

Retirement Planning

Mapping out your financial security in retirement

Presented by LifeSmarts, consumer education for teens



LifeSmarts

Learn it. Live it.



LifeSmarts is a program of the National Consumers League

A hand is shown drawing on a piggy bank with a pen. The piggy bank is white with a red flower design. Several coins are scattered around the piggy bank. The background is a teal color with a faint image of a hand holding a coin.

Financial Planning

Financial planning helps you determine your short- and long-term goals, and helps you create a plan to meet those goals

Retirement planning is a key component of your overall financial plan



What Does Financial Security Look Like in Retirement?

Having confidence that your income will cover your expenses in retirement, and that you can live the kind of life you want when you are no longer working



Retirement?

I'm 17, why should I care now?

The Big Question

How much money will you need when you retire?

Three factors to consider:

- What lifestyle do you want in retirement?
- What expenses will you have that you don't have today?
- How many years will your savings need to last?



What Are the Dangers of Not Planning Ahead?

- You may not have enough money to live on or to continue doing the things you want to do
- You may outlive your retirement savings

Retirement Planning

The process of determining retirement income goals and establishing a plan to meet them. This includes estimating expenses, saving money, and deciding how to invest your savings.

The Stool Analogy

Think of retirement planning like a stool. It takes three legs to make a stool stable.

- Social Security
- Employer-sponsored retirement plans
- Saving and investments

A hand is shown putting a coin into a piggy bank, while another hand holds a coin. The piggy bank is surrounded by many coins on a wooden surface. The entire image is overlaid with a teal color.

Social Security

The First Leg of the Stool

Social Security

A long-standing federal insurance program to provide benefits to older adults, their survivors, and workers who become disabled

What are the basics of Social Security?

- Mostly a retirement program
- People contribute with every paycheck
- Amount of the benefit is related to average earnings over a lifetime
- Can start receiving retirement benefits at age 62
- Size of the benefit increases with every month delay claiming
- Not meant to be sole income in retirement – on average equals only 40% of pre-retirement income

What else does Social Security do?

- Provides benefits for:
 - People who can no longer work because of severe illness or disability
 - Spouses and dependent children of workers who die or become disabled
- Payments for life that are indexed to inflation

**Will it be
there for
you?**

YES!

As long as people are working and paying into the program, benefits will continue to flow. But changes are needed in the long term to make sure that there is enough money to pay all scheduled benefits.



Employer-sponsored retirement plans

The Second Leg of the Stool

Pension

Employer-sponsored retirement plans that guarantee a monthly benefit for life

401(k)

Employer-sponsored retirement savings accounts that offer tax benefits
(meaning that you pay less in taxes by saving your money in them)

Employee contribution

Money contributed by an employee to an employer-sponsored retirement savings account such as a 401(k)

Employer match

Money an employer contributes to an employee's retirement savings plan when the employee also contributes

With a 401(k), you:

- Decide how much to contribute
- Select investments from those offered in the plan
- Usually pay penalties if you take out the money before retirement

A teal background with a faint image of hands holding several US dollar bills. The text is overlaid on this background.

Personal Savings and Investing

The Third Leg of the Stool

Vocabulary

Saving

Setting aside income or money for future spending

Investing

Putting money into an asset (such as a stock, bond, or mutual fund) with the expectation that it will grow over time, but with the risk that it will not

Individual Retirement Account (IRA)

Tax-advantaged retirement savings accounts that are established by individuals rather than employers

Compound interest

Interest that is calculated and paid on both the initial principal and the accumulated interest

What is compounding?

Let's look at an example where savings are compounded monthly

SEPTEMBER

You put in \$100

Your mom puts in 10% of \$100
= \$10

New total = \$110

OCTOBER

You put in \$100 → \$210 in account

Your mom puts in 10% of \$210
= \$21

New total = \$231

Regular vs. Compound

REGULAR INTEREST

If your mom pays interest only on your contributions, you would have **\$220** after two months.

COMPOUND INTEREST

By your mom paying interest on the account balance at the end of each month, you have **\$231** after two months.

**After nine months:
\$990 vs. \$1,493**

Another example

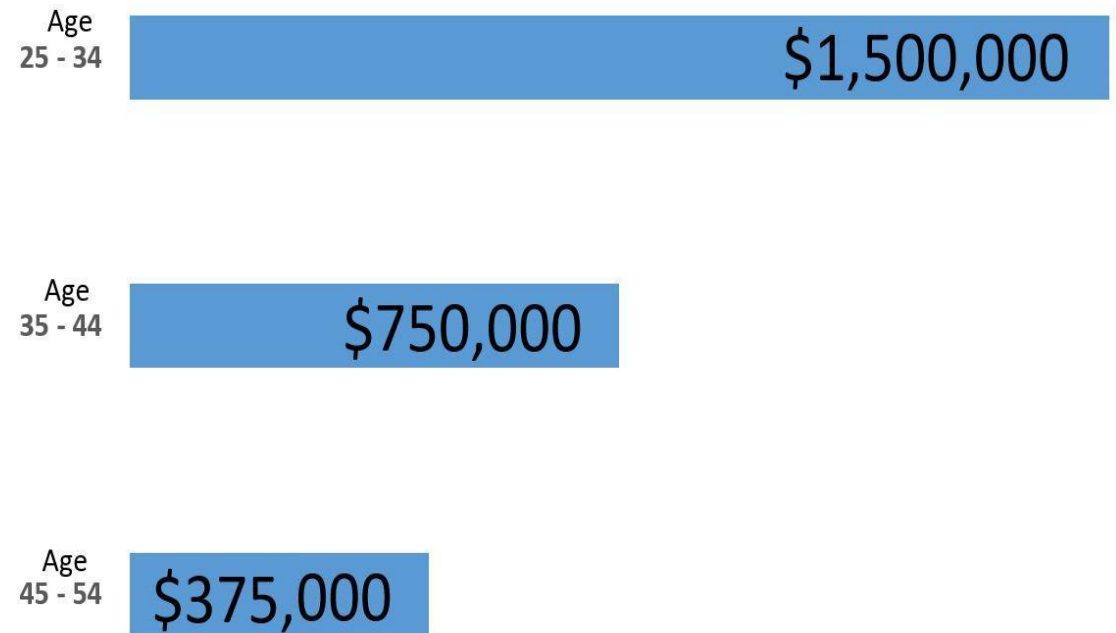
Saving for retirement
for only 10 years

- You invest \$1,000/month for 10 years (total invested: \$120,000)
- The compound interest rate is 7% annually
- The balance you will have at age 65 depends on when you started saving
- How much does getting an earlier start matter to the bottom line?

**Starting
early makes
a big
difference**

**You could be a millionaire by age 65
by saving \$1,000 a month for 10
years**

But only if you start young



Other savings

Saving outside of
retirement accounts

Saving money for you to spend in the near future is also important to building up retirement savings!

Financial experts call this your “emergency fund”

Emergency fund

Money saved to help cover unexpected expenses

Pay Yourself First

The idea that consumers should routinely and automatically put money into savings before spending on anything else



Key takeaways

Retirement planning takes work, and there are tools to help



Takeaway #1

Social Security will provide a foundation for your retirement income with benefits that last a lifetime and grow with inflation.




Takeaway #2

Social Security is not enough—it is critical that you also save for retirement. Remember the stool—in addition to Social Security take advantage of employer-sponsored retirement plans and make it a priority to save and invest your own money.



Takeaway #3

By starting to save early you can take advantage of the “magic” of compound interest. Albert Einstein famously said, “Compound interest is the greatest mathematical discovery of all time.”



This is About Your Future

How great will it feel financially security when you stop working? Start planning now to make sure you are able to live the life you want in retirement!

About LifeSmarts

www.lifesmarts.org

LifeSmarts is the nation's premier consumer education program teaching teens and tweens important real-life information.

LifeSmarts:

- Hosts online and live competitions
- Provides free teaching resources
- Offers many opportunities for students including teamwork, leadership, and community service
- Is a scholarship program

Thank you

LifeSmarts thanks AARP for an unrestricted educational grant to develop this lesson