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Financial and Life Skills Center

MoneyCounts: *A Financial Literacy Series*

Financial Literacy Overview

11-A Grange Building
University Park, PA 16802
financialliteracy.psu.edu
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814-863-0214



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How Can We Help?

Our team of financial educators and counselors provide the following free services:

**One-on-One
Appointments**
Via Starfish

**Group
Presentations
& Webinars**

**Self-study
Modules**
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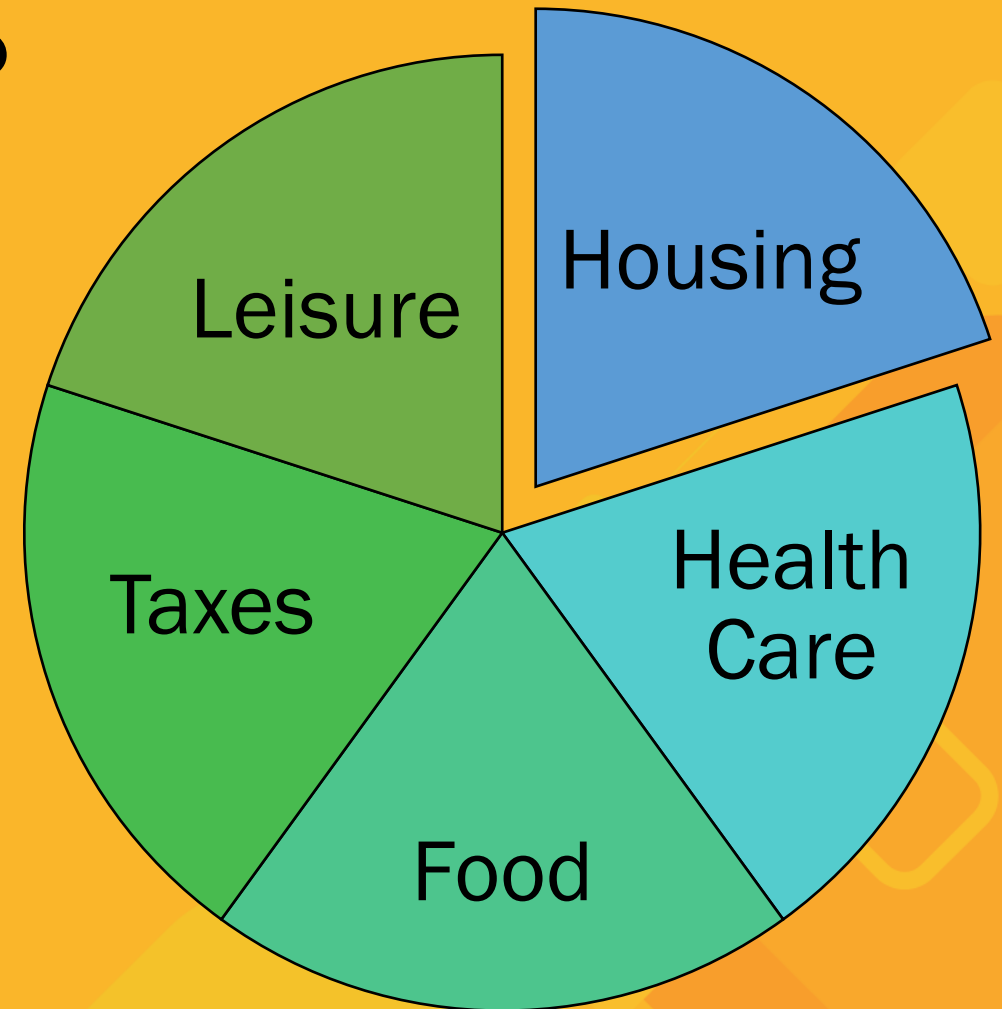
**Mentoring
Program**

Workshops
Enrolling Now!



Why Plan for Retirement?

- Retirement is expensive!
 - Housing costs typically decrease
 - Health care costs increase
 - Lifestyle becomes a focus
 - Travel
 - Adventures
 - New activities
- Average cost to retire?
 - Est. \$850,000 to \$1,500,000





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Will Saving Be Enough?

- Savings accounts are good for emergency funds and short-term goals
- Over time, inflation can reduce the value of your savings
 - Targeted at 2% a year
- How can I beat inflation?
 - Invest
 - Magic of compound interest

RATES OF RETURN

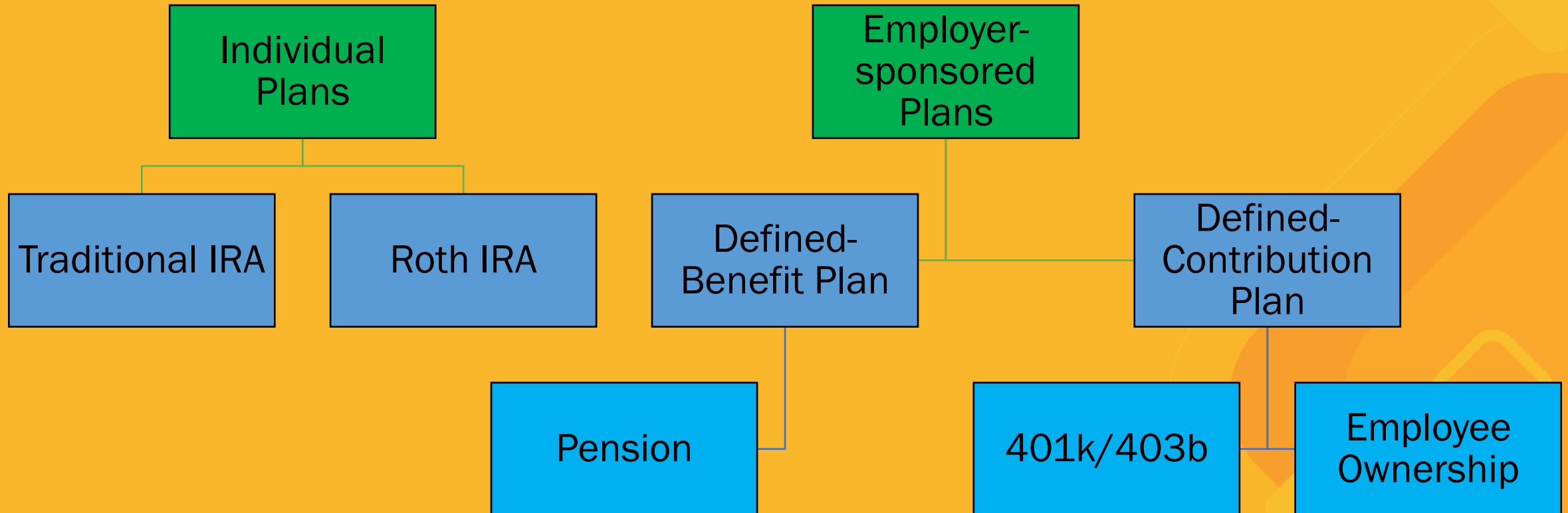
If you invested **\$250 per month** in each of the following investments for the **last 40 years**:

	Average Rate of Return	Value today
 Cash Under Mattress	0.0%	\$120,000
 High Yield Savings Account	2.0%	\$183,609
 Your Primary Home	3.7%	\$274,294
 S&P 500 Index Fund	10.7%	\$1,686,016

What's your plan for the **next 40 years**?



Common Investing Options for Retirement









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Individual Retirement Accounts (IRAs)

		Traditional	Roth
Your contribution...		Pre-tax dollars	After-tax dollars
Your money grows...		Tax-deferred	Tax-free
You pay...		Income tax on withdrawals	No tax on withdrawals
Benefit		Lowers your taxable income, in turn lowering your tax bill	Withdraw contributions anytime Use for first-time home buying

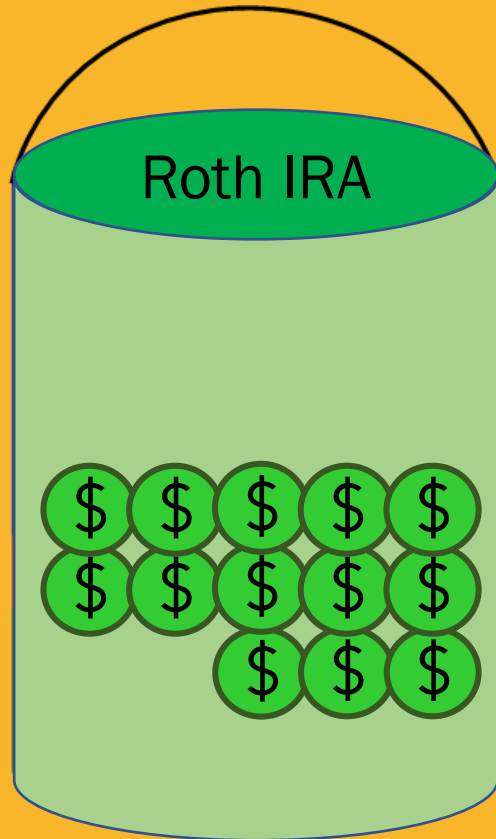


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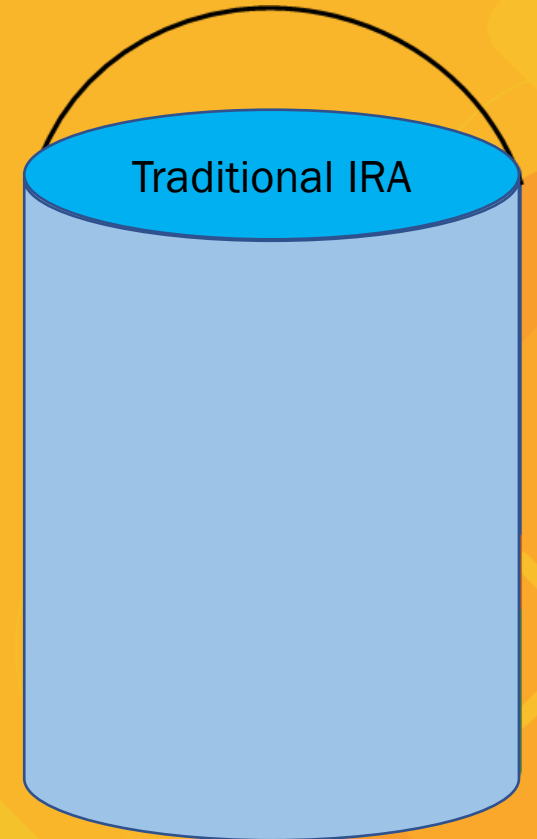
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Roth vs. Traditional IRA



After-tax contributions



Pre-tax contributions

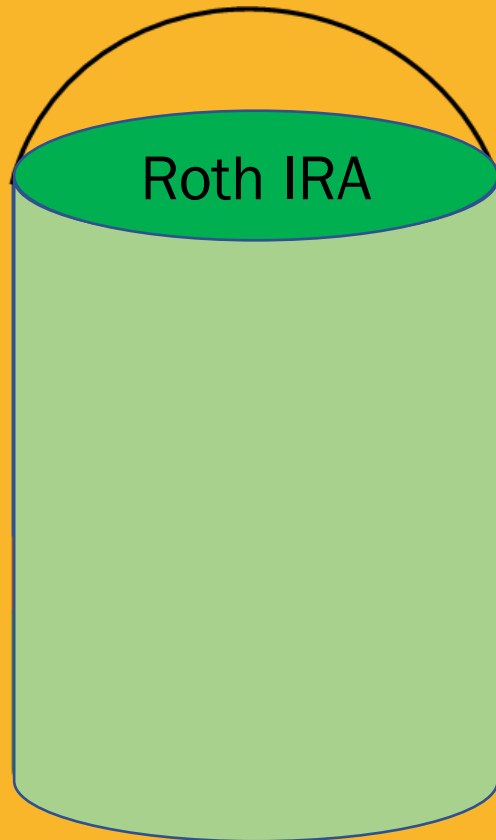


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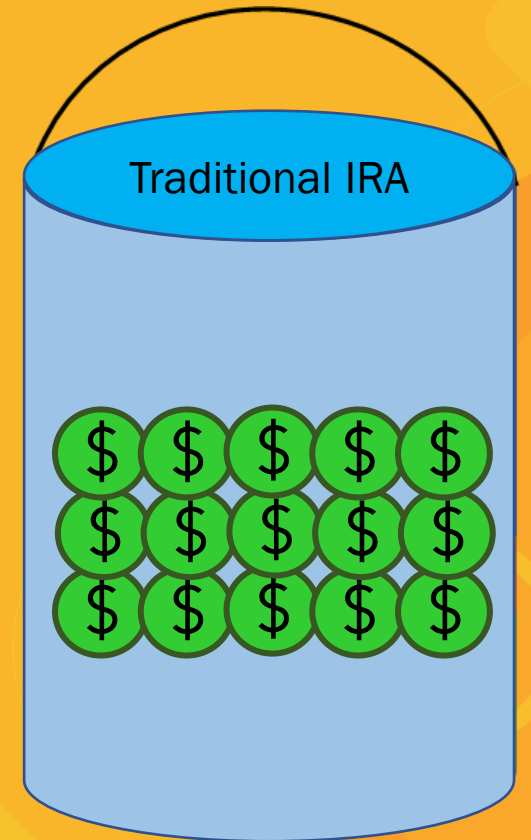
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Roth vs. Traditional IRA



After-tax contributions



Pre-tax contributions





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Defined-Contribution Plans

	401k	403b
Eligibility...	Employees of for-profit companies	Employees of tax-exempt organizations
Your money grows...	Tax-deferred; pre-tax contributions are made	Tax-deferred; pre-tax contributions are made
You pay...	Income tax on withdrawals	Income tax on withdrawals
Employer match...	Usually	Usually
Investment options may include...	Stocks Bonds Mutual funds Annuities	Mutual funds Annuities



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Defined-Benefit Plans

- Also known as pension plans
- Pays benefits based on factors like length of employment and salary history





Weighing Retirement Plans

- Things to consider...

Investment Options

- Know the variety of investments available
- Autopilot options
 - Target-date funds
 - Index funds
 - Mutual funds
- Average rate of return

Cost

- Management fees
- Expense ratios
 - Cost that investors pay to cover a fund's expenses
 - Expressed as a percent
 - Gross vs. net

Risk Tolerance

- Be practical and diversify
- Influenced by...
 - Income
 - Current and future lifestyle goals
 - Retirement age



What Happens If You Change Jobs?

401k or 403b

1. Roll over to your new plan, if allowed
 - Direct vs indirect transfers
2. Roll over into an IRA
3. Begin taking distributions after age 59 ½
4. Cash it out
 - Lump-sum taxed in full
 - Likely 10% early withdrawal penalty
5. Leave your balance in former plan

Pension

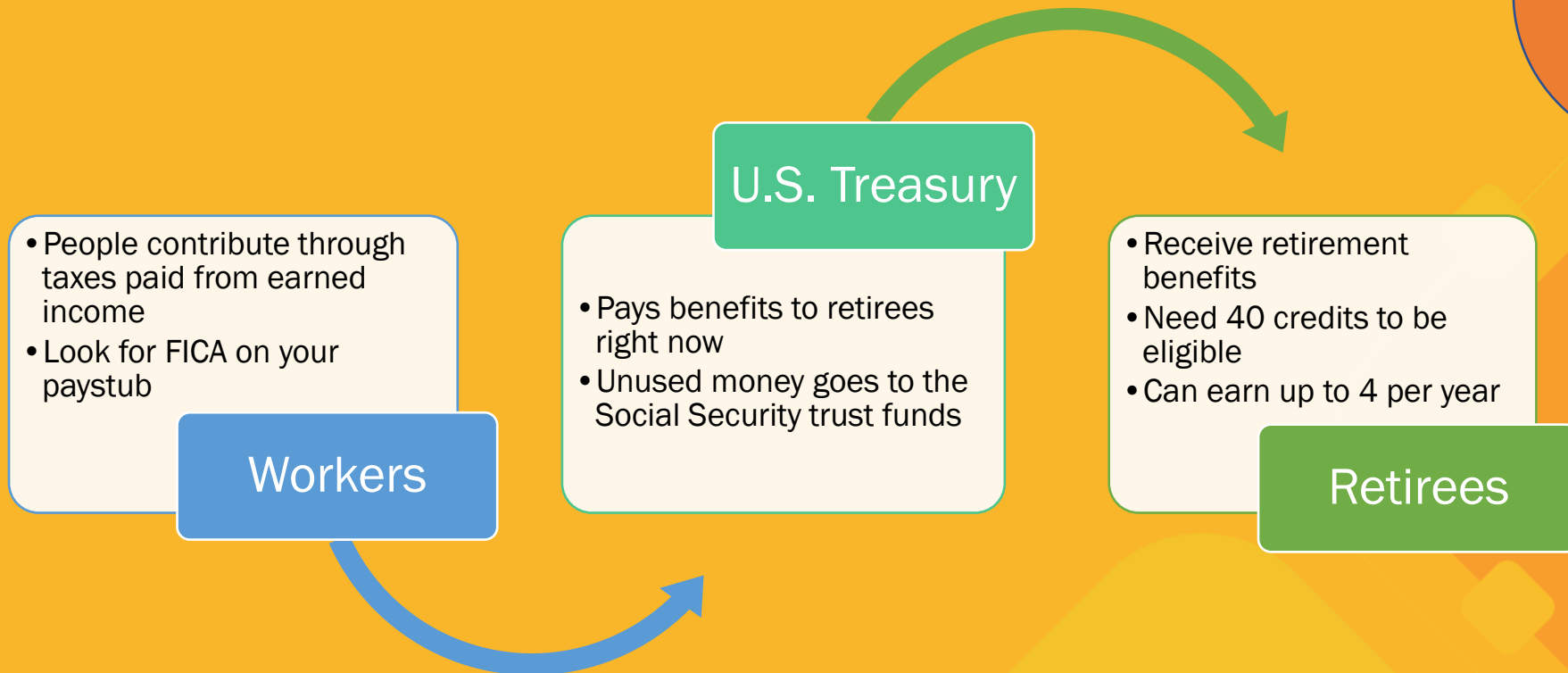
- Generally, not as portable
- Most likely will have to leave the benefits with the retirement plan until you're eligible to receive them
- Otherwise, lump-sum or annuity (promised payments in the future)
- If you leave before being "vested" but have made contributions, you can usually get those back



Do Other Retirement Benefits Exist?

- Yes! Social Security, which is a government program.

Must be at least 62 years old to access





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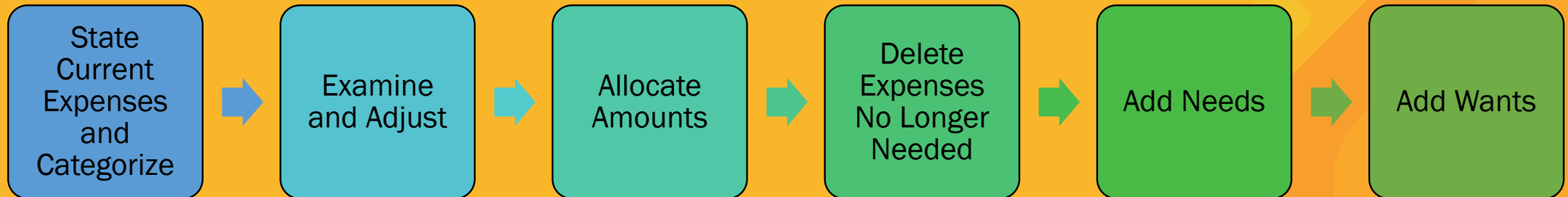
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Forecast Your Retirement Budget

- Goal: Invest with an estimated end in mind!
- Calculate the minimum amount you need to sustain your standard of living.





Retirement Planning Mistakes to Avoid

DO

DON'T

Start planning from your first job!	Saving & Investing	Defer saving as it is not urgent.
Contribute the maximum allowed!	Tax-free plan	Defer contributing to tax-free plans.
Check and discuss if you are qualified!	ROTH IRA	Defer discussing with your financial institutions.
Create and review your account at Social Security Administration!	Social security benefits	Ignore social security benefits.
Research taxes on contribution and withdrawal!	Impact of taxation	Ignore the impact of taxation on retirement income.
Diversify and allocate funds wisely!	Investment	Unify all investments.
Create your own timeline for receiving benefits!	Timeline	You can get benefits whenever without planning.



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Thank You!

Questions and Comments

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How did we do today?



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