

Personal Finance © 2012

Chapter 17: Retirement and Estate Planning

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. You should set long-range goals, conduct a financial analysis, and review your assets.
2. Any four of the following: food; transportation; housing; personal insurance and pensions; reading, education and entertainment; contributions; clothing and personal care; and medical care
3. Sometimes people discover they do not really like the place they have moved to or they miss their family and friends, or the cost of living is more than expected.

Higher Order Thinking

4. Responses will vary but may include that the local newspaper can give you an idea of what life is like in the town, including cultural activities, crime statistics, weather, and what issues are important to the town.

English Language Arts

5. **Retirement Dreams** Collages will vary; students may include words such as “relax,” “travel,” or “freedom.” They may include photos of places they want to travel or activities they hope to learn or do.

Mathematics

6. **Expenses for Households** Medical care expenditure per chart = 11.3%; Estimate of medical care expenditure = $\$73,000 \times 11.3\% = \$8,249$; Housing expenditure per chart = 32.5%; Estimate of housing expenditure = $\$73,000 \times 32.5\% = \$23,725$.

Section 2

Review Key Concepts

1. TSA plans include 401(k) and 403(b) plans.
2. Tax-deferred interest and earnings, no annual limit on individual contributions, waives the 10 percent early withdrawal penalty if money is used for higher education, contributions do not reduce current taxes.
3. Social Security provides benefits to retirees, survivors, and disabled persons.

Higher Order Thinking

4. Employees should begin contributing to the 401(k) plan as soon as possible, and should contribute the maximum amount. If the employer offers matching contributions, invest enough to take full advantage. Understand and review your investment options, adjusting as necessary to maximize your earnings.

21st Century Skills

5. Adapt to Change Sample letter: Dear Damon, In order to maintain your current lifestyle and be able to afford the travel or equipment needed for your new pursuits, you should consider minimizing other expenses. For example, could you trade your car in for a more fuel-efficient model? Consider selling your home and buying a condo which would offer lower monthly utilities. Review your IRA to ensure that you are getting the highest returns possible. Do you have money in a savings account that you could use or invest to earn extra income?

Mathematics

6. Early Retirement Planning Interest earned year 1 = $\$2,500 \times 9\% = \225 ; Ending balance year 1 = $\$2,500 + \$225 = \$2,725$; Beginning balance year 2 = $\$2,725$; Interest earned year 2 = $\$2,725 \times 9\% = \245.25 ; Ending balance year 2 = $\$2,725 + \$245.25 = \$2,970.25$; Beginning balance year 3 = $\$2,970.25$; Interest earned year 3 = $\$2,970.25 \times 9\% = \267.32 ; Ending balance year 3 = $\$2,970.25 + \$267.32 = \$3,237.57$; Beginning balance year 4 = $\$3,237.57$; Interest earned year 4 = $\$3,237.57 \times 9\% = \291.38 ; Ending balance year 4 = $\$3,237.57 + \$291.38 = \$3,528.95$; Beginning balance year 5 = $\$3,528.95$; Interest earned year 5 = $\$3,528.95 \times 9\% = \317.61 ; Ending balance = $\$3,528.95 + \$317.61 = \$3,846.56$

Section 3

Review Key Concepts

1. A simple will leaves everything to the spouse; a traditional marital share will leaves half of the estate less debts and costs to the spouse and the other half to other heirs; an exemption trust will leaves all assets to the spouse except for a specified amount which goes into a trust; a stated dollar amount leaves a specified dollar amount to your spouse.
2. It enables the spouse of a deceased person to avoid paying federal taxes on a certain amount of assets left to him or her as part of an estate.
3. Joint tenants with the right of survivorship, tenants in common, and tenancy by the entirety.
4. An inheritance tax is collected on the property left by a person in his or her will and is only imposed by state governments. A gift tax is collected by both state and federal governments and must be paid on any money or property valued at more than \$11,000 that is given from one person to another.

Higher Order Thinking

5. Because this is a major change to his will, Stefan would be better off to prepare a new will, including a clause to cancel the current document.

English Language Arts

6. **Final Wishes** Dialogues will vary but should clearly convey to Ian that a letter of last instruction is not legally binding and should only be used to share preferences for funeral arrangements and locations of important documents or items. A will is a legally-binding document and should be used to ensure that your estate is divided according to your wishes.

Mathematics

7. **Estate Tax** Amount received above exemption = $\$2,750,000 - \$2,000,000 = \$750,000$;
Tax paid = $\$750,000 \times 48\% = \$360,000$.