

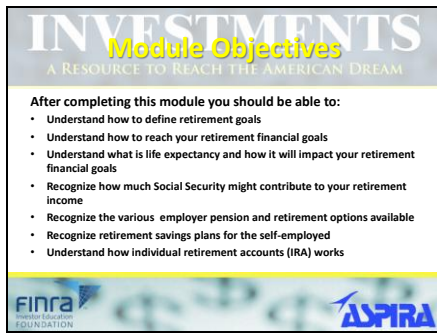
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INVESTMENTS
Reality Check
A RESOURCE TO REACH THE AMERICAN DREAM

No longer can you only depend on Social Security income alone. Other forms of income will be necessary to cover your future financial needs.



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Retirement Financial Planning: How Much Income Should I Project for my Retirement Years?
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A conservative rule of thumb is to set your goals as on needing at least 80% of your current income when you retire. But you need to consider the following:

- How many years will you live after you retire?
- What will my expenses be when I retire?
- How much can I expect to receive from Social Security?
- How much do I have in my company or government retirement account and what will it be worth when I decide to retire?



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How many years will you live after you retire?
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Your life expectancy is influenced by a number of factors, from your family history to your personal lifestyle. As a rule of thumb, plan for living 100 years and receiving retirement income throughout this period.

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What will my expenses be when I retire?

Answering this question along with your life expectancy will help you define your retirement financial goal. This is where you will need to project what your lifestyle will be and what your wants and needs might be once you retire. You will need to develop a retirement budget to help you project what your expenses might be.



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Social Security

How Much Should I Expect to Receive From Social Security?

- While you shouldn't rely on social security alone for your retirement income, it can supplement your savings, pension, and retirement plan income.
- To estimate your Social Security benefits please visit the SSA Social Security [Quick Calculator](#)

Pros and Cons of Retiring Before Full Retirement Age

There are advantages and disadvantages to taking your benefit before your full retirement age. The advantage is that you collect benefits for a longer period of time. The disadvantage is your benefit is permanently reduced. Each person's situation is different.

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Employer Sponsored Pension and Retirement Plans

Pensions (two types)

- Defined Benefit: determined by a formula that can incorporate the employee's pay, years of employment, age at retirement, and other factors.
- Defined Contribution: contributions are paid into an individual account for each employee, the contributions are invested and the returns on the investment are credited to the individual's account (i.e. 401(k), 403b)




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What are 401(k) Plans

- The 401(k) plan is a type of a private employer-sponsored retirement plan.
- A 401(k) plan allows a worker to save for retirement while deferring income taxes on the saved money and earnings until withdrawal.
- the employee can select from a number of investment options (mutual funds that emphasize stocks, bonds, or money market investments).



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401 (k) Plans

- **401 (k) Contribution Limits**
 - There is a maximum limit on the total yearly *employee* pre-tax salary deferral. The limit is \$15,500 for the year 2007. For future years, the limit will be indexed for inflation, increasing in increments of \$500.
- **What Could Happen to my 401(k) if I Change Jobs?**
 - You have three choices regarding 401(k) money:
 - Leave it in the plan.
 - Take it out and keep it all.
 - Move it to an IRA (roll over).
 - Examine the roll over pros and cons table in your manual.

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403(b) Plans

- A 403(b) plan is a tax advantaged retirement savings plan available for public education organizations, some non-profit employers.
- It has tax treatment extremely similar to a 401(k) plan.



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457 Plans
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- The 457 plan is a type of tax advantaged defined contribution retirement plan that is available for governmental and certain non-governmental employers in the United States.
- The employer provides the plan and the employee defers compensation into it on a pre-tax basis. For the most part the plan operates similarly to a 401(k) or 403(b).

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**Simplified Employee Pension
Plans (SEP)**
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- Simplified Employee Pension plans (SEPs) can provide a significant source of income at retirement by allowing employers to set aside money in retirement accounts for themselves and their employees.
- Under a SEP, an employer contributes directly to traditional individual retirement accounts (SEP-IRAs) for all employees (including the employer).

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**Retirement Savings Plan Options for
the Self-Employed (Keogh Plans)**
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- A self employed person can establish and make tax deductible contributions to a Keogh Plan even if the person additionally works as an employee and is covered by that employers tax qualified retirement plan.
- You can also establish an IRA under the same tax rules as other taxpayers.
- The maximum tax deductible contribution to a defined contribution plan is the lesser of \$44,000 or 100% of compensation.

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Individual Retirement Accounts (IRA)
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An IRA is a personal savings plan that provides income tax advantages to individuals saving money for retirement purposes.



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Types of IRAs
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- Roth IRA - contributions are made with after-tax assets, all transactions within the IRA have no tax impact, and withdrawals are usually tax-free.
- Traditional IRA - contributions are often tax-deductible (often simplified as "money is deposited before tax" all transactions and earnings within the IRA have no tax impact, and withdrawals at retirement are taxed as income)
- SEP IRA - employer (typically a small business or self-employed individual) to make retirement plan contributions into a Traditional IRA established in the employee's name.
- SIMPLE IRA - a simplified employee pension plan that allows both employer and employee contributions, similar to a 401(k) plan, but with lower contribution limits.
- Self-Directed IRA - allows the account holder to make investments on behalf of the retirement plan.

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How Retirement Accounts Help You Save On Taxes?
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One potential way to save more: maximize tax-advantaged savings accounts such as Traditional IRAs and 401(k)s. (Subject to retirement plan participation status and adjusted gross income limits.) This will reduce the bite Uncle Sam takes from your paycheck and investment earnings, allowing more of the money you earn the potential to grow.



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IRAs and Retirement Accounts Annual Contributions Limits

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Year	401(k) & 403(b) Plan Limit	IRA Limit	401(k) 403(b) Catch-Up	IRA Catch-Up
2002	\$11,000	\$3,000	\$1,000	\$500
2003	\$12,000	\$3,000	\$1,000	\$500
2004	\$13,000	\$3,000	\$1,000	\$500
2005	\$14,000	\$3,000	\$1,000	\$500
2006	\$15,000	\$4,000	\$1,000	\$1,000
2007	Indexed for inflation at \$15,000	Indexed for inflation at \$4,000	Indexed for inflation at \$1,000	Indexed for inflation at \$1,000
2008	Indexed for inflation at \$15,000	Indexed for inflation at \$4,000	Indexed for inflation at \$1,000	Indexed for inflation at \$1,000
2009	Indexed for inflation at \$15,000	Indexed for inflation at \$4,000	Indexed for inflation at \$1,000	Indexed for inflation at \$1,000
2010	Indexed for inflation at \$15,000	Indexed for inflation at \$4,000	Indexed for inflation at \$1,000	Indexed for inflation at \$1,000

