**Saving For Retirement**

Teachers have different retirement options. The most common choice new (and young) teachers make in Georgia is choosing the Teacher Retirement System of Georgia (TRS) pension plan. As [TRS descibes](https://www.trsga.com/about-us/):

TRS administers the fund from which teachers in the state’s public schools, many employees of the University System of Georgia, and certain other designated employees in educational-related work environments receive retirement benefits.

TRS offers a defined benefit plan, guaranteeing a monthly benefit – based on a member’s final average salary and service – which is payable for the life of the member, and when applicable, transferable to a member’s spouse or beneficiary(ies). (From

TRS’s defined benefit plan, also called a pension plan, includes multiple options that you can read about here: <https://www.trsga.com/about-us/trs-plans/>. Most people (i.e. those without careers in government) do not have pensions as an option, and so they must plan retirement through options like a 401k or 403b. In addition, there are supplemental retirement accounts that can be used to support your pension or 401k. This lesson focuses on two: the IRA and the Roth IRA.

**IRA vs. Roth IRA**

Using resoucrses from the internet, fill out the following table. The description should be in your own words. Both accounts have affordances and constraints. Fill out the pros and cons of the table. *The Pros and Cons should speak to the affordances/constraints both now, in your early 20s, and at retirement, in your 50s.*

|  |  |
| --- | --- |
| **IRA** | **Roth IRA** |
| Description: | Description: |
| Pros: | Pros: |
| Cons: | Cons: |

**Where can I open an account?**

Using the internet, find 3 companies that offer IRAs and Roth IRAs. Fill out the table accordingly.

|  |  |  |  |
| --- | --- | --- | --- |
| **Brokerage  Firm** | **Initial Investment Amount** | **Service**  **Fee(s)** | **Notes** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

What are the differences? Did you find a company that did not have service fees for their investment accounts? Does your primary bank offer these?

**Choosing the Right Account**

The choice of retirement account impacts how you save today as does the amount you want to save. Let’s calculate 4 options. Each choice asks you to invest $2,000 or $4,000 into an IRA or a Roth IRA.

|  |  |  |
| --- | --- | --- |
| **Choice** | **Amount needed per year, before taxes** | **Total cost over 30 years** |
| $2000/yr in an IRA |  |  |
| $4000/yr in an IRA |  |  |
| $2000/yr in a Roth IRA |  |  |
| $4000/yr in a Roth IRA |  |  |

The total amount needed per year will depend on whether the money invested is before-tax or after-tax.

**Choosing the Right Investment**

The choice of investment impacts how much money you’ll save over your 30 years of work. Using the internet, find the following interest rates:

* Current High Yield Saving account interest rate: \_\_\_\_\_\_\_\_
* 30 year average S&P 500 Index interest rate: \_\_\_\_\_\_\_\_
* One of [Vanguard’s LifeStrategy Funds](https://investor.vanguard.com/investment-products/mutual-funds/life-strategy-funds): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Each of these options has an associated** [**risk**](https://corporate.vanguard.com/content/dam/corp/research/pdf/a_framework_for_allocating_to_cash.pdf)**. In the most basic terms, the higher the interest rate, the greater the risk, and the lower the interest rate, the lower the risk associated with your investment. Every person’s risk tolerance is different, and the risk you are willing to tolerate differs with age. Typically, younger people have a greater risk tolerance while older people, especially those close to retirement (or are retired) have a lower risk tolerance.**

**How much will I save?**

The amount you’ll save depends on how frequently you deposit funds into your retirement account and how much interest it generates over the life of the account.

Make the following calculations (you’ll need to do this in Excel). Assume the interest is compounded yearly:

|  |  |  |
| --- | --- | --- |
| **Choice** | **Amount saved at 60** | **Notes** |
| $2000/yr, HYSA % |  |  |
| $4000/yr, HYSA % |  |  |
| $2000/yr, S&P500 % |  |  |
| $4000/yr, S&P500 % |  |  |

Finally, which account you choose impacts your taxable income when you retire. A defined contribution plan (pension) guarantees a monthly benefit, essentially a post-retirement monthly paycheck. This monthly benefit is taxed like income, which might impact your choice for a supplemental retirement account (i.e. IRA vs. Roth IRA).

**Income @ 60**

For simplicity’s sake, let’s assume you’re doing these calculations in Fall of 2030, when you’re beginning your career as a teacher. Your goal is to retire in 30 years, in 2060, at the young age of 60. You’ve elected to join TRS, so you’ll be receiving a pension with 30 years of service. Go here:

<https://www.trsga.com/pension-calculator/>

and calculate how much pension you’ll receive. Of note, this amount is dependent on the plan you choose, which is also dependent on your life circumstances.

**Monthly pension:** \_\_\_\_\_\_\_\_\_\_\_

**Monthly pension after taxes:** \_\_\_\_\_\_\_\_\_\_\_

Assume you want to supplement that income with $10,000 a year from your IRA when you turn 60. Calculate your monthly income before and after taxes.

Traditional IRA

**Monthly income:** \_\_\_\_\_\_\_\_\_\_\_

**Monthly income after taxes:** \_\_\_\_\_\_\_\_\_\_\_

Roth IRA

**Monthly income:** \_\_\_\_\_\_\_\_\_\_\_

**Monthly income after taxes:** \_\_\_\_\_\_\_\_\_\_\_

What if you want to withdraw $20,000 a year? Or $30,000? What income will you want when you’re retired? This will inform how much money you’ll want to save while you work.

**Until the Money Runs Out**

Assuming the account does not grow once you turn 60, how many years will each account last until all funds have been withdrawn? Why is this important?

**Which account is right for you?**

Based on this task, which account will you choose? And why?