Standard 6: **The student will explain and evaluate the importance of planning for retirement.**

Longevity and Retirement

Lesson Objectives

⇒ Examine the investment needs of different individuals and make recommendations for their retirement strategies.

⇒ Evaluate longevity and life-span statistics to predict the numbers of years they will live in retirement and expected income needs.

"Keisha, are you ready for the party?"

"Just a minute, Annie. I am still looking for my card. It took a long time to find a 90th birthday card for my great-grandmother, you know. I cannot leave without it," answered Keisha.

"Wow, girlfriend. Do you think we will live that long? I mean, 90?"

"Well, I do not know for sure, but it would be fun. My great-grandpa died nearly twenty years ago, before I was even born. But Granny has lived by herself since then and has done just fine."

Do you think Keisha and Annie will live until they are 90? What about you? What is your potential life expectancy? Will you be financially prepared to live alone and support yourself all those years?

Personal Financial Literacy Vocabulary

Life expectancy: A statistical measure of the average length of life from birth to death.

Lifestyle: The way people choose to live their lives, based on values they have chosen.

Introduction

The idea of planning for retirement is a fairly recent phenomenon. Due to advancements in medicine and other factors, people now live much longer; and, therefore, need financial resources to pay for those years. About 100 years ago, few people lived past age 65. Today, the life expectancy in the United States is 78 years, with many people living into their 90s.

The amount of money needed for retirement is directly related to the number of years a person lives. With the life expectancy continuing to climb, so does our need to plan for financial independence in those years.

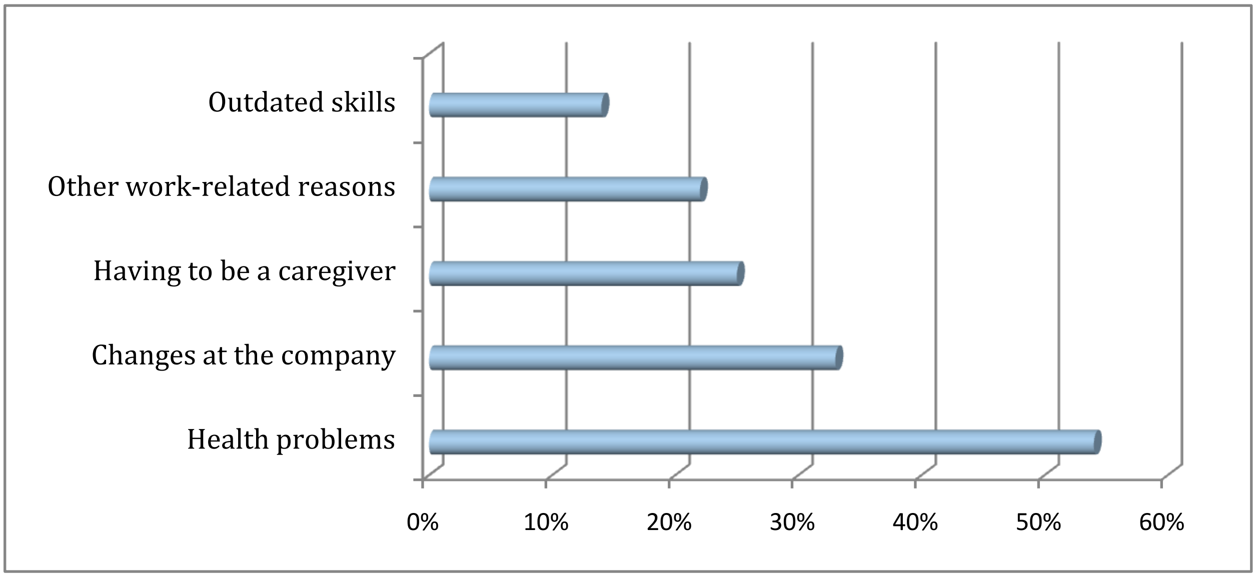
Lesson

How much money will you need when you retire? That is a difficult question because no one answer fits every situation. The amount of money you need depends on your lifestyle and your retirement goals.

If you have watched commercials on television recently, you have probably noticed the ads targeting older people. Some of those ads focus on medication and health aids, and others show older people living very active lives. For most of us, we would really prefer being healthy and active, with plenty of money to play golf, travel and do what we want. That lifestyle is possible for those senior citizens who have successfully planned for their retirement years.

You may have also noticed many older people continue working. Some of them work because they enjoy their careers, and they enjoy being with other people. However, some of them are still working because they need the money to pay their bills.

According to a survey published recently by the Employee Benefit Research Institute, about half of those people who are retired had planned to work longer than they did. As an employee, you may not always have control over when you retire or when you stop working. That information is important because it says that you really have to plan early because you do not always know what will happen to your plans.



Changing Plans
This chart shows the reasons retirees give for leaving the work force earlier than they expected.
Source: Employee Benefit Research Institute, December 2007

Determining the Need

If you wait until your 30s to start investing for retirement, you have about 30 years before you retire. Then you can probably plan to live another 30 years in retirement. That means you could spend one third of your life retired, living off your investment earnings. In other words, you would be living on your savings for the same amount of time you spent saving for retirement!

Part of the process of saving and investing for your retirement is determining how much money you will need and how many years you will need it.

To develop a successful plan, you would want to know how much money you will need each year.

Generally, you will need somewhat less than the income you need while working because most retirees have fewer expenses than people who are working—especially younger workers who still have children at home. However, the amount you need really depends on your plans for retirement.

Next, you will need to determine how many years you expect to live in retirement. It is always better to think longer rather than shorter to ensure you have enough money. According to the U.S. Department of Health and Human Services, people who live to be age 65 will live an average of 19 more years. Most financial advisors encourage you to plan on living into your 90s, just to be safe.

COMPLETE: Analyzing Your Retirement Needs – Activity 6.2.1

Have your teacher review your answers before continuing with this lesson.

Retirement Income Shortfalls

Studies show that people tend to underestimate their life expectancy, which means they face the possibility of outliving their retirement savings. **Life expectancy** is a statistical measure of the average life span of a specified population; it is used to help people estimate how long they will actually live.

Having some idea about your life expectancy will help you determine how much you need to save for your retirement because you want to plan to have a sufficient amount of income to maintain your quality of life.

Depending upon your expectations for retirement, the choices may have a significant impact on your lifestyle. Following are three steps to consider if you want to increase your retirement savings.

1. **Rethink your goals.** If your goal is to take a European vacation each year, you may need to adjust those plans and visit a local lake instead.
2. **Postpone your retirement.** You can work more years and accumulate more money in your retirement account, or take a different job and supplement your retirement earnings with money earned on your job.
3. **Increase your contributions to your retirement account.** Putting more money aside now increases the possibility of having more money later.

Taking the time to think through the options you have to finance your retirement will have a significant impact on your personal and financial goals. In addition, it can help ensure you have sufficient funds to maintain your financial independence later in life.

Summary

Before completing this lesson, summarize in the box below the three most important points you have learned about planning for retirement:

1.
2.
3.

As a teen in today's world, you have a good chance of living well into your 90s, like Keisha's great-grandmother.

Your family history plays a big role in your longevity. Current studies show that heredity accounts for about one-fourth of the factors affecting your life expectancy. Seventy-five percent (or three-fourths) of age factors are based on your personal lifestyle choices.

Being able to live financially independent for those post-retirement years will depend on your investment choices.

Conclusion

Preparing for retirement is like many other choices you have. You must decide what is best for you and then determine how to make it possible. Your goals for later in life are as important as your short-term goals, even though the idea of retirement seems crazy when your whole life is ahead of you.

The biggest mistake most people make is failing to plan early enough and being caught short on funds in their retirement account. While many older adults enjoy working to stay active and involved, it is much different to work because you want to than because you have to!

If you start investing for your retirement early in your career, you can look forward to all of those years later in life, instead of worrying about how to pay for them.

Name: ____________________________ Class Period: ___________________________

Longevity and Retirement
Review Lesson 6.2

Answer the following questions and give the completed lesson to your teacher to review.

1. Which of the following is a true statement?

   a. Women live longer than men.
   b. Men live longer than women.
   c. Men and women live the same length of time.
   d. The table does not indicate which gender lives longer.

2. If someone is not saving enough money for retirement, which of the following actions should they consider?

   a. All of the below are correct.
   b. Postpone retirement to a later date.
   c. Rethink retirement goals.
   d. Save a larger amount of money each year.

3. Which of the following events could cause your retirement benefit to be lower than you anticipated?

   a. You inherit money you had not anticipated.
   b. Inflation occurs at a lower rate than you calculated.
   b. Your rate of return is lower than you calculated.
   c. You earn a larger retirement benefit than you calculated.

Name: ____________________________ Class Period: ___________________________

Analyzing Your Retirement Needs – Activity 6.2.1

Use the following table to complete the questions on the next page.

*In year 2004**		
Exact Age	Remaining Life Expectancy *Male*	Remaining Life Expectancy *Female*
0	74.83	79.96
1	74.4	79.45
2	73.43	78.49
3	72.46	77.51
4	71.47	76.52
5	70.49	75.54
6	69.5	74.55
7	68.52	73.56
8	67.53	72.57
9	66.54	71.58
10	65.55	70.58
11	64.55	69.59
12	63.56	68.6
13	62.57	67.61
14	61.59	66.62
15	60.61	65.64
16	59.65	64.66
17	58.7	63.68
18	57.75	62.71
19	56.81	61.74
20	55.88	60.76
21	54.95	59.79
22	54.02	58.82
23	53.1	57.84
24	52.17	56.87
25	51.25	55.9
26	50.32	54.93
27	49.38	53.96
28	48.45	52.99
29	47.52	52.02
30	46.58	51.05
31	45.64	50.08
32	44.7	49.11
33	43.76	48.14
34	42.83	47.18
35	41.89	46.22
36	40.96	45.26

***Source: Social Security Administration website www.ssa.gov.**

1. According to the table, what is the average lifespan of someone your age and gender. (Remember that this table is dated in 2004, so how old were you in 2004? That is the row you will select.) Then, add your age in 2004 to the number of years of remaining life expectancy to determine your answer. For example, if you were ten years old in 2004, and you are a girl, then you would add 10 + 70.8, meaning you would probably live until you are at about 81 years of age (i.e., 10 + 70.8 = 80.8).

   ____

2. You probably noticed that males do not have the same life expectancy as females. Why do you think women tend to live longer than men? Do you foresee any change in this trend?

   ____

   ____

   ____

3. You may also notice that people who are older in 2004 actually have a longer life expectancy than those individuals born in 2004. Two factors affecting the difference is the impact of childhood diseases and accidents at younger ages. Do you believe these trends will hold in the future? Why or why not?

   ____

   ____

   ____

4. Assume you will retire at age 65. How many years does the table say you will live in retirement? ________________

5. Do you have any family members older than this age? YES NO

6. Do you think you might live longer than this chart indicates? YES NO

7. Reasonably, how many years do you expect to live in retirement? _________

8. Assume that you need $50,000 a year during retirement. To provide you with a rough estimate of your retirement need, multiply $50,000 x your life expectancy. What number do you get? _________________________

9. The number in answer eight is incorrect for several reasons. Different things can and will happen with you and with your money between now and the time you start relying on it for income. Those variables will increase or decrease your financial needs after your retire. The statements listed below are examples of what may or may not happen to you.

   For each of the following events, determine whether or not the event would cause your account value to increase or decrease. Circle your answer for each situation.

   A. You earn a return of 8% a year on your account balance.

      Increase Decrease

   B. Instead of earning the 8% you anticipated, you earn 6%.

      Increase Decrease

   C. You forget to include inflation, which is 3% each year.

      Increase Decrease

   D. You inherit money that you can add to your account.

      Increase Decrease

   E. You need the money and you do not fund the account.

      Increase Decrease

   F. You have part of your check automatically deposited into a retirement account.

      Increase Decrease