Planning for Retirement

IDA Education Series
Self-Directed Curriculum

Oregon
IDA *Initiative*

Introduction

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In this self-directed curriculum, you will gain a better understanding of how retirement planning works and learn small steps you can take to support your future. *What can you do now and in the near future to support yourself well later in life?*

1) In the **Basics of Retirement Planning**, you will go inside the mind of a financial planner and explore common financial planning questions around retirement and your future. You'll learn about a framework for how Social Security fits into your retirement picture and how to account for shoring up your finances when Social Security doesn't cover it all.
2) In **Retirement Accounts and Options**, you'll learn how to get started saving and planning for your retirement years, and you'll explore different tax advantages and state programs that can help you along the way.
3) With your retirement account and infractrure set, we'll discuss **Investing for Retirement**, focusing on investing for the long run. We'll also provide you with investing resources including websites, books, podcasts, and instagramers for continued learning.
4) **Economic Literacy and Retirement** will wrap things up discussing systematic issues related to retirement savings.

Let's dive in!

-DevNW Team

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Key

Video Tip Activity Web link

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Introduction

Pause for a moment. Imagine yourself years down the road, when you are 65, 75, 85… maybe even 95 years old. Picture your future eyes. Picture your future smile wrinkles around your eyes. Picture your future smile. Take a deep breath and smile at your future self.

Pause for a moment and let your mind drift, wherever it may…

* * *

Retirement or Retirement Planning is a tricky subject. Even just thinking about it can be stressful, right? Many commericals from investment companies often depict images of people strolling on tropical beaches or laughing in Perisain cafés, “living their best lives” in their retirement years. But these same commercials typically do not take into account the systematic financial challenges we face today; income inequality, the racial wealth gap, the fact that inflation is outpacing wage growth and social security payments that cover only a portion of retirement living expenses—just to name a few.

While most of us chuckle when we see those idyllic ads and would love to be sipping fruity beverages on a tropical beach in our advanced years, practically, we’d like to know what it looks like to build stability and security for our later years of life. We’d like to have confidence that we are preparing well to achieve our own retirement goals, whatever they are, personally, for each of us. You’re in the right place, and you’ve actually already started down the path to thoughtful retirement planning just by doing what you did a few minutes ago, imagining your future self.

Reflection: In words, phrases or drawings, depict what stability looks like for you during your later years of life.

That’s a good place to start.

At it’s best, **retirement planning is the pursuit of anticipating events at different life stages and attempting to make a plan** to pay for, save for and possibly reduce the cost of these life stages and later-in-life events.

Basics of Retirement Planning

To begin thinking about how retirement planning works, let's use an analogy of a glass of water. Imagine that each month you need a full glass of water to pay for your living expenses. Most of the glass of water goes to housing, food, gas and other bills, and you fill your glass each month from your job or SSDI, and other income and resources.

Now imagine a time in the future, during your advanced years, when you may not be able to rely fully on your current streams of water to fill your glass. The size of your glass of water may be different too, as living expenses, transportation or other costs change, reflecting a different stage of life. You may receive a new stream of water for the glass in the form of Social Security, but it likely won't fill your glass to the level you are accustomed to.

> *What size water glass will you need in these advanced years?*
>
> *How will you fill your glass in response to these changes?*
>
> *Maybe it's not possible to fill it all the way, but what level will you need to fill to to meet your basic needs?*
>
> *Are there any actions you can take today that will help right-size your water glass or augment your future sources of water?*

Like our metaphor above, traditional retirement planning asks the questions, "how much will I need and am I on track?"

This module is focused on activities related to the following four retirement planning questions:

- **A) How much do you expect to spend in retirement?**
- **B) How much money will you need in order to spend that much?**
- **C) Will your current savings rate get you there?**
- **D) If not, what adjustments do you need to make to achieve your goals?**

A) How much do you expect to spend in retirement?

A lot of retirement planners start with a general approximation; assume once you retire, you'll spend about **75 - 85% of your pre-retirement income**. This approximation is based on the idea that you won't have payroll taxes taken out of your paycheck; you may be commuting less and have less other work-

Basics of Retirement Planning

related expenses; and you won't be saving for retirement any more. But other retirement planners say your spending may actually go up. A lot of people see retirement as a time to travel and explore their hobbies or projects, and those things usually cost money. Health care costs also tend to increase as we age.

If you are close to retirement now, you may want to do an actual retirement budget. And don't forget health care costs – you'll qualify for Medicare at age 65 but you have to pay premiums and there are costs which aren't covered. Finally, you will still have to pay taxes so be sure to include them. It can be helpful to distinguish between the essentials – your "needs" – and the optional – "your wants" – so you can see more clearly what can be scaled back if your budget doesn't balance or money is tight.

If you're further away from retirement, 85% of your pre-retirement income is a good place to start for a rough estimate of your financial needs.

Reflection: What is 85% of your current monthly net income? What adjustments to your expenses do you anticipating making in your advanced years?

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B) How much money will you need in order to spend that much?

To figure out how much you'll need from savings, you need to know what you can expect from other income sources during your retirement years. For many people, the biggest source of retirement income is Social Security.

Social Security

About 85% of Americans age 65 and over receive Social Security. Social Security was designed to cover only about 40% of a retiree's needed income, but about 33% of recipients rely on Social Security for 90% of their retirement income.

You may have heard that Social Security is in trouble. Given the popularity of the program, it's likely there will be some changes in the future. But even with no changes at all, Social Security will still be able

Basics of Retirement Planning

to pay 75% of the benefits scheduled. So, it's still worth understanding what you can expect from Social Security in your retirement years.

You will qualify for Social Security once you've earned 40 "credits". You can earn up to 4 "credits" per year, one for each $1,200 in earnings. Most people qualify once they've worked for ten years.

One of the biggest financial decisions all of us will have to make is when to start taking Social Security. What you decide can make a huge difference to your finances! You can take Social Security as early as age 62, but if you do, your benefits will be permanently reduced. The longer you wait – up to age 70 – the higher your benefit. **Your benefit grows by about 8% for each year you wait**. Here's an example of a 50-year-old who makes $40,000 per year.

- Benefits at age 62: $1,031 / mo.
- Benefits at age 67: $1,525 / mo
- Benefits at age 70: $1,932 / mo – 76% higher than at age 62!

All numbers are in 2022 dollars.

Social Security Quick Calculator: Use the following link to calculate *an estimate of what your monthly Social Secuity retirement benefits amount will be if you start at ages 62, 67 or 70: You'll need to enter your birthdate and current income to perform the calculation.*
https://www.ssa.gov/OACT/quickcalc/index.html

Monthly amount if you start at age 62: $_______________

Monthly amount if you start at age 67: $_______________

Monthly amount if you start at age 70: $_______________

Once you have an estimate of your Social Security benefits, you can subtract it from what you think you will spend in retirement. You should also subtract any amounts you expect to receive from other sources, like a pension. The result is the amount you will need to finance from your savings or other sources of income.

Example:
$2,500/m The amount I need per month
\- $1,525/m The amount I receive from social security each month if I start at age 67
\- $500/m The amount I receive each month from a part time job in retirement
$475/m The amount I'll need from savings or other income sources

Basics of Retirement Planning

Reflection: *Outside of savings, what are some other creative ways you could create alternative sources of income during your retirement years?*
(Examples: part-time job, doggy-day care, rent a bedroom, etc.)

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Reflection: *What are some steps you could take this year to sow the seeds for these alternative sources of income?*

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Finally, remember inflation: If you're a long way from retirement, you'll need to take inflation into account. If you expect to need $1500 per month in today's dollars, can you guess what that would be 35 years from now? At a 3% inflation rate, it would $4,221 per month.

C) Will your current savings rate get you there?

Note: the economic system we live in can make it very difficult and possibly emotional to tackle this question. Proceed with compassion for yourself. Specifically, the system we live in makes it difficult to meet what retirement planning literature says your saving rate needs to be. Remember, even if you can increase your savings by 1% a year, you are taking a large step towards supporting your financial future in your later years.

To address the question of what savings rate will fill the gap between your needs and your retirement income, the math can become complicated. Luckily there are lots of resources available to help you.

Basics of Retirement Planning

Retirement Savings Calculators

Retirement savings calculators are helpful at connecting and visualizing what your future needs are relative to your current actions around savings. Even if you haven't started saving for retirement, these calculators can help you figure out what your savings rate should be.

Many online brokerage firms offer these calculators, and so do a number of financial websites. Of course you need to exercise some caution – you can expect to get sales offers for financial services from these sources, and you should never enter your social security number or similar personal information. The calculators will vary somewhat – some will estimate your spending needs and social security benefits, for example, while others will expect you to enter that information yourself.

Retirement Saving Calculator: Use one of the following links to calculate *an estimate for the following questions:*

- https://investor.vanguard.com/calculator-tools/retirement-income-calculator/
- https://www.nerdwallet.com/investing/retirement-calculator
- https://www.bankrate.com/retirement/retirement-plan-calculator/

What is your current saving rate?: ____________%

How much monthly income would your current savings rate create in retirement? : $____________

Boston College's Center for Retirement Research conducted a study around retirement savings rates. They looked at what savings rate would be required by median earning Americans to attain 70% of their pre-retirement income replacement for retirement years, accounting for social security. Here are the concluding findings of the study. For example, to obtain a 70% retirement income replacement rate, someone starting savings at age 45 would need to save 27%/year of their income to retire at age 65, but only 10%/year of their income to retire at age 70.

	Start Savings at:		
Retire at:	**25**	**35**	**45**
62	15%	24%	44%
65	10%	15%	27%
67	7%	12%	20%
70	4%	6%	10%

Source: http://crr.bc.edu/wp-content/uploads/2014/07/IB_14-111.pdf

Basics of Retirement Planning

While these numbers may seem large, the conclusion is clear, delaying retirement (and starting social security later) is the number one factor to help meet your retirement savings goals. Also, the earlier you start saving, the lower the savings rate can be to meet your goals.

Financial Planners

This is also where a financial planner can help. A fee-only planner can take a look at your future needs, your savings, and your whole financial picture, and can help you develop a strategy for meeting your long-term goals. This article discusses determining whether you a financial advisor would be help. "Financial Advisor" has lots of meanings, let's take look at some common types of finanicial professionals.

- A **fee-only planner** is paid by you, and works for you. Many of them are held to a "**fiduciary**" standard, which means they can only make recommendations that are in your best interest. The fee might be by the hour or by the project, or it could be based on a percentage of your investments if the planner actually manages your funds.

- A **commission-based planner** – usually a broker-dealer or insurance agent – gets paid by commission, based on what they sell you. They may operate on a "suitability" standard, which means they can recommend any investments that fit your circumstances, whether or not those are the best recommendations for you. Because they are paid by commission, they may not recommend lower-cost options that don't pay commissions. That said, they may not be as cost prohibitive on the front end as fee-only planner.

- A **fee-based planner** is paid both ways. Always ask! In many cases, fee-based planners charge a small percentage of peoples retirement accounts and are more likely to work with higher net-worth individuals.

- A **robo-advisor** is what it sounds like, an online brokerage that provides you retirement planning and diversified investing automatically, typically without an actual human. You typically pay less and you can easily access it no matter your income or asset level.

You can research financial professionals at FINRA BrokerCheck to ensure their qualifications and see if they have any disclosures or violations: https://brokercheck.finra.org/

Basics of Retirement Planning

D) If your current savings rates won't get you there, what adjustments you need to make to achieve your goal?
If the results look a little scary or hard to achieve, do not fret. You have options and you may be surprised at what an impact you can get with small changes. Increasing your savings rate slowly, one percent more a year, can be have suprising outcomes given the power of compounding.

If you're about 10 years away from with starting withdrawing retirement savings, a general approximation says: every $1/month you save in those 10 years may result in extra $0.50 monthly flow in retirement. So saving $100 a month may result in $50 a month extra for your retirement years.**

If you're about 20 years away from with starting withdrawing retirement savings, a general approximation says for $1/month you save in those 20 years may result in extra $1.75 monthly flow in retirement. So saving $100 a month may result in $175 a month extra for your retirement years. **

In conclusion, delaying social security, increasing your retirement savings and exploring alternative ways to increase income/decrease expenses during retirement years are some of the most helpful strategies to feel more stable about your income for your advanced years.

** These numbers are based on a heuristic that typically $30,000 of assets result in $100 monthly cash flow. Assumes a 7% rate of return, lower than historical returns.

Learning Check:

1. Which of the following describe an financial planner who is bound by a fiduciary standard?
    a. A planner who makes suitable recommendations, but may not be in your best interests.
    b. A planner who sells you investments with high fees.
    c. A planner who recommends investments that may compensate her/his firm.
    d. A planner who makes investment recommendations in your best interest.

2. What is the most important thing you learned about **Retirement Planning**?

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Retirement Accounts & Options

Where do you start? While it may feel complex, there are three steps to getting started saving for retirement.

A) Open a retirement account
B) Depositing money from your credit union or bank to your retirement account
C) Select index fund(s) to invest your money in your retirement account

This module is focused on understanding types retirement accounts, steps A) and B). What are the advantages of opening a retirement account instead of saving in a traditional savings account or an brokerage investment account? What options and different type of retirement accounts are there? What are some questions might you ask to determine which retirement account is best for your specific situation? And finally, where can you go to find consumer-friendly retirement accounts with low fees?

A) Open a retirement account

When saving for many goals a regular savings account from a credit union will suffice. Your money is safe and protected. However, if you're saving for long-term goal like retirement, the US government has what are called "tax-advantaged" retirement accounts that can save you a bunch of money over time. You may have one or heard of one, like a Roth IRA or a 401(k). What are they? How are they different?

Reflection: Watch the following video on Individual Retirement Accounts (IRAs) on 401(k) plan:
IRA: www.youtube.com/watch?v=vMJ2dkSc8Ok "What the Heck Is an IRA?" By Two Cents
401(k): www.youtube.com/watch?v=TNC1frNq20c "Are 401(k)s a Financial Silver Bullet?" By Two Cents

What are the benefits of setting up an IRA?

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Where can you set up an IRA?

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Retirement Accounts & Options

What's the difference between a Traditional and a Roth IRA?

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Which IRA type do young savers typically choose?

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What are some advantages of contributing to a workplace 401(k)? What are some fees to look out for?

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If you open a normal brokerage account, you'll have to pay taxes on your contributions and on the capital gains you receive when sell your investments at increased values. On the other hand, retirement accounts only require you to pay taxes once, not twice. Place the following types of retirement accounts in the correct column: *Traditional IRA*, *Roth IRA*, *Traditional 401(k)*, *Roth 401(k)*, *SIMPLE IRA*:

Pre-tax contributions/taxable withdrawals	**After-tax contributions/tax-free withdrawals**
____________________	____________________
____________________	____________________
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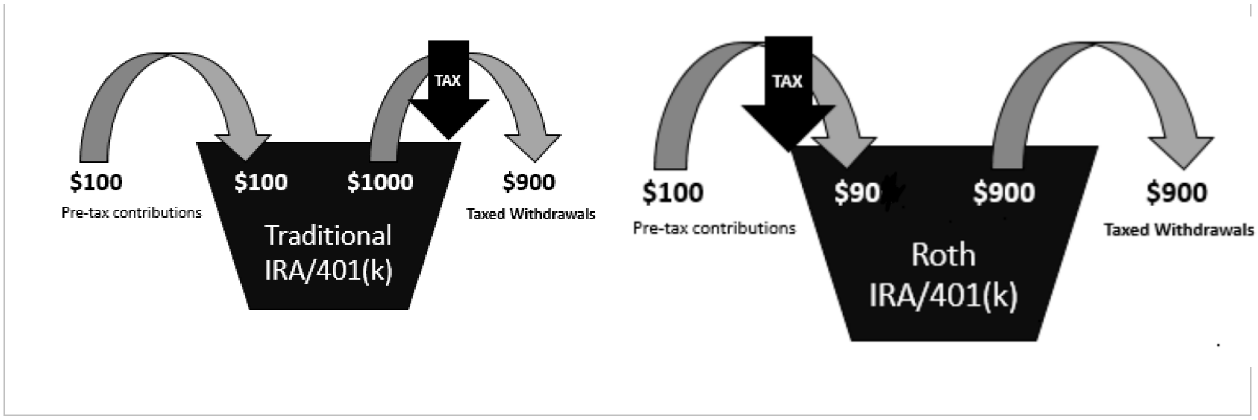
Retirement Accounts & Options



In summary, if you are younger or expect to be in a higher tax bracket in retirement or you want more flexibility in withdrawing your money, you may consider investing in a Roth IRA or Roth 401(k). If you expect to be in a higher tax bracket now and lower tax bracket in retirement or you would like to reduce your taxes today, then a Traditional IRA or 401(k) may be what you use. Or you can open both a Roth and a Traditional account.

Where can you start? There is no wrong answer. Getting starting with any retirement account will help your future self. This said, if you work for an employer that offers a percentage match, that is always a great place to start. That's free money.

* * *

Regardless of which retirement account you choose, if you are low to moderate income, there is an additional benefit to making retirement contributions. You may be eligible for a federal **tax credit**. Remember, a tax deduction lowers your taxable income, but a tax credit puts money back in your pocket.

Reflection: Read briefly about the income eligibility here on the IRS page about the **Retirement Savings Contribution Credit**: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit

For example, if you are a Head of Household and making less than $30,000 a year, for every dollar you contribute to a retirement account, you can expect a $0.50 federal tax credit.

Retirement Accounts & Options

Based on the website, are you be eligible for a Retirement Savings Contribution Credit? If so, and you contributed $2,000 this year, how much money would expect to get back when you file your tax return?

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If you're employer doesn't offer a 401(k) plan or employer retirement plan but you are working and you'd like the benefit of having some money socked away in retirement account, there's good news: you have access to an OregonSaves account. **OregonSaves** is a program that automatically sets part of your paycheck aside in a Roth IRA.

Reflection: **if you don't have access to a workplace 401(k) plan**, watch the following video

"How Does OregonSaves Work?" by Oregon Saves
https://www.youtube.com/watch?v=Jz8Z_WzhKXU

Based on the video, does OregonSaves apply to you? Would it be beneficial?

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If you have a documented disability before age 26, you may have access to an **Oregon ABLE Account**.

Reflection: **If you have documented disability**, read the following page about Oregon ABLE Accounts.
https://www.oregonablesavings.com/how-it-works

Based on the website, does Oregon ABLE Accounts apply to you? Would it be benefitial to you?

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Retirement Accounts & Options

If you operate a small business, in addition to a Traditional/Roth IRA, you can open a SEP IRA retirement account.

Reflection: **if you're a small business owner**, read the following page on how a SEP IRA works: https://www.nerdwallet.com/article/investing/what-is-a-sep-ira

Based on the website, would you be eligible to open a SEP IRA? Would it be benefitial to you?

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If you have children, in addition to a Traditional/Roth IRA, you can open a Oregon College Saving Plan account, or sometimes called a 529 plan. Similar to a retirement account, the Oregon College Savings Plan gives you a tax advantage and compound interest over time for putting money aside for your child's college expenses. If your child decides not to go to college, the account can moved to a different kid.

Reflection: **if you have children or grandchildren**, read the following page on the tax credit you receive for contributing to an Oregon College Saving Plan for their future education: https://www.oregoncollegesavings.com/tax-benefits

Based on the website and based on your household income, how much would you need to contribute to an Oregon College Savings Plan in a year to get a $150 tax credit back when you file your tax return? Would this be benefitial to your children or grandchildren?

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Retirement Accounts & Options

Where can you go to open an IRA retirement account with access to low fee investing?

We learned above that you can only open a 401(k) through your employer. However, you can open a Traditional or Roth IRA in many places: credit unions, banks, online brokerages, stock brokerages and through a financial professional. Over the long run, you typically pay less fees on investments through a online brokerage. Let's explore some of the different types of online brokerages.

Company	Fees	Mimium to start	Other comments
Low Fee Online Brokerages			
Vanguard vanguard.com	$0/trade Expense Ratios: 0.05%+	$0 for Exchange Traded Funds $1000 for Index Funds	Vanguard is preferred for the cost conscious investor. Passively managed index funds were first developed by Vanguard founder John Bogle back in the 1970s. Advocates of his philosopy meet at: www.bogleheads.org/
Fidelity fidelity.com	$0/trade Expense Ratios: 0.00% +	$0	Fidelity became the first brokerage house to offer $0 minimum accounts and 0.00% expense ratios in 2018. They offer a wide range of low cost index funds as well.
Schwab schwab.com	$0/trade Expense Ratios: 0.04% +	$0	Schwab offers index funds with competitive inexpensive expense ratios. Some of Schwabs funds have lower minimums.
Online Robo-Advisors Brokerages			
Betterment betterment.com	0.25% Management fee Expense Ratios: 0.09% +	$0	Robo-Advisors manage your investments for you. This includes portfolio rebalancing, tax-loss harvesting. Betterment incorperates goal-setting.
Wealthfront wealthfront.com	0.25% Management fee Expense Ratios: 0.05% +	$500	Robo-Advisors manage your investments for you. This includes portfolio rebalancing, tax-loss harvesting. First $5000 is managed for free.
Round up/Microsaving Brokerages			
Acorns acorns.com	$3 fee/month	$5	Link debit and credit cards to "round-up" purchases, capturing your savings to your investments.
Stash stashinvest.com	$1-3 fee/month Expense Ratios: 0.06% +	$5	Stash Invest is an automated investment app that gives you the choice among different thematic allocations like "Clean & Green."
State Retirement Saving Roth IRA for Oregonians			
OregonSaves oregonsaves.com	$1.50/month 0.25% annual asset based fee	$0	You'll automatically be enrolled in OregonSaves if you're employeer does not offer a retirement account. The default contribution starts at 5%.

Retirement Accounts & Options

Case Study: Jazmin has an emergency savings account, is tackling debt and now wants to turn her attention to opening a Roth IRA. Her budget is tight, but she thinks she can swing $5-25 a month to start investing for retirement.

Take five minutes to review three of the brokerage websites in the table above. After your review, where would you recommend Jazmin open her Roth IRA?

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(Note: there is no wrong answer).

Get Started: If you don't have a Roth IRA or Trational IRA and currently have earned income for this year, consider taking 15 minutes to open an account at a brokerage of your choice. To get started, go to the website of the brokerage of your choice and select "Open Account." Then select "Roth IRA" or "Traditional IRA." Need some help? Try their 1-800 phone number or Direct Message them. After you've opened your account, pat yourself on the back! How did this experience go?

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If you have an **ITIN** (Individual Tax Identification Number), but not a social security number, you can create and access a retirement account. It may not be as easy as filling out their form online, and you'll likely have to give them a call to learn about the process.

Reflection: **if you have an ITIN but not a SSN**, call up one of the online brokerages listed above and ask them help you sign up for a Roth IRA with an ITIN. Which company did you call? What is their process?

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Retirement Accounts & Options

B) Depositing money from your credit union or bank to your retirement account

Wow, you've done it! You've opened a retirement account. The next step is to decide how much you can budget each month to set aside from your checking account to your IRA accont. $5/month, $50/month, $500/month, a percent of your paycheck? Choose a number you know you can afford and know you can adjust it at any time of your chosing. Now you're ready to complete the second of three steps…

Log into your new retirement account and set up automatic monthly deposit from your checking for the amount of your choosing. Need assistance? Don't hesitate to call their 1-800 number.

C) Select index fund(s) to invest your money in your retirement account

We've arrived at the final step of setting up your retirement account. Selecting where the money in your retirement account is invested. Unfortunately it's not enough to just open a retirement account, you need to have the money invested too. Let's explain this using a coffee cup analogy:

i. You've chosen your coffee mug (that is, the Roth or Traditional IRA or 401(k) plan)
ii. You've turned on the water to fill your mug (that is, you've set up a monthly deposit to your retirement account)
iii. Now you have to select the coffee beans for your coffee mug (that is, you have to select the index funds to invest in so your retirement account will grow over the years)

You may be thinking, what is an index fund? Is an index fund made up of stocks and bonds? How do you select an index fund? Let's cover these questions in the next section…

Learning Check:

1. Which of the following is true about OregonSaves?
   a. It's voluntary. You can opt out or back in at anytime.
   b. It's portable. You keep the account even if you change jobs.
   c. It's a Roth IRA
   d. All of the above

2. What is the most important thing you learned about **Investing for Retirement**?

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Investing for Retirement

You've set up your Roth IRA, Traditional IRA, 401k or OregonSaves. Now, the final step is selecting low-fee index fund(s) to invest your money. Sometimes investing feels like watching grass grow or paint dry, but it can be powerful over a period of time.

In this module, we introduce *Investing for Retirement*. We'll discuss:

A) Compound interest and the power of time
B) Types of investments
C) Diversification and asset allocation
D) Investment fees
E) Resources to learn more about investing

A) Compound interest and the power of time

There is no denying that the longer you have to save, the more the savings will grow. But by how much? You may be surprised. Interest can work for you or against you, but when it comes to savings and investing over time, it can be quite powerful. To understand, let's learn about compound interest.

Watch: How does compound interest work? Watch the following video explainer:
https://www.youtube.com/watch?v=KKSvrRzMNv8 (Watch 00:00-9:42)
"Compound Interest explained, Personal finance for beginners and more" by Finance with Bukky

What do you take away from this video about the power of compound interest over time?

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Activity: Visit this compound interest calculator from Investor.gov and answer the following questions:
https://www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator

In the Compound Interest Calculator, put in the following information:
Step 1: Initial Investment = $0
Step 2: Monthy contributions = $50
Length of Time in Years = [62 minus your age]
Step 3: Estimated Interest Rate = 6%
Interest rate varience range= [blank]
Step 4: Compound Frequency = Annually

How much would your savings compound to if you saved until age 62? _$________________________

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How much would your savings compound to if you saved until age 70?

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How much of a difference did the extra eight years of savings make?

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You're probably asking, "where can you historically get 6% annual return on your money?" Stocks have historally returned 10.29% annually while bonds have historically returned around 3-4% annually (Source: Vanguard survey of 1926-2019). This leads us to our next section on "Types of Investments."

B) Types of investments

Yes, there are a lot of types of investments. Imagine a car lot, there are many options that get the job done. The most important decision is to just get started.

Reflect: What's a good return on an different types of investments? Watch "What's a Good Return on Investment?" from PBS's Two Cents and answer the following questions https://www.youtube.com/watch?v=sHSaUqoKjkA

What do Certificates of Deposits pay each year on average? _______%

Over the last 90 years, what has been the average annual growth of the S&P 500? _______%

What do you think was the most important lesson from this video?

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Now that we've learned about a couple types of investing, let's expand our repetoire. Take a few minutes to review defininitions of the most common types of investments. Volatility in investing is how likely the asset will swing up and down. You'll see that they are organized from less volatile on the top to more volatile as

Investing for Retirement

you progress down the list. The sweet spot for retirement investing is commonly in the middle of the normal volatility section where investments historically go up more than savings accounts over a period of time.

Definitions - Types of Investment (listed in order of level of volatility)

Less Volatility – less likely to increase or decrease in value significantly

The Good: Your savings won't decrease in value and is great for short-term savings goals.
The Bad: Your savings won't keep up with inflation.

Bank or Credit Union Savings Account – Your money in a savings account is federally insured up to $250,000. This means, if the bank or credit union goes out of business, your money is still safe. While your savings account is completely safe and may provide some interest, it may not provide enough interest to keep up with the costs of inflation.

Certificate of Deposit (CD) – A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate.. Like savings accounts, CDs are issued by credit unions and banks and are federally insured.

US Treasury Bond - A marketable, fixed-interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level. They can be bought individually or in mutual funds. Treasury instruments that mature in 10 years or less are called "Treasury notes" (2 to 10 years) or "Treasury bills" (1 year or less).

Normal Volatility suitable for retirement investing

The Good: Your investment will compound significantly in the long term and beat inflation.
The Bad: Your investment will have some down years to pair with the good years.

Bond Fund - A bond is a loan to a company or government that pays investors a fixed rate of return over a timeframe. A bond is similar to an I.O.U., you're lending money and expecting to get interest back over time. A bond fund is a basket of bonds.

Index Fund – think of it like a basket of eggs where the eggs are individual stock and bonds. By purchasing an index fund, you may own thousands of stocks for one small price. There are many different index funds with a portfolio constructed to match or track the components of a financial market *index*. A ***Total Market Index Fund*** tracks the performance of the overall stock market and can be a place to start.

ETF (Exchange Traded Fund) – Similar to an index fund, an exchange-traded fund (ETF) is a basket of stocks or bonds that tracks an underlying index.

Investing for Retirement

Target Date Fund (or Age Based Fund) – A fund that automatically adjusts its asset mix of stocks, bonds and cash in its portfolio according to a selected time frame. For example, a younger worker hoping to retire in 2060 would choose a target-date 2060 fund, while an older worker hoping to retire in 2030 would choose a target-date 2030 fund.

S&P 500 Fund – An index fund that invests in stocks matching the "Standard and Poor's 500 index." The S&P 500 index is a list of stocks from 500 of the largest US companies from different industries.

Value Investing - an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book *value*.

Growth Investing - an investment strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Socially Responsible Investing (SRI) – as the name implies, SRI is an *investment* that is considered *socially responsible* due to the nature of the business the company conducts. Sometimes also called "ESG Investing" or Environmental, Social and Governance based investing. You can find ESG or SRI funds.

More Volatility – more likely to increase or decrease in value significantly; exercise caution

The Good: With good luck and good timing your spectulation could do well.
The Bad: Your spectulation could lose most or all of what you put in.

Individual Stocks – (also known as "shares" or "equity") is a type of security that signifies ownership in a corporation. Investing in individual stocks carries more risk than investing in a basket of stocks like an Index Fund (see above).

Start-up Company/ Initial Public Offering (IPO) – a company that recently transitioned from being private to being public and listed on a stock exchange, and is available to invest in.

Alternative Assets – precious metals, cryptocurrencies, currencies, commodities, etc. – bound by supply and demand instead of company earnings, these assets are historically more volatile, and may be less liquid.

A friend or family's small business – if you decide to put money towards a close friend or family member's business, consider doing it more out of the goodness of your heart and to support your community and less expecting to see an investment return. Whether the small business does well and needs more money to grow or does poorly, expect a long time frame before seeing your investment return.

Sources: Adapted from Investopedia, OregonSaves, Oregon ABLE Account

Investing for Retirement

Organize: Organize the following types of assets based on how volatile they are, with 1 indicated volatility and 5 indicating high volatility.

__________ Index Fund/Stock Fund

__________ Saving Account

__________ Investing in a local Grilled Cheese food cart

__________ A share of Nike or Apple Stock

__________ Bond Fund

The sweet spot for retirement investing is commonly in the middle or the normal volility section where investments historically go up more than savings accounts over a period of time.

Of the asset types above, which two are recommended for investing in a retirement account?

____

If you said Index Funds and Bonds Funds are the sweet spot for retirement investing, you'd be correct. Nike, Apple or other individual stocks may be great companies, but they are just ONE company. The key with an **Index Fund** is your $5, $20, $200 or any amount is invested in lots of companies. Watch "Index Funds vs Mutual Funs vs EFT" by It's Your Girl Rose to learn more: https://www.youtube.com/watch?v=vGcOGYkttl4 (Watch 0:00-4:58).

C) Diversification and asset allocation

Index Funds also can help you **diversify** your investing. What does this mean? As the saying goes, "don't put all of your eggs in one basket." The same is true for long-term and retirement investing. **Diversification** is a strategy to invest in lots of different things through a fund or multiple funds, so that if technology stocks are down one year but consumer staple stocks are up the same year, your investment returns may balance out. **Asset allocation** looks to balance how much you invest in Stock Index Funds vs how much you invest in Bond Index Funds. There are different appropriate asset allocation strategies based on your life stage and goals.

Investing for Retirement

Diversification – is risk management strategy that mixes a wide variety of investments within a portfolio. As the saying goes, don't put all of your eggs in one basket.

Asset Allocation – aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon.

Equity– with respect to investing, it's another word for "stock."

Income/Fixed Income – with respect to investing, it's another word for "bonds."

Sources: Adapted from Investopedia

Scavenger Hunt: *Look* at a couple of different asset allocations between Equity (Stocks) and Fixed Income (Bonds) and their historic annual returns from 1929-2021.
https://advisors.vanguard.com/VGApp/iip/advisor/csa/analysisTools/portfolioAnalytics/historicalRiskReturn

What is the average annual return if you invested 10% Equity/90% Fixed income? _________%

What is the average annual return if you invested 10% Equity/90% Fixed income? _________%

What is the average annual return if you invested 50% Equity/50% Fixed income? _________%

What is the average annual return if you invested 90% Equity/10% Fixed income? _________%

After reviewing the different asset allocations, what is your take-away?

____

D) Investment fees

The goal with investing is to slowly generate compounding returns on your money over the years. But do you know what else can compound? Fees. No, say it's not so! When evaluating investments, you'll want ask and look for how much the fees are. Let's explore further...

Reflect: Review the following resource on "Understanding Fees" and the answer the following questions.
https://www.investor.gov/introduction-investing/getting-started/understanding-fees

Investing for Retirement

Looking at the chart, how much would a 0.50% annual fee reduce the portfolio by compared to a .25% annual fee after 20 years of investing?

_$_______________

From the list of questions provided, which questions do you think are best when asking a financial professional or researching an online brokerage about their fees?

____

____

____

An **expense ratio** reflects how much money you pay each year to portfolio management to own a fund. For example, if you own a fund with an expense ratio of 0.59%, this means for every $100 you have invested, the fund will charge you $0.59 each year, taken away from your annual return. Mutual funds typically have higher expense ratios than index funds.

Analyze: Compare the following expense ratio of each of the following funds using Yahoo Finance.

- Fidelity S&P 500 Index Fund (Ticker Symbol: FXAIX) https://finance.yahoo.com/quote/FXAIX
- DWS S&P 500 Index Fund (Ticker Symbol: SCPIX) https://finance.yahoo.com/quote/SCPIX

What is the expense ratio for FXAIX? __________%

What is the expense ratio for SCPIX? __________%

Which fund can you expect to pay lower fees? _____________

While it may not be realistic to eliminate all fees, it is important to figure out what the fees are and compare them with competitors.

Investing for Retirement

E) Resources to learn more about investing

Websites:

- Investor.gov – a free and unbiased website from the US Securities and Exchange Comission explaining basic investing concepts**.**
- AARP – has extensive blogs, calculators and tools on retirement and social security topics, geared towards seniors.
- Investopedia – from the novice to the expert, Investopedia blogs on just about every investing**-**related topic. Know they get paid by you clicking on affiliate links.

Podcasts:

- Clark Howard – the original consumer watch dog has a daily podcast around helping people save more, avoiding scams and of course, first steps to investing.
- The Retirement and IRA Show – led by two Certified Financial Planners, they explore a range of retirement planning topics, focusing on social security planning.
- Clever Girl Knows – Bola, Carli and Yazmiri covers investing for women, but also entreprenuership, life and everything in between.

Books:

- Broke Millenial Takes on Investing**, by Erin Lowry,** walks you through not only investing basics, but also how to align investing with your values.
- Investing for Dummies **by Eric Tyson** – do we need a description here? Actually, the book does a pretty good job of laying out investing fundamentals.
- Clever Girl Finance**, by Bola Sokunbi,** this book doesn't skip the basics and starts with the building blocks of wealth creation, peppered with personal anecdotes along the way.
- Get Good with Money**, by Tiffany Aliche,** famously known as the "Budgetnista," the book is judgment-free, and provides a blueprint for getting to investing from financial hardships.
- Simple Path to Wealth**, by JL Collins** – what started as a free stock series in letters laid out for his daughter, the book shares how simple investing can actually be.

Instagramers:

- **@cleavergirlfinances @yoquierodineropodcast @betterwallet @missbehelpful @zerobasedbudget @indigemoney @delyannethemoneycoach @savemycents**

Investing for Retirement

Learning Check:

1. Which of the following would <u>not</u> be an appropriately diversified investment to put in your retirement account?
    a. An Index Fund
    b. An individual share of Tesla stock
    c. A Target Date Fund
    d. A Bond Fund

2. What is the most important thing you learned about **Investing for Retirement**?

    ____

    ____

Economic Literacy and Retirement

Building wealth and creating retirement security in America is not a level playing field. In this module, we will look at some historical and system disparities. If you are Black, Brown, Indigenous, a person of color or are part of a historically marginalized and disinvested population, and may feel triggered by this discussion around the inequities of asset building. You may want to check in with yourself about whether to dig in now or revisit at a later time.

A) Economic Literacy Racial Wealth Gap

What does **Economic Literacy** mean? A good analogy is to think about finances in the context of learning to ride a bike:

> Imagine we are learning together how to ride a bike. Most likely, we'll start off in a controlled environment like a school parking lot. We'll learn basic bicycle safety, how to brake, the mechanics of shifting gears, how to balance with both training wheels and then without them. And so on. Learning these steps is not unlike learning basic financial education skills. These skills are essential to our success riding in a school parking lot but they fail to acknowledge that bicycling in a controlled environment is vastly different from on congested roads where the bicyclist has to contend with traffic from cars, trucks and other motorized vehicles which may or may not have much regard for bicycles.
>
> Our financial lives occur not in a controlled parking lot, but a four line highway where wage stagnation, tax policies, shifts in labor trends, and differential access to wealth building tools and credit make it harder for many people, particularly Black, Indigenous and People of Color, to successfully stay afloat. Learning together about investing without addressing and acknowledging economic literacy erroneously emphasizes that financial wellness depends solely on individual actions and fails to acknowledge pre-existing systemic economic and racial inequities that perpetuate severe income and wealth disparities. (Adapted from: Neighborhood Partnerships)

It may be challenging to imagine setting money aside for retirement, especially when many of these systematic forces are making finances in the day-to-day challenging to manage.

The historical and current factors play out in data related to the **Racial Wealth Gap.** The racial wealth gap between whites and blacks; whites and latinx and whites and other/multiple races has remained largely the same over the past 30 years, and COVID did not help.

Economic Literacy and Retirement

Reflection: Scan through the following infographics from Prosperity Now on the Racial Wealth Gap and reflect on any of the following questions.
https://prosperitynow.org/blog/infographic-racial-wealth-gap

What did you already know? What did you learn? What do you think are the most important take aways? How is investing and retirement planning related to the wealth gap?

____

____

____

____

____

____

B) 401(k)s: Advantageous or Inequitable?

In the Retirement Accounts module, you watched a video discussing both the enormous benefits and also historic flaws of how 401(k) retirement plans were ushered in to America. On the one hand, participating in your workplace 401(k) account can be an important way to help provide security in your retirement years. On the flipside, workplace 401(k) plans have mostly replaced traditional pensions that companies used to offer their employees, putting more saving burden on the individual rather than the company. The results of "who does save" is not suprising. **Chart A** shows how 401(k) plans magnifies inequality as the highest income households receive a dispropationate share of the tax benefit that the retirement accounts provides, because, not surprisingly, they save much more.

Similarly, we see in **Chart B**, that while many more households have 401(k) plans than pensions, participation in pensions is more equal across education, race and ethnicity, gender and marital status compared to participation in 401(k) plans.

Economic Literacy and Retirement

Chart A

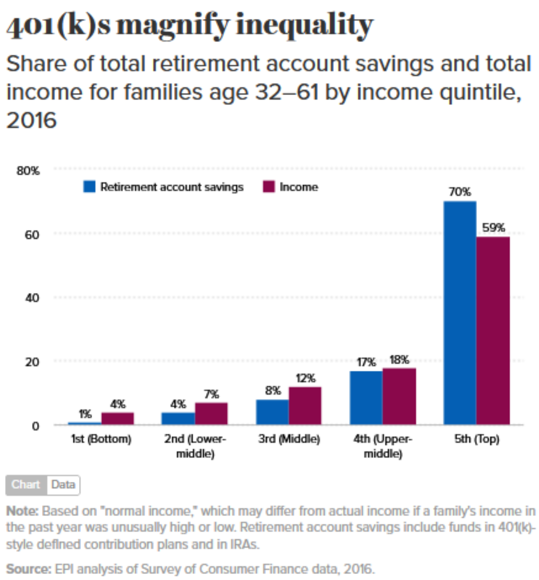
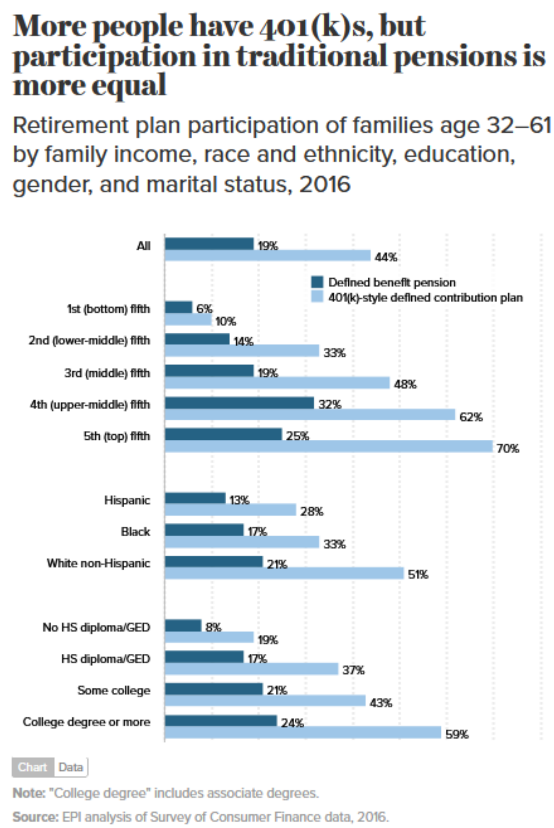


Chart B



EPI analysis of Survey of Consumer Finance data, 2016

What can you do? Advocate. Educate. Organize.

- Advocate for your employer to offer a 401(k) match, since they don't offer a pension.
- Advocate for retirement savings tax policies that provide equitable or progressive benefits for historically disinvested and lower income households.
- Advocate for the IDA program which directs assets to Oregonians for necessary savings goals.
- Advocate for student loan forgiveness, to support households investing more money towards their future than their past.
- Vote for representatives who will fight for securing Social Security for future generations.
- Pass this curriculum on to friends and family who may enjoy more information about Asset Building and Retirement Planning.
- **Open a retirement account. Save.** Yes, this system needs to change, but work to secure your future within the current system while fighting for change.

Final Learning Check:

1. What's one way you can advocate for a more equitable savings and retirement system?

   ____

   ____

2. What is the most important thing(s) you learned overall from this self-directed course?

   ____

   ____

3. What's one action you're going to take after this course?

   ____

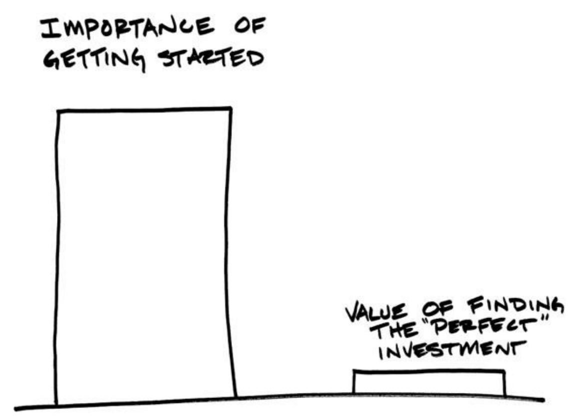
   ____

Next Steps and First Steps

Give yourself a pat on the back. You did it.

In the first module, we learned about the **Basics of Retirement Planning**. Unfortunately retirement Social Security won't likely cover all of your living expenses, so any investing and compound interest seeds you plant today to supplement your monthly expenses in the future will be welcomed by your future you. And while starting Social Security retirement payments is a personal decision, it's helpful to be aware that delaying from age 62 to 70 to begin your withdrawals will result in a 76% increase to your monthly Social Security Payments.

In the second module we discussed **Retirement Accounts and Options**. Remember the steps? 1) Open a retirement account, 2) deposit money in the account regularly/automatically and 3) select index fund(s) to invest your money in the retirement account. Then forget about it. Yes, there's a lot of options. And yes, if your workplace offers a 401(k) plan match, that may be a good place to start. But more important that which retirement account you choose, is simply to get started and fund it consistently.



From Carl Richards, a New York Times writer also known as "The Sketch Guy"

Next, we discussed **Investing for Retirement**. We talked about how diversification, paying low fees, and regular contributions to a low-fee index fund could be a good place to start. As the picture says, it's more important to get started than find the perfect investment.

Finally, we wrapped up by talking about **Economic Literacy and Retirement**. We discussed some problems with the current system and some possibly ways you can advocate for a more equitable retirement system future.

If you are just getting starting saving for retirement now, go you! The sooner you start the better. Better today than tomorrow. And better later than never. If you're already saving, research suggests to increase your savings amount by 1 to 2% more each year. Those small increases could make a world of difference to your stability in years to come.

Making a plan with your IDA

Here are a few important FAQs for Retirement IDAs:

<u>What happens once I have reached my Retirement IDA Savings Goal?</u>

Once you have reached your IDA savings goal and completed your program requirements, you will request that the IDA matching funds you earned be sent to a retirement account that is open in your name.

<u>What types of retirement accounts can IDA matching funds be sent to?</u>

IDA matching funds can be deposited into any tax-advantaged retirement account as defined by the IRS. For IDA savers, the most common choice is a ROTH IRA. This could be an Oregon Saves account, or an IRA from a brokerage or financial institution.

<u>What annual limits do I need to consider?</u>

There are a few things to consider as you make a plan for receiving IDA matching funds.

1. The IRS sets a maximum annual contribution for all IRAs
    a. This means that the combined deposits in a calendar year (inclusive of IDA savings, IDA match, and any non-IDA contributions) cannot exceed the maximum annual contribution. For reference: in 2022, the maximum annual contribution was $6,000 (or $7,000 for individuals age 50 or over). Be sure to consult current annual limits set by the IRS.
2. The total of all contributions to an IRA in a calendar year must be **less than** your “taxable compensation” during that same year
    a. This means that the combined deposits in a calendar year (inclusive of IDA savings, IDA match, and any non-IDA contributions) cannot exceed your earned income for that calendar year. This meant that if you have no “taxable compensation” to report in a calendar year, you may also not make contributions to an IRA in that calendar year.

<u>How will receiving IDA matching funds affect my taxes?</u>

Depositing savings and matching money into a retirement account will likely qualify you for the federal “Saver’s Credit” (https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit) To understand some of the tax considerations related to IDAs in general, and specifically Retirement IDAs, please refer to: https://oregonidainitiative.org/ida-tax-related-issues/

Making a plan with your IDA

Receiving Retirement IDA Matching Funds

It's likely that a lump sum Retirement IDA disbursement would put you over the allowable maximum annual contribution limit. For this reason, you will need to work out with your IDA Provider a plan for earning and receiving matching funds into your Retirement Account over the span of a few years.

When did you open your IDA?

____

What is your total savings goal?

$___________________

If you reach your savings goal, how much will you earn in IDA matching funds?

$___________________

What type of retirement account will you request that the IDA matching funds go to and what institution is it with?

Account type: __________________________

Institution name:_____________________________

Fill out the chart with your IDA Provider to make a plan for saving and receiving IDA matching funds. Remember that your total contribution per year must be below the allowable maximum annual contribution limit set by the IRS.

	Savings goal amount	IDA matching funds amount	Total contribution: Savings + IDA matching funds	Date you plan to request IDA matching funds **Month/Year**
Year 1:	$	$	$	
Year 2:	$	$	$	
Year 3:	$	$	$	

If you have any questions about how to plan to use your IDA matching funds, it's a great idea to sit down early on with someone to talk about your goals and what approach might work best for you.

Verification of Completion

Retirement

IDA Education Series

Give this page to your IDA Provider after completing this Planning for Retirement curriculum. You keep the rest of the packet.

Name:______________________

Date Completed:____________________

Sign here to verify that you have completed the Planning for Retirement packet!

- Signature:_______________________________

Is there anything related to planning for retirement that you would like to learn more about or discuss with your IDA Provider?

Do you have any recommendations to make this curriculum better?

THANK YOU!