Retirement Planning Worksheet

Student Instructions: Review the different retirement options below, understand their features, and complete the reflection and calculation at the end of the worksheet.

Part 1: Retirement Options Comparison

Retirement Option	Benefits	Potential Risks	Tax Implications	Ideal Usage	Contribution Limits (2023)
Social Security	• Guaranteed income for life • Adjusted for inflation • Provides disability and survivor benefits	• Not enough to fully fund retirement • Future benefit levels uncertain • Potential for reduced benefits if taken early	• Up to 85% of benefits may be taxable depending on income • Funded through payroll taxes	• Base retirement income • Supplement to other retirement savings	N/A - Benefits based on lifetime earnings
401(k)/403(b)	• Employer may match contributions • High contribution limits • Tax-deferred growth • Automatic payroll deductions	• Investment risk • Limited investment options • Early withdrawal penalties • Required Minimum Distributions (RMDs)	• Contributions reduce taxable income • Earnings grow tax-deferred • Withdrawals taxed as ordinary income	• Primary retirement savings vehicle • When employer offers matching • When current tax deduction is valuable	$22,500 ($30,000 if 50 or older)
Traditional IRA	• Wide range of investment options	• Investment risk • Early withdrawal	• Contributions may be tax-deductible	• Supplement to employer plans	$6,500 ($7,500 if 50 or older)

	• Tax-deferred growth • Possible tax deduction for contributions	penalties • Required Minimum Distributions (RMDs) • Income limits for deductibility	• Earnings grow tax-deferred • Withdrawals taxed as ordinary income	• When current tax deduction is valuable • When expecting lower tax rate in retirement	
Roth IRA	• Tax-free growth and withdrawals • No Required Minimum Distributions • Wide range of investment options • Flexibility for early withdrawal of contributions	• Investment risk • Income limits for contributions • No immediate tax benefits	• Contributions made with after-tax dollars • Qualified withdrawals are tax-free • No tax deduction for contributions	• When expecting higher tax rate in retirement • Young savers with decades of tax-free growth • Legacy planning	$6,500 ($7,500 if 50 or older)
Annuities	• Guaranteed income for life • Tax-deferred growth • No contribution limits • Death benefits for heirs	• High fees • Complex terms and conditions • Surrender charges for early withdrawals • Limited liquidity	• Earnings grow tax-deferred • Withdrawals of earnings taxed as ordinary income • Possible tax penalties for early withdrawals	• Converting savings to guaranteed income • Longevity insurance • After maximizing other retirement accounts	No legal limits (insurance product)

Part 2: Expected Returns and Risk Comparison

Retirement Option	Typical Annual Return Range	Risk Level	Notes
Social Security	Cost of Living Adjustment (COLA) only	Low (government guaranteed)	Not an investment; benefit depends on work history and claiming age

401(k)/403(b)	Varies by investments chosen (typically 5-8% average)	Varies based on investment allocation	Employer match provides immediate "return" - often 50-100% on matched contributions
Traditional IRA	Varies by investments chosen (typically 5-8% average)	Varies based on investment allocation	Greater investment flexibility than most 401(k) plans
Roth IRA	Varies by investments chosen (typically 5-8% average)	Varies based on investment allocation	Tax-free growth can significantly enhance effective returns
Fixed Annuities	1-4%	Low	Guaranteed by insurance company
Variable Annuities	Varies by investments chosen (typically 3-7% average)	Medium to High	Returns reduced by higher fees compared to mutual funds

Part 3: Reflection and Calculation

The 50/30/20 Rule for Budgeting

The 50/30/20 rule suggests allocating your after-tax income as follows:

- **50%** for needs (housing, food, utilities, etc.)
- **30%** for wants (entertainment, travel, etc.)
- **20%** for savings and debt repayment (including retirement)

Calculation Challenge:

Using the 50/30/20 rule, if you want to maximize contributions to a 401(k) ($22,500), a Traditional IRA ($6,500), and a Roth IRA ($6,500), how much would you need to earn annually to allocate these investments while keeping them at 20% of your total income?

Step 1: Calculate the total maximum contribution to the retirement accounts.

Step 2: Apply the 50/30/20 rule. If the total contribution represents 20% of annual income, what would the annual income need to be?

Step 3: Provide your answer and explain your calculation.

Reflection Questions

After reviewing the retirement options, answer the following questions:

1. Based on your current understanding and future plans, which retirement accounts do you think would be most appropriate for you? Why?

2. How might your retirement strategy change at different stages of your life?

3. What percentage of your income do you think is realistic to save for retirement when you first start working? How might this change over time?

Note: This worksheet is for educational purposes only and does not constitute financial advice. For specific financial guidance, consult with a qualified financial professional.