeducatorsCouncil.org/calculator/access/NetWorth.html) to access the NFEC's Net Worth Calculator.

Net worth is important to give you a good idea of your financial starting point.

The chart of **Assets and Liabilities** on the next page provides examples of assets and liabilities that are important to consider.

## ASSETS

**Home.** Use the current value of your home to calculate its worth as an asset.

**Other Real Estate.** The value of any other real estate you may own.

**Automobiles.** The total value of all automobiles that you own. Do not include leased vehicles.

**Metals.** The value of gold, silver, or other precious metals in your possession.

**Retirement Accounts.** The current total balance of your retirement accounts. Include IRAs, 401(k) savings, SEP IRAs, variable annuities, and any other retirement savings accounts.

**Bonds.** If you own any Treasury, municipal, or commercial bonds that are not part of your retirement accounts, include them in the Assets column.

**Stocks.** Any individual stocks that are not part of your retirement accounts.

**Mutual Funds.** Any mutual funds that are not part of your retirement accounts.

**Cash Value of Life Insurance.** Some life insurance policies, such as whole life and universal, have cash value. Term life policies, on the other hand, have no cash value.

**Savings Bonds.** Count any savings bonds that are not included in your retirement accounts as assets.

**Checking and Savings Accounts.** The current total balance of your checking and savings accounts.

**Cash.**  
Include any cash on hand.

## LIABILITIES

**Home Mortgage Principal.** This is the current principal balance remaining on your mortgage — that is, the amount you would have to pay to own your home free and clear.

**Other Mortgage Principal.** The current principal balance for any other real estate mortgages you have. Include mortgages on rental property, undeveloped land, commercial property, or any other real estate.

**Credit Card Debt.** Your total credit card debt.

**Auto Loans.** Total amount currently outstanding on your auto loans.

**Student Loans.** Total amount, if any, that you currently owe in college or student loans. Enter the total outstanding amount even if your student loans are currently deferred.

**Other Loans.** Total amount of any other loans.



## Lesson Questions

1. To what level are Social Security payments predicted to drop by the year 2033?
  - a. 10 cents on the dollar.
  - b. 50 cents on the dollar.
  - c. 77 cents on the dollar.
  - d. 85 cents on the dollar.
  
2. What is net worth?
  - a. Total assets minus total liabilities.
  - b. Checking balance minus savings balance.
  - c. Annuities minus bonds.
  - d. Mortgages plus cash on hand.
  
3. A mutual fund is an example of a(n)..
  - a. Principal
  - b. Debt
  - c. Liability
  - d. Asset

## Essential Questions

What are four potential sources of retirement income

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

How is a person's net worth calculated?

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## Retirement Planning & Taxes

### Warm-up Activity:

Do you think the tax rate will increase or decrease over the next ten years?

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Explain why you think the tax rate will increase or decrease.

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### Retirement Planning

Retirement planning should include tax planning as a critical component. Many financial products and strategies exist to help you retain more of the money you earn. Some investments that may provide tax benefits include 401K plans; IRAs; home ownership; starting a business; and municipal bonds. Here are two important points to consider:

1. Do not base your entire financial plan on the current Tax Code. The Tax Code can change at any time, and politicians are regularly trying to adjust the code.
2. Find a highly qualified tax planner.
  - Locate a tax planner who's available for year-round questions.
  - Before you make any financial decisions, always consult your tax advisor.
  - It is also suggested that you connect your financial team with your tax planner so your entire team is in the loop on your financial decisions.

There are financial products and strategies that allow you legally to pay fewer taxes, and locating a qualified tax planner is essential to your long-term success. A good tax planner will

help you use tax laws to your advantage and play an instrumental role in your overall financial team.

Even once you've established a relationship with a tax planner, there are four pieces of information from the Tax Code that are critical for you to know about:

1. **INTEREST.**

Typically, interest earnings that can be derived from a savings account, bond, CD, and other types of interest-bearing investments are taxed as ordinary income.

2. **CAPITAL GAINS.**

Profits from the sale of a property or investment are called capital gains and will be taxed. Assets held less than 12 months are usually taxed as ordinary income, while assets held over 12 months are usually taxed at a 15% federal income tax rate.

3. **PRIMARY RESIDENCE.**

If you sell your home, you may be able to avoid a capital gains tax.

4. **DIVIDENDS.**

Currently, income derived through dividend-paying stocks is taxed at 15%; however, many political leaders are calling for this tax to increase.

All tax policies can change at any time and this course is for educational purposes only; not specific tax advice. That's why it's critical for any individual to have a trusted and highly-qualified tax planner.

## ▀ Tax Benefit Plans

There are three types of tax benefits offered through investments: tax-deferred, tax-deductible, and tax-free.

1. **TAX-DEFERRED.**

Taxes are paid later with tax-deferred investments. You are able to invest the money that the government would have taxed. This can improve your overall returns. Tax-deferred investments can include 401(k) plans, 403(b) plans, and IRAs. With tax-deferred plans, you will not pay taxes until you withdraw the money. For some, this may provide an extra benefit if the tax rate you pay at retirement is less than your current tax rate.

2. **TAX-DEDUCTIBLE.**

This feature allows a person to deduct the amount invested from their gross income, lowering a person's overall tax liability. Tax-deductible investments can include 401(k) plans, 403(b) plans, Simplified Employee Pension Plans (SEP), Keogh, and IRAs.

### 3. TAX-FREE.

Tax-free investments provide returns that are free from federal income tax and, in some cases, state tax. Roth IRAs, municipal bonds, and 529 plans – assuming monies are used for schooling – are all examples of tax-free investments.

## Qualified Retirement Plans (Pension Plans)

Employee-sponsored retirement plans (or pension plans) can help people reach their retirement goals. A “qualified” retirement plan (or pension plan) is for employees (and/or their beneficiaries), and is eligible to receive certain tax benefits from the IRS. There are two types of qualified retirement plans:

1. **DEFINED CONTRIBUTION PLAN** provides an income source that depends upon the employee’s contribution and investment performance. The money in the plan is tax-deferred and the employee often has some control over how much he/she contributes and where the money is invested.
  - The money in the plan is tax-deferred.
  - Benefits are based on the amount contributed by employee and any gain, loss or expense.
  - Participants have their own individual accounts and often have to make the investment decisions. Participants have some control over how much they contribute; however, there are some guidelines they must follow. They also have control over their investment performance.
  - Participants do not receive a guaranteed retirement benefit. Rather, the benefit depends on their contributions and investment choices.
  - Mandatory distributions start at age 70½.
2. **DEFINED BENEFIT PLAN** provides income at retirement typically based on the employee’s salary and the number of years they were involved with the plan. These plans are professionally managed and the employee has no control over the investments. These plans provide tax-deferred savings.
  - The employer provides the retirement benefits.
  - These plans provide tax-deferred savings.
  - The plan is professionally managed, and may be insured through Pension Benefit Guaranty Corporation (PBGC). PBGC insured pensions for 44 million Americans and benefits for 1.5 million whose pensions failed (according to their website in 2012).
  - Participants do not select the investments made.
  - Participants may or may not need to contribute monies, depending on the plan.
  - Plan benefits are often calculated based on participant’s salary and years of employment.

- Participants typically receive benefits in accordance with their vesting. Vesting is the amount of time necessary to receive benefits; vesting requirements differ from plan to plan.
- Participants do not have an individual account in their name.
- Some plans offer inflation adjustments.
- Typically, participants cannot receive lump sum payments.
- Benefits are typically not payable until the participant reaches retirement age; mandatory distributions start at age 70½.

Although not a third type *per se*, there are also hybrid plans that combine features from both defined contribution and defined benefit plans.

## ▀ FYI – Investment Vehicles

You probably have already heard about IRAs and 401(K) plans. Here's a quick FYI on what you need to know. You can also refer to the table for a summary of the various types of investment vehicles and their features.

### 401(K) Plan

A 401(K) is an employer-sponsored retirement plan in the United States and some other countries which allows a worker to save for retirement while deferring income taxes on the saved money and earnings until withdrawal.

### Individual Retirement Account (IRA).

An IRA is a retirement plan account that provides some tax advantages for retirement savings in the United States. There are a number of types of IRAs, which may be either employer-provided or self-provided plans. The types include:

- A **ROTH IRA** differs from most other IRAs. Contributions are made with after-tax assets, so all transactions within the IRA have zero tax impact and the withdrawals are tax-free.

For example, if you wanted to invest \$1,000 of your earned income, and you are in a 20% tax bracket, you would have \$800 to put toward your Roth IRA. Assuming you invest this amount for 5 years, that would give you a total investment of \$4,000. Over 20 years at 10% return (a higher-than-average return used for ease of math), your investment would grow to \$26,909 of tax-free money. You could withdraw that and have the entire \$26,909.

- A **TRADITIONAL IRA** often has tax-deductible contributions so the money is taxed only when it is withdrawn at retirement.

# Current Retirement Situation

With a traditional IRA you're able to invest pre-tax dollars, so you would invest the entire \$1,000 of your earned income. If you invest this amount for 5 years, that would give you a total investment of \$5,000. As in the example above, if you keep your investment over 20 years at 10% return, your investment would grow to \$33,736. However, you would be required to pay taxes on this amount. Assuming you are in the 36% tax bracket, you would net \$21,527.

	Simple IRA	401(K)	430(B)	Roth IRA	IRA
<b>Tax Benefits</b>	Tax-deferred growth and pre-tax contributions.	Contributions are pre-tax; distribution taxed as ordinary income.	Tax-deferred growth and pre-tax contributions.	Tax-free growth and withdrawals.	Tax-deferred growth.
<b>Eligibility</b>	Participant has min of \$5,000 earnings in any two preceding years, and is expected to earn \$5,000 in curr year.	Some income limits.	Designed for employees of public schools and tax-exempt orgs. like hospitals, public welfare orgs., etc.		
<b>Contribution</b>	Up to 100% of compensation with limits of \$11,500 (\$14,00 if over 50).	401(K) and Roth 401(K) combined with a limit of \$17,000 each year for those under 50. Restrictions also apply to the combined employee/ employer contributions.	Varying amount limitations; cannot exceed 100% of annual compensation. Those over age 50 can make additional contributions.	2012 max of \$5,000 (\$6,000 over age 50); not tax deductible. Contributions made with after-tax monies.	2012 max of \$5,000 (\$6,000 over age 50). Tax deductibility depends on MAGI (Modified Adjusted Gross Income).
<b>Important Dates</b>	Must wait two years before making any moves (rollover, withdrawal, etc.)		Immediately vested with their own contributions.	Deadline April 17 <sup>th</sup> .	Deadline April 17 <sup>th</sup> .
<b>Withdrawal</b>	Tax-deferred investment. Investor pays taxes at withdrawal.	Tax-deferred investment. Investor pays taxes at withdrawal.	Tax-deferred investment. Investor pays taxes at withdrawal.	Contributions are withdrawn tax-free. Earnings federally tax-free after 5-yr aging requirement and one other condition: 59½; qualified home purchase; disability; or death.	Withdrawals (contributions and earnings) are taxable when distributed.
<b>Penalties</b>	If under age 59½, 25% penalty for distributions made within first 2 yrs, reduced to 10% after two years.	10% early withdrawal penalty with exceptions. Principle withdrawal not allowed.	10% early withdrawal penalty with exceptions before age 59½.	10% unless exception applies: 5-year aging; 59½; qualified home purchase; disability; or death.	Withdrawal before 59½ may receive 10% penalty.
<b>Minimum Distribution Requirements (MDR)</b>	Age 70½.	Age 70½.	Age 70½.	N/A	Age 70½.

## Lesson Activity: Retirement Planning

Think about what you would like your future financial life to be like. Write down what you would like or where you would like to be in each stage of your life below. Look at the samples to help you, and listen to the instructions provided by your instructor.

Start the activity at your current age range. Your first age range should be the most detailed.

### GUIDELINES

**Investments:** Write about the type of investments that interest you, and how much time you will devote to study.

**Net Worth and Cash Flow:** Indicate how much you will have (net worth), and how much money will come from cash flow.

**Lifestyle:** List things you will have; things you'll experience during this time; how you feel about your money situation; and how you picture your day-to-day life.

### SAMPLE: BETWEEN AGES 40—50

**Investments:** *My main investment will be in my education. I will begin to study about the investments I am interested in making and building a team that can advise me. I also plan to increase my savings by \$200 each month by reducing my expenses.*

**Net Worth and Cash Flow:** *By the time I reach 46, I want to have \$30,000 saved and invested. I also will have my employer-sponsored retirement plan fully funded each year.*

**Lifestyle:** *I will stay focused on doing what I know I like now – travel, meeting new people, experiencing new cultures. I will pay for these activities by reducing my overhead and expenses on areas that aren't as important to me.*

## BETWEEN AGES 21—30

Investments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Net Worth and Cash Flow: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Lifestyle: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## BETWEEN AGES 31—40

Investments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Net Worth and Cash Flow: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Lifestyle: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## BETWEEN AGES 41—50

Investments: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Net Worth and Cash Flow: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Lifestyle: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## BETWEEN AGES 51—60

Investments: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Net Worth and Cash Flow: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Lifestyle: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Lesson Questions

1. What are capital gains?
  - a. A portion of one's gross annual employment income.
  - b. One's net worth minus investments.
  - c. Profits from the sale of a property or investment.
  - d. A tax advantage on a defined benefit plan.
2. Which type of qualified employer-sponsored pension plan allows participants control over how their money is invested?
  - a. Defined contribution plan.
  - b. Defined benefit plan.
  - c. Municipal bond.
  - d. Guaranteed retirement benefit.
3. Which type of Individual Retirement Account (IRA) has zero tax impact when the money is withdrawn?
  - a. Defined benefit plan.
  - b. Self-directed IRA.
  - c. Roth IRA.
  - d. Traditional IRA.

## Essential Questions

What are the four basic concepts in the tax code with which I should be familiar?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

What are the three types of investment tax benefits?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

What are the two primary investment vehicles for retirement income?

1. \_\_\_\_\_
2. \_\_\_\_\_

