LifeSmarts Lesson: Retirement Planning
Activity: You're the Expert *KEY*

Scenario 1: Lucinda and Tom
Lucinda and Tom are 35. Lucinda works as an administrative assistant at a large company. Tom has seasonal work as a construction worker. Lucinda has access to a 401(k) at work, but so far she has not contributed to it, even though there they will match 3% of her salary if she does. Tom does not have any retirement savings options through his work. Lucinda and Tom love to travel and eat out. The only debt they have is their monthly mortgage payment and car payment, which they are able to pay each month. However, they have no savings at all. They plan to retire at age 62 and live off of Social Security and hope to continue their current lifestyle.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
   - Living within their means
   - Able to pay monthly bills on current income
2. Name two things this client is doing that harm their financial outlook:
   - Not saving, either for emergencies or for retirement
   - Missing out on the 3% match on contributions to Lucinda's 401K
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
   - Lucinda should begin saving through the 401(k) offered at work and contribute enough to earn the full employer match
   - Tom should explore saving for retirement through an IRA or other investment
   - Together they should plan for retirement and take a realistic look at their lifestyle and what Social Security income in retirement will cover

Scenario 2: Brianna
Brianna works in the tech industry, where she constantly watches for her next job opportunity. She has been working for seven years since graduating from college, and the longest she has been at one company is 18 months. At her last job she put money into her 401(k) every pay period and received the full employer match, which equaled 3.5% of her salary. However, Brianna left before being vested in her employer's retirement plan, so lost the amount her employer had contributed. She decided to cash out the $5,200 she had invested in her 401(k) and put that money toward a new car. Because she only got to take the money she had invested when she left her former employer, she doesn't think it's worth it to put money into an employer plan at her new job. She will use that money instead to pay off her credit card in the next two years. In the last several years, she has traveled to seven weddings and now has$15,000 in credit card debt from those trips. She has less than $3,000 in short-term savings and no retirement savings of her own. Her paycheck comfortably covers her regular expenses. She often eats out after working late.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
    a. Her income covers her regular expenses
    b. She has begun the habit of saving for retirement
    c. She has short-term savings
2. Name two things this client is doing that harm their financial outlook:
    a. Cashing out her 401(k) to buy a car means she had to pay penalties and taxes, and no longer has savings for retirement
    b. She left her job without being able to take the employer match
    c. She is carrying significant credit card debt
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
    a. Open an IRA to save for retirement on her own
    b. Increase her savings outside of retirement so that she can afford to travel and go to weddings, and so that she does not have to use retirement savings for a large purchase or an emergency

Scenario 3: Alex
Alex is 25 and works as a home health aide. He is paid "under the table" in cash every week, and neither he nor his boss is paying into Social Security on Alex's behalf. His boss pointed out that they both benefit from this arrangement – ordinarily both the boss and Alex (through payroll deductions) would contribute 6.2% of Alex's pay toward Social Security. Because they are not contributing to Social Security, Alex's boss claims he can pay Alex more, plus Alex doesn't have to make his own payroll tax contribution, which makes his take-home pay even higher. Alex enjoys his income and the cash in his pocket, and he believes he is too young to worry about Social Security. However, his parents are concerned that he is not building a work history that will count toward Social Security and that he is not saving any money toward retirement on his own, either. They also worry that he could get in trouble if he doesn't pay taxes, including Social Security taxes, on his income. His monthly bills are minimal and he has no problem paying them. He does some landscaping for friends and family on the side in the summer and they pay him in cash as well. This nearly doubles his income for five months a year. Alex saves about $300 a month ($750 in the months he does landscaping) to put toward the food truck business he plans to buy in the next five years. Since he has no earnings "on the books" he does not qualify to open an individual retirement account.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
    a. Alex is able to save money every month
    b. He works two jobs in the summer for extra income
2. Name two things this client is doing that harm their financial outlook:
    a. Neither Alex nor his boss is paying into Social Security on Alex's behalf
    b. Alex is not saving any money for retirement
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
    a. Look for a full-time traditional job where Social Security taxes are paid, both by him and by his employer
    b. Once he has earnings that he is reporting on his annual tax form he should open an IRA to save for retirement on his own

Scenario 4: Destinee
Destinee is 23. She graduated from college last summer and has begun working at a local company. Her employer offers a 401(k) with a 4% employer match, but Destinee's priority is paying off her student loans, so she is not contributing to the 401(k). Her mom said Destinee can live at home for a few years to save money on expenses. With no housing expenses and good public transportation options to get to work, Destinee is paying extra toward her student loan debt and plans to have it paid off by age 30. She figures when her student loan is paid off she can move out on her own and also start saving for retirement. She is putting $100 a month into a savings account at her local bank.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
   a. She has very low living expenses
   b. She is in the habit of saving money every month
   c. She is paying off her student loan debt
2. Name two things this client is doing that harm their financial outlook:
   a. By waiting until age 30 to start saving for retirement, Destinee is missing out on the magic of compound interest working for her during the next seven years
   b. She is missing out on her employer's match by not contributing to the company's 401(k)
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
   a. Save through the 401(k) plan offered by her employer
   b. Put enough into the company's 401(k) to receive the full employer match

Scenario 5: Connor
Connor knows he is lucky to work for an employer that offers a 401(k) and matches 50% of contributions up to $250 per pay period. Right now, he is setting aside $100 per pay period for his 401(k). Connor doesn’t have a car, and he is trying to save up to buy a used one. He is putting $200 per pay period into savings for that purpose. He does not have other savings. He received a $1,000 bonus this year and used it to create an IRA for himself. His plan is to put any future bonus into the IRA. He is good about living within his means, but he knows he could also save more by cutting down on discretionary spending like travel.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
    a. Lives within his means
    b. Saves money every pay period
    c. Used his bonus to open an IRA
    d. Has 401(k) and receives some employer match
2. Name two things this client is doing that harm their financial outlook:
    a. Leaving money on the table by not receiving the full employer match in his 401(k)
    b. Savings earmarked for the purchase of a car, no emergency savings
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
    a. Put more money into his employer’s 401(k) to receive the full employer match
    b. Consider regular contributions to his IRA
    c. Begin building emergency savings

Scenario 6: Franklin
Franklin is 64 and retired. He had liked his job and planned to work until at least age 67. But when his older brother retired due to health issues, Franklin abruptly decided to retire, too, so the two of them could spend time together. Franklin began drawing Social Security at age 62. He had not saved for retirement on his own and he didn't have a 401(k) at any of his former employers. Franklin can pay his regular bills and expenses with his Social Security income. He had $5,000 in savings when he retired, but he has dipped into that to pay for car repairs. He has $3,200 left. While he is enjoying having more time with his brother, Franklin misses the routine work provides and he's worried about his dwindling savings. He has started looking for a part-time job.

Possible answers include:

1. Name two things this client is doing well in managing their finances:
    a. Social Security covers his regular bills and expenses
    b. He had some savings when he retired
2. Name two things this client is doing that harm their financial outlook:
    a. Using savings to pay for larger bills such as car repair
    b. Took Social Security at age 62, permanently reducing his benefit
3. Based on what you have learned in this lesson, provide two specific pieces of advice you would give this client for their retirement planning:
    a. Go back to work, either full-time or part-time, to be able to cover emergency expenses while increasing savings
    b. Consider if there are ways to reduce expenses