

Retirement Planning: Strategies and Pension Plans

Worksheet

Retirement planning combines personal savings, pension schemes (government and private), and investment strategies to ensure sufficient income during retirement—typically requiring 70-80% of pre-retirement income.

Questions

1. If you spend \$60,000 yearly now and need 80% in retirement, how much annual income is required?
A) \$48,000
B) \$60,000
C) \$75,000
D) \$80,000
2. The 4% rule in retirement planning suggests...
A) withdraw 4% of principal yearly
B) invest 4% of income
C) earn 4% returns
D) save for 4 years
3. What is the advantage of starting retirement savings early?
A) Higher returns
B) Compound interest over decades
C) No taxes
D) Guaranteed income
4. Which is a tax-advantaged retirement savings vehicle in the U.S.?
A) Savings account
B) 401(k) or IRA
C) Checking account
D) Stocks only
5. You currently spend \$50,000 annually. For retirement, you'll need about 75% of that. How much annual retirement income is needed?
6. You have 30 years until retirement. Contributing \$500/month to a retirement account earning 6% annually. Approximate future value (using rule of 72)?
7. You need 1,000,000 for retirement in 20 years. Starting from 0, what annual contribution is needed if you earn 5% annually?
8. Define: What is retirement planning?
9. Define: What percentage of current income do most people need in retirement?
10. Define: Name three common retirement savings vehicles.

Answer Key

1. A) $\$48,000 - 60,000 \times 0.80 = \$48,000$
2. A) withdraw 4% of principal yearly — The 4% rule states you can safely withdraw 4% of your retirement nest egg annually.
3. B) Compound interest over decades — Starting early allows small contributions to compound into large sums over 30–40 years.
4. B) 401(k) or IRA — 401(k) and IRA accounts offer tax deferrals or tax-free growth.
5. Retirement income needed = Current spending $\times$ 75% = $50,000 \times 0.75 = \$37,500$ annually
6. Annual contribution = $500 \times 12 = \$6,000$ With 6% return, money doubles every $72/6 = 12$ years
In 30 years (2.5 doublings), rough estimate $\approx$ 200,000–300,000 (exact: $\sim$ \$500K with compound interest)
7. Using FV of annuity formula (approximate) Annual contribution $\approx$ $1,000,000 / (30\text{-year factor at } 5\%) \approx \$38,500$ annually (or $\sim$ \$3,208/month)
8. Developing a financial strategy to accumulate enough money to support yourself during retirement.
9. Typically 70–80%, depending on lifestyle and healthcare needs.
10. 401(k), IRA (Traditional or Roth), and pension schemes.

Bounlu

All cards, step-by-step solutions and an AI tutor are in the Notek app.
Promy turns exam dates into automatic reminders.