Retirement & College Funding

"Dishonest money dwindles away, but he who gathers money little by little makes it grow."

– Old Proverb

"A good man leaves an inheritance for his children's children."

– Proverbs 13:22 (NIV)

"Most people have the will to win, few have the will to prepare to win."

– Bobby Knight

Once the emergency fund is in place, you should begin retirement and college funding, which falls within long-term investing for ________________.

Baby Step 4™

Invest ___% of your household income into Roth IRAs and pre-tax retirement plans.

ALWAYS save long-term with tax -_______________ dollars.

Tax-favored means that the investment is in a _____________ ___________ or has special tax treatment.

Qualified Plans

- Individual Retirement Arrangement (IRA)
- Simplified Employee Pension Plan (SEPP)
- 401(k), 403(b), 457

Individual Retirement Arrangement (IRA)

- Everyone with an ___________ income is eligible.

- The maximum annual contribution for income earners and non-income producing spouses is $____________ as of 2008.

- Remember: IRA is not a type of ________________ at a bank. It is the *tax treatment* on virtually any type of investment.

Roth IRA

The Roth IRA is named for Senator William Roth (R-Delaware), who authored this section of the Taxpayer Relief Act of 1997.

The Roth IRA is an _____________-tax IRA that grows tax -________________!

If you ___________ like we teach, you should use the Roth IRA.

Who is eligible?

- Singles – 100% contribution with income less than $95,000. Phase out between $95,000-$110,000. Not eligible above $110,000.

- Married filing jointly – 100% contribution with income less than $150,000. Phase out between $150,000-$160,000. Not eligible over $160,000.

Why the Roth IRA?

1. More ________________.
2. Higher ________________ at retirement.
3. More ________________.
4. More ________________.

"Do not muzzle an ox while it is treading out the grain."

– 1 Corinthians 9:9 (NIV)

Flexibility:

- Tax-free and penalty-free withdrawals at any time equal to contributions. After the emergency fund is depleted, you have a fall back.

- After five years, you can make tax-free, penalty-free withdrawals of 100% under these conditions:

  1. Over 59 and a half years old
  2. Because of death or disability
  3. First-time home purchase (max $10,000)

Simplified Employee Pension Plan (SEPP)

A ________-employed person may deduct up to ______% of their net profit on the business by investing in a SEPP.

- The maximum deductible amount is $45,000 (as of 2007) and all employees who have been with the firm more than three of the last five years must receive the same percentage of their pay.

401(k), 403(b) & 457 Retirement Plans

Most companies have completely done away with traditional ________________ plans in the last 10-20 years. Some new plans offer a variety of pre-tax choices.

Some companies are now offering the _________ 401(k), which grows tax-free.

The Roth 401(k) Plan went into effect in 2006, giving employees a tax-free growth 401(k) option.

Do not use a Guaranteed Investment ________________ (GIC) or bond funds to fund your plan.

You should be funding your plan whether your company ______________ or not, but the plans that have company matching provide even greater returns.

Rollovers

Currently, you can only roll an IRA to a Roth IRA if you make LESS than $100,000. This restriction may expire in 2010, in which case you could roll to a Roth regardless of your income.

You should ___________ roll all retirement plans to an IRA when you _______________ the company.

Do not bring the money home!
Make it a _____________ _______________.

You should roll to a Roth IRA ONLY if:

1. You will have saved over $_______________ by age 65.

2. You pay your taxes ________ of ________________ and not from the IRA funds.

3. You understand that all taxes will become due on the rollover amount.

Retirement Loans

Never ____________ against your retirement plan.

Federal Thrift Plan

If you are a federal government worker and have the standard thrift plan, we recommend _________% in the C Fund, ________% in the S Fund, and ____________% in the I Fund.

Our Suggestion

How to fund your 15%:

1. Fund 401(k) or other employer plans up to the ___________ (if applicable).

2. Above the matched amount, fund __________ IRAs. If there is no match, start with Roth IRAs.

3. Complete 15% of your income by going back to your ______ or other company plans.

Note: This is the best plan if you end up with $700,000 or more by age 65, because mandatory retirement withdrawals will cause a higher tax bracket at retirement.

Borrowing against your retirement plan is a bad move. Even though you pay yourself back some interest, it is nowhere close to what you would have earned if you had left the money in the investment. Plus, if you leave the company or die before it is repaid, you or your heirs will have 60 days to pay it back in full or you will be hit with enormous penalties and interest. Don't do it!

online

Need some advice as you start investing?

Find someone in your area who has the heart of a teacher. Never let an advisor make your financial decisions for you. Their job is to teach you how to make *your own* decisions.

If you cannot find someone like this in your area, check out our network of Endorsed Local Providers in this lesson's online resources.

How quickly could you become a millionaire?

Find out with our investment and millionaire calculators online!

Imagine if...

A 30-year-old couple partially funds a Roth IRA ($500 per month) at 12%. At 70 years old they will have...

$5,882,386.26 — TAX FREE!

Imagine if...

That same 30-year-old couple made $40,000 and saved 15% in a 401(k) ($500 per month) at 12%. At 70 years old they will have...

$5,882,386.26 in the 401(k).

By Retirement

That 30-year-old couple, DEBT FREE, saves $1,000 per month at 12%. At 70 years old, they will have:

Roth IRA	**$5,882,386.26**
401k	**$5,882,386.26**
Total	**$11,764,772.50**

This could be you if you get serious about savings and investments!

Baby Step 5™

Save for your children's __________ using tax-favored plans.

First...

Save in an Education Savings Account (ESA), or "Education _________."

- You may save $2,000 (after tax) per year, per child, that grows tax free! So, if you start when your child is born and save $2,000 a year for 18 years, you would only invest a total of $36,000. However, at 12% growth, your child would have $126,000 for college—TAX FREE!

Above that...

If you want to save more or if you don't meet the income limits for an ESA, use a certain type of _______ plan.

- The only type we recommend is one that leaves _______ in control of the mutual fund at all times.

- Never buy a plan that:
    1. ___________ your options.
    2. Automatically changes your investments based on the ________ of the child.

A recent report showed that the average graduate of a four-year college has student loan debt of $19,237.

Graduate students pile on even more student loan debt, ranging between $27,000 -114,000.

Check online for the most up-to-date information regarding ESA saving limits.

Do you meet the income requirements for an ESA or a UTMA?

Check this lesson's online resources for up-to-date eligibility requirements.

"Train a child in the way he should go, and when he is old he will not turn from it."

– Proverbs 22:6 (NIV)

"The rod and rebuke give wisdom, but a child left to himself brings shame to his mother."

– Proverbs 29:15 (NKJV)

Only then...

Move to an _________ or __________ plan.

- While this is one way to save with reduced taxes, it is ______ as good as the other options.

- UTMA/UGMA stands for Uniform _____________ / Gift to Minors Act.

- The account is _________________ in the child's name and a ______________ is named, usually the parent or grandparent. This person is the manager until the child reaches age 21. At age 21 (age 18 for UGMA), they can do with it what they please.

Three "Nevers" of College Saving

1. Never save for college using _____________.

2. Never save for college using _____________ bonds. (Only earns 5-6%)

3. Never save for college using _______________ college tuition. (Only earns 7% inflation rate)

Monthly Retirement Planning (Form 12)

Too many people use the READY-FIRE-AIM approach to retirement planning. That's a bad plan. You need to aim first. Your assignment is to determine how much per month you should be saving at 12% interest in order to retire at 65 with the amount you need.

If you save at 12% and inflation is at 4%, then you are moving ahead of inflation at a net of 8% per year. If you invest your nest egg at retirement at 12% and want to break even with 4% inflation, you will be living on 8% income.

Step 1: Annual income (today) you wish to retire on: 50,000

Divide by .08

(Nest egg needed)equals: 625,000

Step 2: To achieve that nest egg you will save at 12%, netting 8% after inflation. So, we will target that nest egg using 8%.

Nest Egg Needed $ 625,000

Multiply by Factor X .000436

Monthly Savings Needed = $272.50

Note: Be sure to try one or two examples if you wait 5 or 10 years to start.

8% Factors (select the one that matches your age)

Your Age	Years to Save	Factor
25	40	.000286
30	35	.000436
35	30	.000671
40	25	.001051
45	20	.001698
50	15	.002890
55	10	.005466
60	5	.013610

Monthly College Planning (Form 13)

In order to have enough for college, you must aim at something. Your assignment is to determine how much per month you should be saving at 12% interest in order to have enough for college.

If you save at 12% and inflation is at 4%, then you are moving ahead of inflation at a net of 8% per year.

Step 1: In today's dollars, the annual cost of the college of your choice is:

Amount per year $ 20,000

X 4 years = $ 80,000

(hint: $15,000 to $25,000 annually)

Step 2: To achieve that college nest egg, you will save at 12%, netting 8% after inflation. So, we will target that nest egg using 8%.

Nest Egg Needed $ 80,000

Multiply by Factor X .003287

Monthly Savings Needed = $262.96

Note: Be sure to try one or two examples if you wait 5 or 10 years to start.

8% Factors (select the one that matches your child's age)

Child's Age	Years to Save	Factor
0	18	.002083
2	16	.002583
4	14	.003287
6	12	.004158
8	10	.005466
10	8	.007470
12	6	.010867
14	4	.017746

Answer Key

Wealth	Invested	Out	Freezes
15%	Flexibility	Pocket	Age
Favored	Self	Borrow	UTMA
Qualified	15%	60%	UGMA
Plan	Pension	20%	Not
Earned	Roth	20%	Transfer
$5,000	Contract	Match	Listed
Investment	Matches	Roth	Custodian
After	Always	401(k)	Insurance
Free	Leave	College	Savings
Save	Direct	IRA	Pre-paid
Choices	Transfer	529	
Bracket	$700,000	You	

Set Your Goals for the Week / Gazelle Focus

I will take care of my family by having a legal will in place by this date:

Also this week, I am going to . . .

Discussion & Accountability

online resources™

Be sure to check out the special online features for this week.

- **Investment Calculator:** Find out how much you need to save to retire with dignity and independence.
- **Get Investment Help:** Find an investment professional in your area with the heart of a teacher. If you need help, check out our network of Endorsed Local Providers.
- **Extra Forms:** Download printable worksheets to calculate the monthly savings needed for your retirement and college planning goals.

Review of the Last Section

1. What does diversification mean and how does it affect your risk in investing?
2. Are mutual funds for long-term or short-term investing?
3. Explain Dave's four-fold diversification strategy for long-term investing.

Discussion and Accountability

1. What do you think when you see retirement-aged people working in grocery stores? Is that what you want to do when you retire?
2. What motivates you to get serious about your retirement plan?
3. Should you ever *temporarily* stop adding to your retirement plan? If so, why? When should you start up again?
4. Why is it such a bad idea to cash in a retirement plan early in order to get out of debt? What are the dangers of borrowing against a retirement account? Have you ever done this?
5. Does college funding come before or after retirement savings according to the Baby Steps? Why?
6. Would you feel guilty taking care of your own retirement plan before putting money aside for your child's college education?
7. How does living by a monthly budget help you prepare for retirement?

Homework

1. **Complete the Monthly Retirement Planning form** in the "Forms" area of the site to determine how much money you should be saving every month for retirement.
2. **Complete the Monthly College Planning form** in the "Forms" area of the site if you have children who will be heading to college.
3. ***Financial Peace Revisited*:** Read chapter 12 (beginning with subsection "Funding Those Golden Rocking Chairs").