

# CHAPTER 15 Retirement and Estate Planning

## Reviewing Key Terms: Complete the Sentence



**DIRECTIONS:** Using terms from the following list, complete the sentences below. Write the letter of the item you have chosen in the space provided.

- |                                   |  |                         |
|-----------------------------------|--|-------------------------|
| A. assisted-living facility (ALF) | D. vesting                             | G. estate               |
| B. defined-contribution plan      | E. individual retirement account (IRA) | H. beneficiary (estate) |
| C. 401(k) plan                    | F. Keogh plan                          | I. intestate            |
|                                   |  | J. probate              |

1. A(n) \_\_\_\_\_ is an individual account for each employee to which the employer contributes a specific amount annually.
2. The right of an employee to keep the company's contributions from company-sponsored plans such as pensions is \_\_\_\_\_.
3. A retirement plan specially designed for self-employed people and their employees is a(n) \_\_\_\_\_.
4. A residence complex that provides personal and medical services for the elderly is a(n) \_\_\_\_\_.
5. A(n) \_\_\_\_\_ is all property and assets owned by an individual or group.
6. A person named to receive a portion of your estate after your death is a(n) \_\_\_\_\_.
7. A special account in which the person sets aside a portion of income for retirement is known as a(n) \_\_\_\_\_.
8. \_\_\_\_\_ refers to a person who does not have a valid will.
9. The legal procedure of providing a valid or invalid will is \_\_\_\_\_.
10. A(n) \_\_\_\_\_ is a type of retirement savings plan funded by a portion of your salary that is deducted from your gross paycheck and placed in a special account.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 15 Retirement and Estate Planning

### Understanding Key Concepts



**DIRECTIONS:** On a separate sheet of paper, answer the following questions.

1. Many people believe that saving just a little toward retirement does not help. Make an argument against this.
2. How can a person's housing choice help him or her reach retirement goals?
3. Why should a person take inflation into account when estimating retirement expenses?
4. Moira's grandmother is in good health but longs to quit her job and travel. She is thinking about retiring at 63 and relying on her Social Security benefits to pay living expenses. Moira is trying to persuade her grandmother to continue working until she is 67. What reasons might Moira give?
5. Harold paid taxes on his annual contributions to his retirement account and started withdrawing money when he turned 61 years old. The withdrawals are tax- and penalty-free. What type of retirement account does Harold have?
6. Samantha is retired. She receives all the payments to which she is entitled and takes advantage of low-cost recreation opportunities such as the park and the library. She also uses her senior discount on movie tickets, meals, and entrance fees for state and national parks. However, she finds the cost of retirement higher than she anticipated. What should she do?
7. How do a traditional marital share will and an exemption trust will differ?
8. What are three advantages of a living trust in comparison to a will?
9. List three major types of taxes imposed on estates.
10. Eleanor is concerned that the taxes, probate costs, and other expenses surrounding her death will create a burden for her daughters. How can she provide them with tax-free cash to help settle her estate?

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 15 Retirement and Estate Planning

## Activity 1: Getting Ready to Write a Will



### SKILLS ACHIEVED

Reading, Writing, Problem solving, Decision making, Reasoning, Seeing things in the mind's eye, Responsibility

**OBJECTIVE:** *Think through your assets and possessions in preparation for writing a will.*

Thinking about your own death is an unpleasant task, but something that might be *even more* distressing is what would happen if you died without a will and had no say in how your assets were divided. Dying without a will leaves your assets in the hands of a probate court, which will divide them up as it sees fit, not as you may have wanted. In this activity, you will make an inventory of your assets, financial and otherwise, and explore what you would like to happen to them in case of your untimely death.

In the first column at the bottom of this page, list items you would like to include in your will. Include all financial assets, like cash, savings, stocks, bonds, mutual funds, and other investments you imagine having. Then think about items that may have cost a good deal: a car or bike, computer, stereo system, musical instrument, or sports and hobby equipment. Finally, consider inexpensive items that may have sentimental or other special value to a friend or relative, such as a piece of jewelry, an old letter or photograph, or a favorite memento. In the second column, write to whom you would like to give the item. In the third column, explain why you have decided to give that item to that particular person. Use extra paper if you need more space.

Financial Assets	To Whom?	Why?
Major Possessions		
Items of Sentimental or Special Value		

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 15 Retirement and Estate Planning

### Activity 2: *Researching the Retirement Plans of Area Businesses*



#### SKILLS ACHIEVED

Reading, Writing, Listening, Acquiring and evaluating information, Organizing and maintaining information, Interpreting and communicating information

**OBJECTIVE:** *Research and evaluate the retirement programs of a local business.*

These days, when people decide where they might like to work, they usually consider more than just the salary. The benefits package a company offers is playing a bigger and bigger role in people's employment decisions. One of the most important job benefits a company can offer is a retirement program. Successful companies know that one way to attract the most talented workers is to offer a generous and flexible retirement program. In this activity, you will research and evaluate the retirement plans offered by some area businesses.

Working with a partner, begin by brainstorming a short list of some of the best-known and most successful companies in your community. Then look over the chart on the next page. Each of you will choose one company and contact its human resources or personnel office. Arrange to obtain a brochure about the company's retirement program or to interview a human resources employee. Record the information on the chart. After you have both obtained information about one company, get together and compare the two retirement plans. Then, write a paragraph explaining which company you feel has the better retirement program and why.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

	Your company	Your partner's company
Name of company		
Source of information		
Program(s) available		
401(k) description		
Does company match 401(k) contributions?		
What are the employee investment options?		
Other information		

Which company has the better retirement program? Why?

---

---

---

---

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 15 Retirement and Estate Planning

### Math-Building Skills: Retirement Planning



One key element of retirement planning is estimating how much money you will need in retirement and determining how much to save now to make sure you reach your goals.

Janine Randolph is 25 and has a good job at a biotechnology company. She currently has \$5,000 in an IRA, an important part of her retirement nest egg. She believes her IRA will grow at an annual rate of 8 percent, and she plans to leave it untouched until she retires at age 65. Janine estimates that she will need \$875,000 in her *total* retirement nest egg by the time she is 65 in order to have a retirement income of \$20,000 a year (she expects that Social Security will pay her an additional \$15,000 a year).

1. How much will Janine's IRA be worth when she needs to start withdrawing money from it when she retires? [There is a special formula for determining how much this sum of money will grow. Multiply the original amount by 21.724 to find how much it will become after 40 years.]  
\_\_\_\_\_
2. How much money will she have to accumulate in her company's 401(k) plan over the next 40 years in order to reach her retirement income goal?  
\_\_\_\_\_

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 15 Retirement and Estate Planning

## Finance Online: Planning to Give



Charitable gifts can be an important tool in estate planning. Giving to charity supports a cause and also offers benefits such as reduced taxes and increased interest income.

To find ways to plan an estate and help your favorite charities at the same time, use the Internet to find at least three Web sites that suggest general ways to combine estate planning and charitable giving. On the Web sites, look for specific details about planned giving.

Keywords Used	Site Names	Web Site Addresses	Information Offered

1. What basic approaches to estate planning through charitable giving did you find?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Which Web sites suggest using donations in estate planning?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Choose a charity that accepts donations from people's wills. How does the charity use these gifts?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 15 Retirement and Estate Planning

## Your Financial Portfolio Worksheet

### Saving for Retirement



Calculate how much you would have in 10 years if you saved \$2,000 a year at an annual interest rate of 10 percent, with the company contributing \$500 a year.

	Contributions	Interest	Total
Annual contribution of 10% of a \$20,000 salary	\$2,000.00	10%	
Company annual contribution matching of 2.5% of the salary	500.00		
1st Year			
2nd Year			
3rd Year			
4th Year			
5th Year			
6th Year			
7th Year			
8th Year			
9th Year			
10th Year			
<b>Total</b>			

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.



# CHAPTER 15 Retirement and Estate Planning

Software  
Activity  
(Optional)

## Quicken Application

### Reviewing Performance of Retirement Investments



**OBJECTIVE:** Utilize Quicken graphing and reporting tools to evaluate the performance of a retirement investment.

#### Practice Situation

Stephanie Brown started her retirement account a few years ago. Her employer offers a 401(k) investment plan. She contributed \$5,000 on January 1, 2006, and invested in a growth fund, which is considered to be a higher risk investment. She is attracted by the potential for large returns. The fund focuses on large-cap funds in the energy, utility, and financial services sectors. When she reviewed the prospectus for this fund, she noted that the historical 5-year return was 26.5 percent. Stephanie recorded her initial investment using Quicken.

Dividends are paid quarterly and are reinvested in the fund. Stephanie contributed another \$620 into her 401(k) in April of 2007. From January 2006 to April 2008, Stephanie recorded all dividend payments in Quicken.

Stephanie would like to review the performance of her investment. She would also like to know how much she has earned in dividends since she has participated in the fund.

Use Quicken graphing and reporting tools to create and print the following items:

- Investment Performance Graph
- Investment Income Report

Student

Date

Class

Teacher

### Quicken Directions

1. Start your Quicken software program and open the file SA15.qdf.
2. Click **Reports** in the top menu, then select *How are my investments doing?*
3. Choose the *Investment Income* report. Input the **From** date as 1/1/2006 and the **To** date as 3/1/2008. Click **Customize** subtotal by *Year*. Click **Show my Report**.
4. Click **Print** in the top of the Investment Income window.
5. Once the report has printed, click **Reports** again from the top menu selections. Then select *How are my investments doing?*
6. Choose the *Investment Performance* report. Input the **From** date as 1/1/2006 and the **To** date as 3/1/2008. Click the *Show Graph* tab.
7. Change the **Subtotal By** field to *Security*. This graph depicts the performance and the annual return on the market value of the security.
8. To print this graph, click **Print** in the top of the Investment Performance window.
9. Change the **Subtotal By** field to *Account*. This graph depicts the performance and the total return of the investment account.
10. Print this graph by clicking the **Print** button.
11. Once your reports have printed, keep your Quicken file open and answer the questions that follow.

### Interpreting Results

1. Change the **Subtotal By** field to *Security* and click the **Report** tab. Based on the Average Annual Total Return by *Security* report for 1/1/2006–3/1/2008, what is the approximate portfolio value at March 2008?  
\_\_\_\_\_
2. Change the **Subtotal By** field to *Account*. Based on the Average Annual Total Return by *Account* for 1/1/2006–3/1/2008, what is the approximate percentage return on the account?  
\_\_\_\_\_
3. Look at the Investment Income Report by *Year* you printed. Based on the report for 1/1/2006–3/1/2008, what Dividend Income was reported for 1/2006–12/2006? What Dividend Income was reported for the overall period?  
\_\_\_\_\_

### Drawing Conclusions

1. Is Stephanie's 401(k) investment overperforming or underperforming based on the 5-year historical performance from the investment's prospectus? Explain.  
\_\_\_\_\_  
\_\_\_\_\_

Copyright © by The McGraw-Hill Companies. All rights reserved.

Student

Date

Class

Teacher

2. When consumers compare retirement investment opportunities, what factors should they consider? Explain.

---

---

---

---

---

---

---

---

Copyright © [unreadable] All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 15 Retirement and Estate Planning

## SELF-ASSESSMENT QUIZ

**DIRECTIONS:** Identify the letter of the choice that best completes the statement or best answers the question.

1. A person can save \$1 million for retirement if he or she puts \$127 per month in investment funds at 11 percent interest starting at age (A) 25 (B) 40 (C) 50 (D) 65.
2. A person in retirement usually spends less than he or she used to spend on (A) recreation (B) transportation (C) medical care (D) health insurance.
3. At what age does a worker generally qualify for reduced benefits from Social Security? (A) 59½ (B) 62 (C) 65 (D) 67
4. An example of a defined-contribution plan is a (A) Veterans Administration pension (B) Roth IRA (C) profit-sharing plan (D) Keogh plan.
5. By age 70½, a person must start withdrawing from his or her tax-deferred retirement plan, unless it is a(n) (A) educational IRA (B) Keogh plan (C) 403(b) plan (D) Roth IRA.
6. The spouse eventually receives all the assets of the deceased with a (A) simple will (B) traditional marital share will (C) living will (D) stated dollar amount will.
7. The role of an executor includes all the following tasks *except* (A) choosing a guardian (B) filing income tax returns (C) collecting money due (D) paying debts.
8. The spouse of a deceased person can avoid paying federal taxes on a certain amount of the assets left to him or her under the terms of a (A) testamentary trust (B) living trust (C) credit-shelter trust (D) revocable trust.
9. Only state governments impose (A) income taxes on trusts (B) estate taxes (C) inheritance taxes (D) gift taxes.
10. The best way to handle taxes related to settling an estate is to (A) set aside cash ahead of time (B) buy a life insurance policy (C) have survivors sell assets (D) have survivors make installment payments.