Roth IRA

https://www.cfasociety.org/pittsburgh/Pages/Financial-Literacy-High-School-Efforts.aspx
How to start investing?

- Savings Account
- Roth IRA
- Traditional IRA
- 401k Plan
- 403b Plan

U.S. Stock Ownership

52% of Americans invest
“The Dow just hit 20,000, but half of America missed out”

- January 25, 2017 Headline

**“The Champions of the 401(k) Lament the Revolution They Started”**

- WSJ January 2, 2017

---

**The Trouble with Retirement Planning**

Nearly half of U.S. households didn't have a retirement savings account in 2013. Among households with accounts, far more had 401(k) plans than defined-benefit pensions.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage that owns a retirement account</th>
<th>Median retirement savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 25-34</td>
<td>46.2%</td>
<td>$0, $13,500</td>
</tr>
<tr>
<td>35-44</td>
<td>55.4%</td>
<td>$3,000, $42,700</td>
</tr>
<tr>
<td>45-54</td>
<td>56.5%</td>
<td>$6,000, $87,000</td>
</tr>
<tr>
<td>55-64</td>
<td>59.3%</td>
<td>$14,500, $104,000</td>
</tr>
<tr>
<td>All groups (25-64)</td>
<td>54.7%</td>
<td>$2,500, $50,000</td>
</tr>
</tbody>
</table>

---

Percentage of private-sector workers participating in an employment-based retirement plan, by plan type:

- 401(k) only 33%
- Both plan types 11%
- Defined-benefit pension only 2%

---

And this is why this conversation is so important!

https://www.wsj.com/articles/the-champions-of-the-401-k-lament-the-revolution-they-started-1483382348
One Conclusion: Teaching “this” subject (financial literacy) is more important today than at any point in history!
Understanding how we spend our money – where that hard earned paycheck goes – is an important first step.
But even for those that “get it” – “it” isn’t going to be easy!
What is a Roth IRA: Things to know

1) Named for Delaware Senator William Roth
2) Established in 1997
3) Represent only 9% of total IRA assets
4) An individual retirement plan made with “after tax dollars” (this is important and different from traditional IRAs)
   • Question to a 17 or 18-year old student: What is your tax rate today?
5) In 2017, an individual may make an annual contribution of up to $5,500 to a Roth IRA.
6) Required minimum distributions don’t apply
7) Can pass on assets to heirs upon death.
8) At any time you may withdraw “contributions” both tax and penalty free - This is important.
   • A conversation to have when talking about “Emergency Funds”.
9) Anyone who has taxable income can contribute to a Roth IRA, as long as certain requirements are met.
   • Must have eligible income to contribute (classroom teaching tool and source of inspiration).

And why are we asking?

http://www.investopedia.com/terms/r/rothira.asp
Classroom Tool - A helpful Retirement Calculator:

But note the calculation is for a point in time, and does not factor in the “uncertainty” of your future tax rate.

http://www.bankrate.com/calculators/retirement/401-k-or-roth-ira-calculator.aspx
Let’s talk about the Roth IRA!

Nine compelling reasons to consider a Roth IRA

- Tax-free growth potential; tax-free withdrawals
- No minimum required distributions
- Tax-free money for heirs
- No age limit for contributions, if you’re working
- Limit impact of new Medicare surtax
- Hedge against future tax hikes
- Use contributions any time
- Tax flexibility in retirement
- If you are young, your income is likely to rise

https://www.fidelity.com/viewpoints/retirement/nine-reasons-roth?
Let’s talk about the Roth IRA!

1. Money may grow tax free; withdrawals are tax free, too.
2. There are no minimum required distributions.
3. Leave tax-free money to heirs.
4. Tax flexibility in retirement.
5. Help reduce or even avoid the Medicare surtax.
6. Hedge against future tax hikes.
7. Use your contributions at any time.
8. If you’re older, you can continue to contribute as long as you work.
9. If you're young, your income is likely to rise.
INVESTING

Hypothetical 9% Annual Rate of Return

- Start at 25, save $2,500/year
- Start at 35, save $2,500/year
- Start at 40, save $5,000/year

At age 65:
- $923,230
- $373,938
- $233,310

Start at 25, save $2,500/year
Start at 35, save $2,500/year
Start at 40, save $5,000/year

CFA Society Pittsburgh
Classroom Tool - A helpful Compound Interest Calculator:

And remember, with a Roth IRA, the initial contribution is made “after-tax” so the money at the time of retirement is ALL yours (i.e. reducing uncertainty).

Initial Contribution: $1,000  
Additional Contribution(s): None  
Assumed Rate of Return: 9% annually  
Retirement Age: 70 years old  
Savings at Retirement: $88,342

Classroom Tool - A helpful Compound Interest Calculator:
And remember, with a Roth IRA, the initial contribution is made “after-tax” so the money at the time of retirement is ALL yours (i.e. reducing uncertainty).

- **Initial Contribution:** $1,000
- **Additional Contribution(s):** $10/month
- **Assumed Rate of Return:** 9% annually
- **Retirement Age:** 70 years old
- **Savings at Retirement:** $210,407

A great example of a “little bit” turning into “A LOT”!

Classroom Tool - A helpful Compound Interest Calculator:
And remember, with a Roth IRA, the initial contribution is made “after-tax” so the money at the time of retirement is ALL yours (i.e. reducing uncertainty).

Initial Contribution: $1,000
Additional Contribution(s): $83/month = to $1,000/year
Assumed Rate of Return: 9% annually
Retirement Age: 70 years old
Savings at Retirement: $1,101,459

Classroom Assignment: Get your phones out!

Have students create a list of questions they have about how to start a Roth IRA, what it is, etc. and then pick 3 volunteers, put a phone on speaker, and ask the prepared questions.

Vanguard:
https://investor.vanguard.com

https://www.fidelity.com/

Charles Schwab:
https://www.schwab.com/

Remember: Our choices have consequences? And there is an “opportunity cost” to those choices. Which Path will your students Choose?

- Purchase Used Car
- Regularly Makes Extra Student Loan Payments
- Strong Credit Score
  - Great Rate on Mortgage
- Student Loans Fully Paid Off!
- Has Career & Lifestyle Flexibility

|------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
- Un-employed
- Defers Payment on Student Loans
- Accepts First Full-Time Job – Ignores 401(k)
- Excessive House Purchase
- Borrows More Money
- Housing Market Decline – Underwater Mortgage
- Living Paycheck to Paycheck – Lack of Security

Chart from The Missing Semester (Natali, Kabala) www.themissingsemester.com
Example: The “Opportunity Cost” of our choices

A blue truck is being sold for $15,000? **BUT, what will you pay?**

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Total Payment</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>$250.00</td>
<td>$15,000.00</td>
<td>-</td>
</tr>
<tr>
<td>3%</td>
<td>$270.00</td>
<td>$16,170.00</td>
<td>$1,170.00</td>
</tr>
<tr>
<td>5%</td>
<td>$283.00</td>
<td>$16,985.00</td>
<td>$1,985.00</td>
</tr>
<tr>
<td>7%</td>
<td>$297.00</td>
<td>$17,821.00</td>
<td>$2,821.00</td>
</tr>
<tr>
<td>10%</td>
<td>$319.00</td>
<td>$19,122.00</td>
<td>$4,122.00</td>
</tr>
</tbody>
</table>

A good credit score is as good as a raise!
Two Conclusions

1. Age is an opportunity – powerful enough to transform the lives of a generation.

1. The Cardinal Rule: Let your Savings dictate your spending, not the opposite.

http://www.themissingsemester.com/undertaughtsubject.html