

Evaluating Your Current Retirement Situation





Evaluating Your Current Retirement Situation

In this unit you will gain an understanding of the importance of long-term planning. Within this instruction you will learn the importance of cash flow, personal financial plans, wills and trusts.

Exploration of money, lifestyle choices and relationships will help you proactively prepare for your financial future.

Questions about Retirement

Warm-up Activity

Use the following space to take a first stab at defining how you want to spend your retirement.

Jot down any thoughts you have about family and relationships, physical health and well-being, philanthropy, fun, toys, your spiritual self, money, career, hobbies, and personal growth. Just get some rough ideas on paper.

▀ Road to Retirement - Current Road Conditions

Each of us has a different vision of retirement. For some people, it means spending more time with family. Others want to travel the world. Some folks might have to continue working, but still want a sense of financial security.

Even though there are millions of possible retirement goals, we all have one thing in common: we have to find a way to pay for our senior years. The definition of retirement has changed over the years.

- The old definition of retirement was “withdrawal from one’s position or occupation or from active working life.”
- The new definition of retirement is “achieving a state of financial wellness and security so you can live the lifestyle you desire.”

Questions about Retirement

Even if you do keep working, your goal in this new retirement age is to have enough financial security to earn income doing something you enjoy and feel passionate about.

There are lots of compelling reasons to start your retirement plan as soon as possible:

- Have enough money to feel secure.
- Be able to work if it aligns with your passion.
- Be able to live the lifestyle you want to live.
- Be able to take care of your family.
- Rid yourself of the worries and stress that go hand-in-hand with bills and debt.
- Be free to do what you want when you want.
- Have independence and security.
- Be able to make a difference in the world.
- Freedom from worrying about having enough money to enjoy life.
- Be able to purchase things like toys or travel.

Retirement Quotes

"Retirement has been a discovery of beauty for me. I never had the time before to notice the beauty of my grandkids, my wife, the tree outside my very own front door. And, the beauty of time itself." Hartman Jule

"I enjoy waking up and not having to go to work. So I do it three or four times a day."
Gene Perret

"Retirement gives us the freedom to spend our days following our passions and making a lasting difference in the world." Vince Shorb

"The question isn't at what age I want to retire; it's at what income." George Foreman

"It's nice to get out of the rat race but you have to learn to get along with less cheese."
Gene Perret

"Retirement is like a long vacation in Las Vegas. The goal is to enjoy it to the fullest, but not so fully that you run out of money." Jonathan Clement

Lesson Activity: Getting Off Course

Following is a list of the most common reasons people get into financial problems. Place a checkmark next to each area on the list where you feel you need to improve.

- ☐ Do not clearly define how much money you need to live the lifestyle you desire once you retire.
- ☐ Lack a clear financial plan.
- ☐ Do not have a trusted financial mentor, advisor, or coach.
- ☐ Poor financial choices due to the lack of financial knowledge.
- ☐ Lack the confidence they need to make necessary financial moves.
- ☐ Poor financial choices due to emotions. Fear and greed motivate most choices.
- ☐ Take advice from the wrong people. Most advice comes from unqualified salespeople and friends.
- ☐ Had a few problems that snowballed.
- ☐ Unrealistic expectations of investment returns.
- ☐ Do not invest properly due to lack of knowledge.
- ☐ Do not take advantage of employee benefit plans or tax laws.
- ☐ Continue with poor financial habits they developed at an early age.
- ☐ Do not properly plan their estate.

Many people will have quite a few checkmarks on this list. If you do, it's okay. You're taking the right steps by studying this material.

Now you know some ways people get off course. Let's talk about how to avoid these common pitfalls and stay on track with your dreams.

Money and Emotions

Managing your money can be scary, exciting, worrisome, motivating, or stressful; but don't wear your heart on your sleeve. Responding to money emotionally could result in hasty decisions based on your emotions instead of on logic. Try to keep your emotions in check.

Questions about Retirement

Before making a financial move, determine that you’re making a decision for the right reason, not just as an emotional response.

Emotions make us do things that we wouldn’t normally do. Have you ever liked someone so much that you did something risky to show off, or got so nervous that you put your foot in your mouth? That’s because emotions block out logical thinking.

The biggest negative emotions that affect people when they make financial decisions are greed and fear. They want more money and at the same time are scared of losing what they have.

Your levels of happiness, sadness, and stress all have an impact on how you view your money situation and make decisions to change it. People who manage their money while carrying this emotional baggage make bad decisions more often than someone with a clear, relaxed, business-focused mind.

Lesson Activity: Money and Emotions

List the emotions Cynthia may experience in each of the following situations:

SCENARIO	EMOTION(S)
Cynthia gets her 401K statement and it’s gained 10% in one month.	
The next month, Cynthia’s 401K statement shows a loss of 12%.	
Cynthia thinks she should move the money, but she’s not sure what investment would be best.	
A friend tells Cynthia about a stock that’s ready to shoot up. This friend knows someone who works for the company and is putting his entire savings into the investment.	
Cynthia pulls her money out of her investments and uses it all to buy the “hot” stock tip. It’s down 35% this week ... but she’s holding on.	

Current Retirement Situation

Now that you've identified the connection between your emotions and money, it's important to learn how to remain emotionally detached during financial decisions. Consider the following equations:

$$1 + 1 = 2$$

No emotional attachment.

$$1 + 1 + \text{stress, worry, fear} = -1$$

Fear will keep you from taking a risk.

$$1 + 1 + \text{greed, overconfidence} = 5$$

Greed will force you to take a risk that might not be wise.

Lesson Activity: Financial Stress Indicators

Rank each of the statements below to gain a better understanding how your emotions may play a part in your financial decisions.

How do you feel about your current financial situation?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you make **small** financial decisions?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you make **large** financial decisions?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you think about retirement?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

How do you feel when you talk to your loved ones about money?

1 2 3 4 5 6 7 8 9 10

Not Stressed

Highly Stressed

Questions about Retirement

To lessen the impact emotions play on your financial decisions, consider the tips shown below. Check those tips that you choose to follow.

STRESS REDUCTION TIPS

- ☐ Only invest with ***risk capital*** — that is, money you can afford to lose.
- ☐ Gain a high-level knowledge base about any investments you're considering
- ☐ Build a team of trusted advisors.
- ☐ Before making any decision, take time to evaluate it logically.
- ☐ Reduce the influence of emotions by partaking in an activity that reduces your stress levels. Weigh your options at times when your emotions have less impact — during exercise, prayer, meditation, deep breathing, a relaxing morning cup of coffee, or whatever method works for you to reduce your emotional response.

Lesson Activity: Risk Tolerance

It's important to choose investments with which you are emotionally and financially comfortable. People have different levels of tolerance for risk-taking in financial matters. But with most investments, the greater risk you're willing to take, the greater the potential return.

Take the risk tolerance test below to give yourself a rough idea of the amount of risk with which you are comfortable.

1. You won \$20,000 in a contest. What do you do with that money?
 - a. You invest it all into a hot stock tip that you think will quadruple your money.
 - b. You decide to spread it across various investments that you feel can generate good returns.
 - c. You want to keep the money safe, so you put it into an investment that gives you minimal growth but cannot lose money.
2. You invested in a few stocks and now you're down 50%. Your account started at \$20,000; now you're at \$10,000. What do you do?
 - a. You let it ride and hope it goes up.
 - b. You sell and make other investments you believe will be better.
 - c. You sell and put the money into a safe investment that offers low returns but where you can't lose money.
3. In which of the following would you rather invest?
 - a. A stock where you can lose all your money but which has the potential for huge returns.
 - b. An investment where you can limit your losses, but your gains are likely to be average.
 - c. An investment where you cannot lose money, but you are making consistent, small returns each year.

For a more comprehensive risk tolerance test, visit www.njaes.rutgers.edu/money/riskquiz to take a quiz that was developed by two university personal finance professors: Dr. Ruth Lytton at Virginia Tech, and Dr. John Grable at Kansas State University.

Questions about Retirement

Lesson Questions

1. Which of the following is one of the compelling reasons to start retirement planning as soon as possible?
 - a. To indicate what will happen to my dependents if I should pass away.
 - b. To make sure I have adequate insurance coverage for all my properties.
 - c. To avoid feeling emotional about financial decisions.
 - d. To rid myself of the worries and stress associated with debt and bills.

2. What are the most common emotions influencing money decisions?
 - a. Greed and anger.
 - b. Love and disgust.
 - c. Fear and greed.
 - d. Trust and respect.

Essential Questions

What is the new definition of retirement? _____

What are some important questions people need answered about retirement?

Retirement Income & Net Worth

Warm-up Activity

When I retire, I expect to receive income from the following sources:

Retirement Income Sources

For people who seek financial freedom, planning a retirement budget is essential. The first step in the process is to identify any future income sources you will use to fund your retirement. Then you can adjust your expenditures based on your lifestyle goals and income. Below is a list of potential retirement income sources.

1. Social Security

Social Security is a retirement benefit offered at age 62 and older. If you start claiming SSI at age 62, your benefits will be about 30% less than if you wait until age 67. If you wait until age 67, you qualify for full payments. In 2012, a worker who retired at age 66 received a maximum check of about \$2,500. Get an individualized benefit estimate at the Social Security website <http://www.socialsecurity.gov/estimator/>.

SSI benefits are likely to be significantly reduced in the future. Estimated benefits are based on current law, and the law governing benefit amounts may change. By 2033, the payroll taxes collected will be enough to pay only about 77 cents for each dollar of scheduled benefits. Although SSI suggests using 77 cents to calculate potential benefits, that figure might represent the “best case scenario.” Ideally, you should avoid depending on SSI benefits when you plan retirement income.

2. Pensions

A pension is a type of retirement plan that provides people with an income after they retire. Pensions come in various forms; either defined benefit or defined contribution. A defined contribution distributes income depending on the employee’s contribution and investment performance. A defined benefit provides retirement income based on an employee’s salary and number of years in the plan. A hybrid plan combines features from both.

3. Assets

Compared to Social Security and pensions, you have much greater control over your assets. An asset is something of monetary value under your control that you expect will provide future benefits to you and your family. Examples of assets include stock holdings, IRAs, home equity, bonds, treasury notes, rental properties, precious metals, and mutual funds.

Asset income may come from interest, rental payments, royalties, and dividends. You also can sell assets to generate income.

4. Annuities

Annuities are insurance products that pay income to investors. Annuities are commonly used as an income source at retirement.

Investors can set up an annuity to provide income for a specific period of time, usually their expected lifetime. Annuity income depends on investment, length of payments, performance, and type of annuity. There are two common types:

Fixed income provides a guaranteed payout;

Variable income is determined by performance of the underlying investments.

5. Employment

Continued employment is another potential source of retirement income. Some retirees choose jobs that provide medical benefits to reduce health insurance costs. To achieve true financial freedom, you want to be in a position where you don't *have* to work, but *choose* to work.

If you decide to work after retirement, try to find a job that aligns with your passions and strengths – fulfilling work that fits your lifestyle goals.

6. Entrepreneurship

Entrepreneurship is an investment of time, energy, and money which can yield excellent returns. While it's not for everyone, working for yourself can be rewarding and lucrative. Creating a business around your passions might provide a few hundred dollars of supplemental income, or become your main income source. Your own business can be a fun project to help you stay active. At the end of the day, we're all business owners. We're in the business of building brighter and better futures for ourselves.

Starting a business is an investment, and you must manage risk. Don't invest more than you can afford to lose.

Lesson Activity: Retirement Income

Estimate your retirement income from each source. If you don't know exact amounts now, just make your best estimate, and do further research on your own to get accurate figures. Then add up the figures to project your total income at retirement.

Lesson Activity: Retirement Income		
Estimate your income at retirement age.	Social Security	\$ _____
For any area about which you're	Assets	\$ _____
unsure, just try to make your best estimate.	Annuities	\$ _____
	Employment	\$ _____
	Entrepreneurship	\$ _____
	Other	\$ _____
Total Estimated Income at Retirement		\$ _____

Net Worth

When you build up a large enough net worth to live your desired lifestyle, you can live life on your own terms. Net worth is the measure of your net economic position.

You can calculate your current net worth by totaling your assets, then subtracting your liabilities.

	Assets	(investments, real estate, savings, etc.)
LESS	Liabilities	(debt, liens, etc.)
EQUALS	Net Worth	

For example, let's say you have \$65,000 in savings but you owe \$6,000 on personal loans and have credit card debt of \$10,000. In this example, your net worth would be \$49,000.

\$ 65,000
– 6,000
– 10,000
<u>\$ 49,000</u>

Visit www.financialeducatorsCouncil.org/calculator/access/NetWorth.html to access the NFEC's Net Worth Calculator.

Net worth is important to give you a good idea of your financial starting point. The chart of **Assets and Liabilities** on the next page provides examples of assets and liabilities that are important to consider.

Retirement Income

ASSETS

Home. Use the current value of your home to calculate its worth as an asset.

Other Real Estate. The value of any other real estate you may own.

Automobiles. The total value of all automobiles that you own. Do not include leased vehicles.

Metals. The value of gold, silver, or other precious metals in your possession.

Retirement Accounts. The current total balance of your retirement accounts. Include IRAs, 401(k) savings, SEP IRAs, variable annuities, and any other retirement savings accounts.

Bonds. If you own any Treasury, municipal, or commercial bonds that are not part of your retirement accounts, include them in the Assets column.

Stocks. Any individual stocks that are not part of your retirement accounts.

Mutual Funds. Any mutual funds that are not part of your retirement accounts.

Cash Value of Life Insurance. Some life insurance policies, such as whole life and universal, have cash value. Term life policies, on the other hand, have no cash value.

Savings Bonds. Count any savings bonds that are not included in your retirement accounts as assets.

Checking and Savings Accounts. The current total balance of your checking and savings accounts.

Cash.
Include any cash on hand.

LIABILITIES

Home Mortgage Principal. This is the current principal balance remaining on your mortgage — that is, the amount you would have to pay to own your home free and clear.

Other Mortgage Principal. The current principal balance for any other real estate mortgages you have. Include mortgages on rental property, undeveloped land, commercial property, or any other real estate.

Credit Card Debt. Your total credit card debt.

Auto Loans. Total amount currently outstanding on your auto loans.

Student Loans. Total amount, if any, that you currently owe in college or student loans. Enter the total outstanding amount even if your student loans are currently deferred.

Other Loans. Total amount of any other loans.

Lesson Activity: Net Worth

Follow the directions from the instructor to complete your net worth worksheet.

Assets	
Personal Residence	
Rental & Other Properties	
Physical Metals (Gold, Silver, etc.)	
Jewelry, Art, etc.	
Automobiles	
Other	
US Government Bonds	
Corporate Bonds	
Municipal Bonds	
Bond-Based Mutual Funds	
Other	
Stocks	
Stock-Based Mutual Funds	
Variable Annuities	
Other Annuities	
Life Insurance with Cash Value	
Business Partnership Interest	
Other	
Savings Account	
Checking Account	
Money Market Account	
Certificate of Deposit	
Other	

[illegible]

Lesson Questions

1. To what level are Social Security payments predicted to drop by the year 2033?
 - a. 10 cents on the dollar.
 - b. 50 cents on the dollar.
 - c. 77 cents on the dollar.
 - d. 85 cents on the dollar.
2. What is net worth?
 - a. Total assets minus total liabilities.
 - b. Checking balance minus savings balance.
 - c. Annuities minus bonds.
 - d. Mortgages plus cash on hand.
3. A mutual fund is an example of a(n)..
 - a. Principal
 - b. Debt
 - c. Liability
 - d. Asset

Essential Questions

What are four potential sources of retirement income

1. _____
2. _____
3. _____
4. _____

How is a person's net worth calculated?
