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7 ways for Gen Xers to help secure their retirement

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1. Start saving — immediately.

The reason it's better to begin saving now rather than later can be summed up in two words: compound interest. Through the magic of compounding, returns on savings are plowed back, accelerating the growth of principal.

Essentially, there's a logarithmic expansion that occurs. Without bothering with the math, compounding lets a nest egg grow just as a seedling would. If a seedling grows 8%, it adds hardly any weight at all. But years later, as a giant oak, an 8% growth rate would yield a ton of wood.

2. Save automatically.

People can accumulate an amazing sum by saving automatically through a 401(k). You can do the same with an IRA and other accounts by putting them on auto-pilot. Fill out some simple paperwork with your financial institution to have money transferred from your checking or savings account into an IRA on a certain day each month.

3. Exploit the company match.

To encourage participation, many companies offer workers a match for their 401(k) contributions. Typically, the employer will kick in 50 cents for each dollar that a worker saves, up to 6% of his or her salary. That's free money. Contribute enough to your 401(k) to capture the full match.

4. Look for 401(k) bargains.

Do you know how much you're paying for the mutual funds in your retirement accounts?

That knowledge is critical, because overpaying can seriously erode your nest egg. Each fund sports a price tag. According to Morningstar, the expense ratio of the average domestic stock fund is 1.39%; for bond funds, it's 1.05%. Your goal should be to find funds in your 401(k) lineup that cost less than that, if there are any. Be just as vigilant about expenses with your other accounts.

5. Try a rollover.

When you leave a job, the best thing to do with 401(k) money from your old job is transfer it into a rollover Individual Retirement Account. To open one, contact a financial institution, such as a mutual fund company or a brokerage firm for the documents needed for the transfer.

If you're tempted to spend the money instead — and younger Americans are more likely to raid their accounts than older workers are — don't. You'll trigger a tax nightmare. You'll owe a 10% early-withdrawal penalty, as well as federal, and where applicable, state taxes on the windfall.

6. Don't fumble the handoff.

If you intend to move your workplace cash into an IRA, don't ask your employer to mail you a check. If you do, you'll have 60 days to deposit the money in an IRA. This might sound easy, but countless people fail to do this. If you miss the deadline, you'll owe taxes on all that money.

Ask your employer to have the money moved in a direct trustee-to-trustee transfer. This way, the cash is dispatched to your new financial institutions, without involving you as a middleman.

7. Consider a Roth.

Some Gen Xers avoid IRAs because they fear having money tied up in case of an emergency. But someone who invests in a Roth, which involves after-tax money, can withdraw contributions without taxes or penalties. Gen Xers can invest up to $5,000 in a Roth this year. (Contribution amounts begin to phase out for single tax filers with adjusted gross incomes of $101,000, at $159,000 for married couples filing jointly.)

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Objectives

- Read the article “7 ways for Gen Xers to help secure their retirement.”
- Plan a basic budget for household expenses during retirement.
- Estimate a savings plan for retirement.
- Discuss the effects of waiting to save for retirement.

Preparation

Each student will need:

- A copy of the article “7 ways for Gen Xers to help secure their retirement.”
- A copy of the lesson.
- Access to the Internet to use two financial calculators.

1. Read the article and answer discussion questions. (25 minutes)

- What are the seven ways to plan for retirement?

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- Have you used any of these plans for retirement? Have your parents? Grandparents?

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- What is a good age to start planning for retirement? Why?

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- Which of these seven ways is a good way for you to start saving now?

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- How much money will you need each year to retire comfortably?

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2. Read the definitions. (5 minutes)

A **401(k)** is a retirement plan that allows you to take some money out of your earnings and put it into some form of investment like stocks or mutual funds (a collection of stocks in many companies, not just one). You pay taxes on the money when you withdraw it instead of paying taxes on it now. A 401(k) is set up through your employer. If you withdraw money from this fund before you are 59 ½ years old, the government adds a 10% penalty, and your employer may also add another penalty. So if you withdraw $10,000, the government will take an extra $1,000 of that $10,000. Your employer could take another 20% or $2,000. So, early withdrawal could cost you $3,000 of $10,000 leaving you with only $7,000.

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Read the definitions, continued.

A **Roth IRA** is also a retirement plan, but you pay taxes on that money when you invest it. Two key benefits of this method are: You pay current earnings tax rates instead of potentially higher ones when you retire, and you are not penalized if you withdraw the money you contributed to this fund before you turn 59½.

Simple interest: When you have a savings account with simple interest, it means the money you put into the savings account stays separate from the interest. If you put $1000 into your savings, and you earn 10% interest one year, your principle (money you put into savings) is still $1000. In the case of compound interest, if you put $1000 into savings and earn 10% in one year, that interest ($100) becomes part of your principle, and the next year, you get to earn interest on the whole amount which is $1100.

Aggressive investment strategy focuses on capital growth. Aggressive may mean more income in the long-term; however, because of the high risk, it may also mean more losses. Someone with an aggressive investment strategy usually plans to hold the stocks for a long time. Conservative growth means slower growth, but the investment is typically more stable.

3. Planning Ahead: How much money do you want for retirement? (15 minutes)
Answer the questions below; then go to http://fc.standardandpoors.com/calculators/calculators.jsp. Choose the “Retirement Planner” calculator (the list is arranged alphabetically). Fill in the first two blanks with the appropriate answers. Ask your teacher to help you estimate the amount for Question 3. Leave the other spaces blank or as they are. Click “submit.”

According to the estimates in the Retirement Planner calculator,
how much money will you need to have saved by the time you retire? $________

How much will you need to set aside each year between now
and retirement to reach that goal? $________

Now go to “The Cost of Waiting” calculator (at the bottom of the list) and fill in the blanks with the appropriate answers. Use the first amount from the Retirement Planner for the first blank in the calculator. If you start saving for retirement in 10 years, how much will you need to invest annually to reach your retirement goal? $________

If you wait 20 years before you start saving for retirement, how much
will you need to invest annually to reach your retirement goal? $________

4. Debrief and apply. (10 minutes)

As a class, discuss these questions:

- At what age do you want to retire?
- What would you like to do when you retire? Travel? Buy a sports car?
- How much money do you think you’ll need to retire on?
- How much will you need to invest or save each year starting now to reach that goal?
- Is that a big or small amount to you?
- Did it surprise you that saving that much now could grow to so much when you retire?
- If you start saving 10 years from now, how much more will you have to save each year?
- Does that surprise you?
- How can you use this information today when planning for tomorrow?

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