PROJECT 10: RETIREMENT PLANNING

INSTRUCTOR OVERVIEW

Retirement is the time in life when the major sources of income change from earned income to employer based retirement benefits, private savings and investments, social security, etc.

INSTRUCTIONAL OBJECTIVES

As students begin their working phase of life, they should start planning for a comfortable retirement. In this lesson, students will:

- Examine the need to start saving early
- Calculate how much money they will need for retirement
- Identify sources of retirement income
- Create a strategy for saving for retirement

CENTRAL QUESTION OR PROBLEM

How much money will I need to retire?

ASSIGNMENT RESOURCES

Students will need a computer, printer, and access to the Internet.

ASSIGNMENT LENGTH

One week

NOTES

- This is one of my favorite projects to go through with the students. It does a nice job of making saving for retirement relevant. It also illustrates how easy this can be if you start saving early and often.

- Read through the sample social security statement with the students. Make sure they understand the vocabulary and how credits are earned. You will get feedback on whether or not students feel social security will be around when they get ready to retire. I typically respond that, for the purposes of this project, we are going to assume that it will be funded at today’s levels.

- Many experts suggest that saving for retirement requires a three-legged stool approach.

- You must determine how much money you need in retirement.
  - How much will social security contribute monthly?
  - How much will your employer-based retirement benefits contribute monthly?
  - How much will you need to save of your disposable income for retirement?
• I typically walk them through the calculators during class and let them work independently to determine their specific numbers.

• I have received positive feedback from students on the project. Retirement seems so far away when you are young. Understanding the steps to determine how much you need for retirement make the process less intimidating.
# Retirement Planning Rubric

This project has a total value of 20 points.

<table>
<thead>
<tr>
<th>The student did not follow directions. (minus 2)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The student completed the social security piece. (plus 6)</td>
<td></td>
</tr>
<tr>
<td>The student did not attempt. (0 points)</td>
<td></td>
</tr>
<tr>
<td>The student completed the What’s Your Number worksheet. (plus 6)</td>
<td></td>
</tr>
<tr>
<td>The student did not attempt. (plus 0)</td>
<td></td>
</tr>
<tr>
<td>The student completed the retirement income calculator. (plus 6)</td>
<td></td>
</tr>
<tr>
<td>The student did not attempt. (plus 0)</td>
<td></td>
</tr>
<tr>
<td>The student completed the Three-Legged Stool worksheet. (plus 2)</td>
<td></td>
</tr>
<tr>
<td>The student did not attempt. (plus 0)</td>
<td></td>
</tr>
</tbody>
</table>

**Total**
RETIREMENT PLANNING

HOW MUCH MONEY WILL I NEED TO RETIRE?

Retirement is the time in life when the major sources of income change from earned income to employer-based retirement benefits, private savings and investments, social security, etc. In this lesson, you will:

• Examine the need to start saving early
• Calculate how much money you will need for retirement
• Identify the sources of retirement income
• Create a strategy for saving for retirement

As you begin your working phase of life, it is a good idea to start planning what you will need to be comfortable during retirement. You will need to start thinking about the following questions:

1. What age do I want to retire?
2. How long do I anticipate living past retirement?
3. What type of lifestyle do I want in retirement?
4. How much money will I need to maintain that lifestyle?
STEP 1: ESTIMATE YOUR SOCIAL SECURITY BENEFITS

Using the Social Security Administration’s website, www.ssa.gov/retire2, familiarize yourself with the rules surrounding collecting social security benefits. Determine what age you would like to retire and what your life expectancy might be. If you are currently working or have worked in the past, you can access your personal information by creating an account.

Use this link to open an account and print your benefits statement: https://secure.ssa.gov/RIL/SiView.do.

If you have not had a job or do not have a social security number, use this link to access a sample social security benefits statement: www.ssa.gov/myaccount/SSA-7005-OL.pdf.

Understanding how much you will receive in social security benefits is the first step in planning for your financial future during retirement.

___________ Estimated Monthly Income

___________ Estimated Yearly Income

STEP 2: FIND YOUR NUMBER

Access the retirement calculator here:


- Enter how much you think you will need annually in retirement in the first box. To calculate the annual income you will need for retirement, find 80% of your current household income.

- To find the average income for the career path you have chosen (For example, if you want to go into accounting you could use the following link to see what the national average is: www.payscale.com/rcsearch.aspx?category=job&str=accounting&CountryName=United+States&SourceId=Country.) If you have a different career path, type the job title in the box to the left.

- Recall the chart from the Social Security Administration in Step 1. To find the number of years until retirement, subtract your current age from your anticipated retirement age and enter it in the second box.
STUDENT HANDOUT 10B

PROJECT 10 RETIREMENT PLANNING EXERCISE (CONTINUED)

• To determine how many years you will need income after you retire, you can look at the average age of relatives. Most experts say that you should plan to live until the age of 90. This may need to be adjusted as you grow older and as life expectancy models change.

• In the annual inflation field, use 3 as your value.

• For the annual yield on balance field, use 5 as your value.

• Click calculate.

• Print the page that shows your number. Put this with your social security benefits estimate.

STEP 3: RETIREMENT INCOME CALCULATOR

Now that you know what you need for retirement, it is important to understand how you will reach such a large number. Use the following link and complete the questions. https://www3.troweprice.com/ric/ricweb/public/ric.do?src=startover

• Do not hit register or log in. Go directly to start.

• This assignment is to be completed as an individual. Do not include a partner or spouse (click no).

• Enter the month and year you were born, click saving for retirement, and then click next.

• In the first box, enter how much you have saved for retirement. If you don’t have a retirement account, indicate zero. If you are not working, assume that you contribute $100 per month to retirement savings.

• Enter your current salary. If you aren’t working, enter the average salary for your chosen career (determined in Step 2, above).

• If you are currently working, enter your correct information into the workplace contributions space. If you are not working, assume that you contribute 5% and your employer matches your 5% contribution for a total of 10%.

• List other contributions if they apply. Click next.

• For asset allocation, use the default settings of 90% Stocks and 10% Bonds. Click next.

• Enter the age you expect to retire.

• Enter how much you think you’ll spend per month in retirement. Recall earlier we indicated that would be 80% of your current household income.

• Click the yes button to include the estimated social security benefit.

• If your place of business provides a pension, include that information in the next box. If you aren’t working, leave it blank. Click next.

• Review the results and print the page.

You will need to turn in the social security benefits sheet, the ING number printout, and the Retirement Income Calculator printout with your Three Legged Stool worksheet.

Be prepared to discuss how you felt about this process.
Planning for retirement is a three-legged stool.

Insert the dollar amount from the retirement calculator:

_____________________________________________________________________

How much will you need per month?

_____________________________________________________________________

What are your monthly social security contributions?

_____________________________________________________________________

How much are you employer benefits contributions per month?

_____________________________________________________________________

What do you plan to contribute from personal savings each month?

_____________________________________________________________________

Will you have enough money to retire at the age you chose?
SOCIAL SECURITY STATEMENT

Go to: http://ssa.gov/myaccount/SSA-7005-OL.pdf

What Social Security Means To You

This Social Security Statement can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings.

Please read this Statement carefully. If you see a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your Statement with your financial records.

Social Security is for people of all ages...

We're more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family if you die.

Work to build a secure future...

Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire.

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit www.mymoney.gov, a federal government website dedicated to teaching all Americans the basics of financial management.

About Social Security’s future...

Social Security is a compact between generations Since 1935, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today’s younger workers are ready for retirement.

Without changes, in 2033 the Social Security Trust Fund will be able to pay only about 77 cents for each dollar of scheduled benefits.* We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

Social Security on the Net...

Visit www.socialsecurity.gov on the internet to learn more about Social Security. You can read publications, including When To Start Receiving Retirement Benefits, use our Retirement Estimator to obtain immediate and personalized estimates of future benefits, and when you're ready to apply for benefits, use our improved online application—It's so easy!

Carolyn W. Colvin
Acting Commissioner

* These estimates are based on the intermediate assumptions from the Social Security Trustees' Annual Report to the Congress.
Your Estimated Benefits

*Retirement
You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until:
- Your full retirement age (67 years), your payment would be ........................................... $1,680 \text{ per month}
- Age 70, your payment would be ................................................................. $2,094 \text{ per month}
- Age 62, your payment would be ................................................................. $1,109 \text{ per month}

*Disability
You have earned enough credits to qualify for benefits. If you become disabled right now, your payment would be ........................................... $1,527 \text{ per month}

*Family
If you get retirement or disability benefits, your spouse and children also may qualify for benefits:
- Your child ................................................................. $1,757 \text{ per month}
- Your spouse who is caring for your child ................................................................. $1,757 \text{ per month}
- Your spouse, if benefits start at full retirement age ................................................................. $1,509 \text{ per month}
- Total family benefits cannot be more than ................................................................. $2,938 \text{ per month}

*Survivor
Your spouse or minor children may be eligible for a special one-time death benefit of $215.
- Your spouse ................................................................. $1,706 \text{ per month}

Medicare
You have earned enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security 3 months before your 65th birthday to enroll in Medicare.

Your estimated benefit is based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2023, the payroll taxes collected will be enough to pay only about 77 percent of scheduled benefits.

We based your benefit estimates on these facts:
- Your date of birth (please verify your name on page 1 and this date of birth) .................... April 5, 1974
- Your estimated taxable earnings per year after 2024 ................................................................. $47,423
- Your Social Security number (only the last four digits are shown to help prevent identity theft) ....... XXXX534123

How Your Benefits Are Estimated

To qualify for benefits, you earn “credits” through your work — up to four each year. This year, for example, you earn one credit for each $1,500 of wages or self-employment income. When you’ve earned $4,800, you’ve earned your first credit for the year. Most people need 40 credits, earned over their working lifetime, to receive retirement benefits. For disability and survivors benefits, young people need fewer credits to be eligible.

We checked your records to see whether you have earned enough credits to qualify for benefits. If you haven’t earned enough yet to qualify for any type of benefit, we can’t give you a benefit estimate now. If you continue to work, we’ll give you an estimate when you do qualify.

What we assumed — If you have enough work credits, we estimated your benefit amounts using your average earnings over your working lifetime. For 2014 and later (up to retirement age), we assumed you’ll continue to work and make about the same as you did in 2012 or 2013. We also included credits we assumed you earned last year and this year.

Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be because they are based on a longer work history with fewer uncertainties such as earnings fluctuations and future law changes. We encourage you to use our online Retirement Estimator at www.socialsecurity.gov/estimator to obtain immediate and personalized benefit estimates.

We can’t provide your actual benefit amount until you apply for benefits. And that amount may differ from the estimates stated above because:
- (1) Your earnings may increase or decrease in the future.
- (2) After you start receiving benefits, they will be adjusted for cost-of-living increases.
- (3) Your estimated benefits are based on current law. The law governing benefit amounts may change.
- (4) Your benefit amount may be affected by military service, railroad retirement or pension earned through work on which you did not pay Social Security tax. Visit www.socialsecurity.gov to learn more.

Windfall Elimination Provision (WEP) — In the future, if you receive a pension from employment in which you do not pay Social Security taxes, such as certain federal, state or local government work, some nonprofit organizations or foreign employment, and you also qualify for your own Social Security retirement or disability benefit, your Social Security benefit may be reduced, but not eliminated, by WEP. The amount of the reduction, if any, depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you were age 62 or became disabled. For more information, please see Windfall Elimination Provision (Publication No. 05-10045) at www.socialsecurity.gov/WEF.

Government Pension Offset (GPO) — If you receive a pension based on federal, state or local government work which you did not pay Social Security taxes and you qualify, now or in the future, for Social Security benefits as a current or former employee, you may be likely to be affected by GPO. If GPO applies, your Social Security benefit will be reduced by an amount equal to two-thirds of your government pension, and could be reduced to zero. Even if your benefit is reduced to zero, you will be eligible for Medicare at age 65 on your spouse’s record. To learn more, please see Government Pension Offset (Publication No. 05-10007) at www.socialsecurity.gov/GPO.
Your Earnings Record

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Security Earnings</th>
<th>Medicare Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1991</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1992</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1993</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1994</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1995</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1996</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1997</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1998</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>1999</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2000</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2001</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2002</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2003</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2004</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2005</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2006</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2007</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2008</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2009</td>
<td>12,398</td>
<td>134</td>
</tr>
<tr>
<td>2010</td>
<td>12,398</td>
<td>134</td>
</tr>
</tbody>
</table>

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above

Estimated taxes paid for Social Security: $132,124

Estimated taxes paid for Medicare: $7,744

Note: Currently, you and your employer each pay a 6.2 percent Social Security tax on up to $117,000 of your earnings and a 1.45 percent Medicare tax on all your earnings. If you are self-employed, you may pay both the employee and employer amount, which is a 12.4 percent Social Security tax on up to $117,000 of your net earnings and a 2.9 percent Medicare tax on your entire net earnings.

If you have earned income of more than $200,000 ($250,000 for married couple filing jointly), you must pay 0.9 percent more in Medicare tax.

Help Keep Your Earnings Record Accurate

You, your employer, and Social Security share responsibility for the accuracy of your earnings record. Since you began working, we recorded your reported earnings under your name and Social Security number. We have updated your record each time your employer (or you, if you're self-employed) reported your earnings.

Remember, it's your earnings, not the amount of taxes you paid or the number of credits you've earned, that determine your benefit amount. When we figure that amount, we base it on your average earnings over your lifetime. If your records are wrong, you may not receive all the benefits to which you're entitled.

Review this chart carefully using your own records to make sure the information is correct and that we've recorded each year you worked. You're the only person who can look at the earnings chart and know whether it is complete and correct.

Some or all of your earnings from last year may not be shown on your Statement. It could be that we still were processing last year's earnings reports when your Statement was prepared. You can apply to have those earnings counted in your Social Security benefit calculation at the website above.

There's a limit on the amount of earnings on which you pay Social Security taxes each year. The limit increases yearly. Earnings above the limit will not appear on your earnings chart as Social Security earnings. (For Medicare taxes, the maximum earnings amount begins rising in 1991. Since 1994, all of your earnings are taxed for Medicare.)

Call us right away at 1-800-772-1213 (7 a.m.–7 p.m. your local time) if any earnings for years before last year are shown incorrectly. Please have your SSN and tax return for those years available. (If you live outside the U.S., follow the directions at the bottom of page 4.)
Some Facts About Social Security

About Social Security and Medicare...

Social Security pays retirement, disability, family and survivors benefits. Medicare, a separate program run by the Centers for Medicare & Medicaid Services, helps pay for hospital and medical services. Social Security disability benefits are for two years or more. Medicare does not cover long-term care.

Retirement — If you were born before 1938, your full retirement age is 65. Because of a 1983 change in the law, the full retirement age will increase gradually to 67 for people born in 1960 and later.

Disability — If you become disabled before your full retirement age, you can receive disability benefits after six months if you have earned credits.

Family — If you’re eligible for disability or retirement benefits, your current or divorced spouse, minor children or adult children disabled before age 22 are also eligible for benefits.

Survivors — If you die, certain members of your family may be eligible for benefits.

Extra Help with Medicare — If you know someone who is on Medicare and has limited income and resources, extra help is available for prescription drug costs. The extra help can help pay the monthly premiums, annual deductibles, and prescription cost-sharing. To learn more or to apply, visit www.ssa.gov/medicarerecord or call 1-800-772-1213 (TTY 1-800-325-0778).

Receive benefits and still work...

You work and still get retirement or survivor benefits. If you’re younger than your full retirement age, there are limits on how much you can earn without affecting your benefit amount. When you apply for benefits, we’ll tell you what the limits are and whether work will affect your monthly benefits. When you reach full retirement age, the earnings limits no longer apply.

Before you decide to retire...

Carefully consider the advantages and disadvantages of early retirement. If you choose to receive benefits before you reach full retirement age, your monthly benefits will be reduced.

If you need more information, contact your Social Security office, or call toll-free at 1-800-772-1213. (If you are deaf or hard of hearing, you may call our TTY number, 1-800-325-0778.) If you have questions about your personal information, you may provide your complete Social Security number. If you are in the United States, you also may write to the Social Security Administration, Office of the Chief Actuary, P.O. Box 200356, Baltimore, MD 21202-0356. If you are outside the United States, please write to the Office of the Chief Actuary, P.O. Box 17888, Baltimore, MD 21217-7888, USA.