





# RETIREMENT AND COLLEGE PLANNING

## **MASTERING THE ALPHABET SOUP OF INVESTING**

Just picture it: You're out of debt and you have an emergency fund of three to six months of expenses sitting in the bank. Now it's time to build some wealth for your future!

In *Retirement and College Planning*, Dave helps you understand all those initials and abbreviations: IRA, 401(k), 403(b), 457 and more! Plus, Rachel shows you the best way to make sure your kids get through college without a student loan—what an idea!



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*If you want something you've never had, you must be willing to do something you've never done.*

—THOMAS JEFFERSON

Think a 12% rate of return is impossible? Learn why Dave uses 12% in his investing examples in this bonus online article.



[daveramsey.com/fpu/12percent](http://daveramsey.com/fpu/12percent)

## Let's Dream Together

### IMAGINE IF...

A 30-year-old couple made \$48,000 a year and saved 15% (**\$600 per month**) in a 401(k) at 12% growth.

AT 70 YEARS OLD, THEY WILL HAVE...

**\$7,058,863 in the 401(k).**

### IMAGINE IF...

That same couple fully funded a Roth IRA at \$5,000 each per year (a total of \$10,000), which would be **\$833 per month**, at 12% growth.

AT 70 YEARS OLD, THEY WILL HAVE...

**\$9,803,937—TAX FREE!**

### WHAT IF...

That same 30-year-old couple, DEBT FREE, does both?

AT 70 YEARS OLD, THEY WILL HAVE...

401(k)	\$7,058,863
Roth IRA	\$9,803,937
<b>Total</b>	<b>\$16,862,800</b>

## Ground Rules for Investing

Once the emergency fund is in place, you should begin retirement and college funding, which all fall within long-term investing for \_\_\_\_\_.



*Invest \_\_\_\_\_ % of your household income into Roth IRAs and pre-tax retirement plans.*

## Simple Investing

The KISS Rule of Investing:

Keep it \_\_\_\_\_, \_\_\_\_\_!

Diversification means to \_\_\_\_\_.

Diversification \_\_\_\_\_ risk.

*Give portions to seven, yes to eight, for you do not know what disaster may come upon the land.*

—ECCLESIASTES 11:2



*In the house of the wise are stores of choice food and oil, but a foolish man devours all he has.*

—PROVERBS 21:20



*Money is like manure: Left in one pile, it stinks. Spread around, it makes things grow.*

—DAVE RAMSEY

This lesson just gives a high-level overview of key investing topics. When you're ready to dive in and do this stuff, be sure to talk to a professional who has the heart of a teacher. You can find someone we recommend in your area by checking out our Endorsed Local Providers (ELPs) at [daveramsey.com](http://daveramsey.com).



[daveramsey.com/find-elp](http://daveramsey.com/find-elp)

Long-term investing refers to a period of more than five years. If you are saving and will need the money within the next five years, it is better to use a money market savings account instead of investments.

42% of American workers have never even tried to calculate how much money they will need to save in order to live comfortably at retirement.

## Mutual Funds

Investors pool their \_\_\_\_\_ to invest.

Professional portfolio managers manage the pool or \_\_\_\_\_.

Your \_\_\_\_\_ comes as the \_\_\_\_\_ of the fund is increased.

Mutual funds are good \_\_\_\_\_-term investments.

## Standard Diversification Plan

- 25% in \_\_\_\_\_ and \_\_\_\_\_ funds.
- 25% in \_\_\_\_\_ funds.
- 25% in \_\_\_\_\_ funds.
- 25% in Aggressive \_\_\_\_\_ funds.

## Use Tax-Favored Plans

Always save long term with tax-\_\_\_\_\_ dollars.

Tax-favored means that the investment is in a \_\_\_\_\_ or has special tax treatment.

## QUALIFIED PLANS

- Individual Retirement Arrangement (IRA)
- 401(k)
- 403(b)
- 457
- Simplified Employee Pension Plan (SEP)

## Individual Retirement Arrangement (IRA)

Remember, an IRA is not a type of \_\_\_\_\_ at a bank. It is the tax \_\_\_\_\_ on virtually any type of investment.

Everyone with an \_\_\_\_\_ income is eligible. Also, the non-income-producing spouse of an income earner is eligible.

## Roth IRA

The Roth IRA is an \_\_\_\_\_-tax IRA that grows TAX \_\_\_\_\_!

If you \_\_\_\_\_ like we teach, you should use the Roth IRA.

I'm in my forties and only have a 401(k). My takeaway is that I am WAY behind and need to get busy saving.

—Michelle



Laws, regulations and eligibility requirements change all the time. Be sure to check out the most recent info in this lesson's online resources at FPU Central.

The Roth IRA is named for Senator William Roth (R-Delaware), who authored this section of the Taxpayer Relief Act of 1997.

## 401(k), 403(b) and 457 Retirement Plans

Most companies have completely done away with traditional \_\_\_\_\_ plans in the last 20 years. Some new plans offer a variety of pre-tax choices.

Some companies are now offering the \_\_\_\_\_ 401(k), which grows tax free.

You should be funding your plan whether your company \_\_\_\_\_ or not, but the plans that have company matching provide great returns.

## Rollovers

You should \_\_\_\_\_ roll all retirement plans to an IRA when you \_\_\_\_\_ the company.

Do not bring the money home! Make it a \_\_\_\_\_.

## Retirement Loans

Never \_\_\_\_\_ on your retirement plan.

*The Roth 401(k) is one of the only tax-free investments for people who don't meet the income limits for a Roth IRA. If your company offers one, take it.*

I never thought investing was an option for me. I just figured I would live paycheck to paycheck for the rest of my life. Now I see a better future!

—Megan



## WHY NOT?

- The interest you pay yourself is nowhere close to what you would be earning in the mutual fund if you hadn't unplugged that investment.
- You may leave the company before the loan is repaid. That means you would have to repay within 60 days and risk fees and extra taxes at a time when you may have lost your income.
- You may die before the loan is repaid, which would leave a mess for your heirs.

## Our Suggestion for Investing 15%

- Fund a 401(k) or other employer plans if they match. Fund an amount equal to the \_\_\_\_\_.
- Above the match amount, fund \_\_\_\_\_ IRAs. If there is no match, start with Roth IRAs.
- Complete 15% of your income by going back to the \_\_\_\_\_ or other company plans.

*Do you not know that in a race all the runners run, but only one gets the prize? Run in such a way as to get the prize.*

—1 CORINTHIANS 9:24



*A man's heart plans his way, but the Lord directs his steps.*

—PROVERBS 16:9



If you want more detailed information on Dave's long-term investing strategy, check out the free report, *Dave Ramsey's Guide to Investing*, at FPU Central.



If you're in the military or are a government employee, you probably have a Thrift Savings Account option available. Get Dave's suggestion on how to use your TSP in this lesson's online resources at FPU Central.

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Student loans are  
the roadblock of  
this generation of  
students.

—RACHEL CRUZE

Two out of three  
college students take out  
student loans.

—USA Today

The average  
student loan debt among  
graduating seniors with  
a four-year degree is  
around \$25,000-27,000.

—The Project on  
Student Debt

## College Funding



Save for your children's  
\_\_\_\_\_ using tax-favored plans.

## Paying for College

First, save in an Education Savings Account (ESA), or  
“education \_\_\_\_\_.”

Above that, if you want to save more, or if you don't  
meet the income limits for an ESA, use a certain type of  
\_\_\_\_\_ plan.

The only type of 529 we recommend is one that leaves  
\_\_\_\_\_ in control of the mutual fund at all times.

### NEVER BUY A 529 PLAN THAT:

- \_\_\_\_\_ your options.
- Automatically changes your investments based on  
the \_\_\_\_\_ of the child.

## Three Nevers of College Saving

- Never save for college using \_\_\_\_\_.
- Never save for college using \_\_\_\_\_ bonds.
- Never save for college using \_\_\_\_\_  
tuition, which only covers the tuition inflation rate.

## Debt-Free College

Is debt-free college even possible if you don't have a big college fund ready to go? Of course!

### DEBT-FREE COLLEGE TIPS

- Pick an \_\_\_\_\_ - \_\_\_\_\_ or \_\_\_\_\_ college.
- Compare \_\_\_\_\_-campus versus \_\_\_\_\_- campus living options.
- Aim for scholarships with SAT and ACT \_\_\_\_\_.
- Get a \_\_\_\_\_!

*Is it better to live on or off campus in your city? Use our state-specific online calculator to find out!*

### ANSWER KEY

WEALTH	ROTH
15%	MATCHES
SIMPLE	ALWAYS
STUPID	LEAVE
SPREAD AROUND	DIRECT
LOWERS	TRANSFER
MONEY	BORROW
FUND	MATCH
RETURN	ROTH
VALUE	401(K)
LONG	COLLEGE
GROWTH	IRA
INCOME	529
GROWTH	YOU
INTERNATIONAL	FREEZES
GROWTH	AGE
FAVORED	INSURANCE
QUALIFIED PLAN	SAVINGS
INVESTMENT	PREPAID
TREATMENT	IN-STATE
EARNED	COMMUNITY
AFTER	ON
FREE	OFF
SAVE	TUTORING
PENSION	JOB



## One-Minute Takeaway

What jumped out at you in this lesson? How can this affect your story?

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## Small Group Discussion

True life-change happens when you open up and work through this material together. Break up into discussion groups of no more than 20 people to talk through the following questions. Be honest in your answers!

1

Winning with money is not just about building a comfortable retirement for yourself. It also includes leaving a legacy for future generations. Realistically, what type of inheritance would you like to leave your loved ones? What would you like to see them do with it?

2

Parents often struggle with the idea of putting their own retirement plans ahead of their children's college funding. Why is it so important to follow the Baby Steps in order in this area? Why do you think some parents feel compelled to reverse the order of these two steps?

3

Some people struggle with the concept of doing the Baby Steps in order, one step at a time, while setting aside or delaying goals they want to reach immediately. Why is it important to focus all your attention and gazelle intensity on one goal at a time?



## This Week's Homework

Personal finance is 20% head knowledge and 80% behavior. Take charge of your financial behaviors by completing the following tasks this week. Be sure to work with your spouse or accountability partner where noted!



### Calculate your retirement needs.

Use the Retirement Planning Calculator in FPU Central to determine how much you will need for a comfortable retirement and how much you will need to save each month to reach that goal. You can also use the Investing Calculator to see how small changes in your savings plan *today* can make a huge difference in your retirement *later*.



### Calculate your college savings needs.

If college funding will be part of your financial plan, use the College Planning Calculator in FPU Central to determine how much you will need for education expenses and how much you will need to save each month to reach that goal.



### Discuss your retirement plans.

*Singles:* Meet with your accountability partner and discuss your retirement plans (and dreams). Review the calculations from the Monthly Retirement Planning exercise together.

*Married Couples:* Call a Budget Committee Meeting to discuss your retirement plans (and dreams). Commit to reach those goals as a team.



**Reading Assignment:** Read the "From Fruition to Tuition" chapter in *Dave Ramsey's Complete Guide to Money*.



# 5 Top Questions Parents Ask About College Savings

*College savings plans can limit how you use your money. Picking the right one can make a huge difference.*

**TODAY'S PARENTS** believe they owe their children a full ride to college at all costs. While college is important, it does not rank above retirement or the emergency fund. And it is *not* a reason to go into debt.

Once you reach Baby Step 5 and it's time to start saving for college, you have several options. We recommend investing in good growth stock mutual funds and an Education Savings Account (ESA). The ESA turbo-charges your college savings with tax-free growth and withdrawals as long as you spend the money on education.

Flexible, state-sponsored 529 plans also let you save and use your college savings tax free and can be a good choice in the right situation. Here are a few questions to help you understand the role each one can play in your college savings plan.

**Q** *How can I use the money?*

**A** Obviously, you're opening this account to pay for educational expenses, but each plan defines that differently. ESAs allow you to use the funds for private elementary, middle or high school tuition as well as post-secondary education. You can also pay for off-campus housing, computers and other education-related expenses with your ESA. But eligible expenses for a 529 plan are limited to college tuition, room and board, school-required books and supplies.

**Q** *How much can I invest?*

**A** If you plan to open your college fund with \$2,000 or less, go with an ESA. You can contribute up to \$2,000 per year per child in an ESA. If you want to save more, or if the child's parents make more than \$200,000 per year, a 529 has no annual contribution limit or income restrictions. You can also open both, using the first \$2,000 to start the ESA (if the parents meet the income requirements) and putting the rest into the 529. This is a good option if your child is planning on getting advanced degrees or attending medical or law school. Contribution limits and eligibility requirements are a moving target, so be sure to check our online resources for the most up-to-date information.

**Q** *How much control do I have?*

**A** Like a Roth IRA, you can invest in any mutual fund in any allocation you wish in your ESA—that’s what makes an ESA a better option than the 529 for most people. You can also change funds as often as you want. Most 529 plans are limited to one fund family and restrict the number of investment strategy changes you can make each year.

**Q** *What if my child doesn’t go to college or gets a free-ride scholarship?*

**A** If the beneficiary of the ESA or 529 doesn’t use the money by age 30, you can change beneficiaries at any time and as often as you want. Siblings, parents, nieces, nephews—pretty much anyone in the family is eligible. However, if you decide to use the money for non-educational expenses, you’ll pay a 10% penalty plus income taxes on the distribution. Some good news though: If your child’s expenses are covered by scholarships and you withdraw money for non-qualified purchases, the 10% penalty does not apply.



hunting his new part-time job. Stay focused on saving, and don’t panic. Remember, college is about education, not pedigree. And student loans are off limits!

**Start Saving Today!**

Just like investing for retirement, the sooner you start saving for your kids’ college, the more money you’ll have when the time comes. If you’re ready for Baby Step 5, don’t wait any longer! An investing professional will help you make a college savings plan and help you choose mutual funds for

*“The sooner you start saving for your kids’ college, the more money you’ll have when the time comes.”*

**Q** *What if my kid is already a teenager, and I’m just getting started?*

**A** If you have five years or less before your teen starts college, you need to take a savings, rather than investing, approach. That means piling up cash in a money market fund instead of using an ESA or 529. Your kid can also help make up the difference by making scholarship

your ESA and/or 529. Work with an advisor like one of Dave’s investing Endorsed Local Providers (ELPs) in your area who will answer your questions so you understand what you’re investing in.

Visit [daveramsey.com/find-elp](http://daveramsey.com/find-elp) for a list of ELPs who will help you make the right choice for your family.

## KEY TERMS

**401(k):** Defined contribution plan offered by a corporation, which allows employees to set aside tax-deferred income for retirement purposes

**Direct Transfer:** Movement of tax-deferred retirement plan money from one qualified plan or custodian to another; results in no immediate tax liabilities or penalties but requires IRS reporting

**Diversification:** Spreading money around among different types of investments to minimize risk

**Individual Retirement Arrangement (IRA):** A tax-deferred arrangement for individuals with earned income and their non-income-producing spouses; growth is not taxed until money is withdrawn

**Liquidity:** The availability of saved or invested money; i.e., a checking account is “liquid,” as money can be easily withdrawn at any time

**Risk:** The degree of uncertainty of return on an investment

**Rollover:** Moving funds from a tax-deferred retirement plan from one qualified plan or custodian to another; incurs no immediate tax liabilities or penalties but requires IRS reporting

**Roth IRA:** A type of retirement account funded with after-tax dollars that subsequently grows tax free

**Share:** An individual piece of ownership in a publicly traded company