

Activity 1

PART 1: STARTING EARLY

To avoid playing catch-up, and still have enough money to live comfortably after you stop working, it is critical to put money aside *now*. To see this in action, consider the case of the Three Friends.

Three high school friends each put \$200 a month into their retirement investment accounts. Assume that each account has an annual interest rate of 7%, compounded annually, and that each of the friends plans to retire at age 65.

- Friend A starts investing at age 25.
 - Friend B starts at age 35.
 - Friend C starts at age 45.
1. How much will each of the friends have saved when they are ready to retire at age 65? Use the compound interest calculator at www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator to find out.

A: \$ _____ B: \$ _____ C: \$ _____

2. How much would C have to invest each month in order to have the same ending balance as A? Use the savings goal calculator at www.calcxml.com/do/savings-goal-calculator-how-much to find out.

\$ _____

3. Assuming C has an after-tax salary of \$75,450 per year with monthly fixed expenses totaling \$3,000, how much would this high level of retirement saving leave him/her for variable expenses and spending money?

\$ _____

4. Imagine that B falls ill at age 60 and decides to retire early. Would he/she have enough in retirement savings to live comfortably? Use the compound interest calculator to find out how much B will have saved up by age 60. Then assume that B will receive an income of \$1,300 per month from Social Security and plans to withdraw 4% of the retirement account balance each year.

B's retirement savings at age 60: \$ _____

B's annual income after retirement at age 60: \$ _____

Do you think this is enough income to live comfortably? Why or why not?

