

## "Freeze- become a millionaire - 'This Summer'"



Everyone knows that building a snowman can be quite easy. However, did you know that building your wealth and saving for retirement is just a couple compound numbers away from you rolling in snow -to rolling in the dough?

Olaf has always loved the idea of "summer"; however, he has never really experienced the heat, the sun, or well - summer! How about you? Have you ever experienced a fantasy that you couldn't wait to experience? Olaf likes to close his eyes and imagine what summer will be like when it finally does come.

So take this time, what would it feel like to be a doctor, NBA basketball player, or well - A MILLIONAIRE? Many of you are just beginning to find jobs for the summer, but have you thought about what you are going to do with the "dough" you rake in over those couple of months? Buy a new Television? Go on a spring break trip? Let's look at an even "cooler" option - How about becoming a millionaire?

In this lesson, we are going to focus in on one savings option-Roth IRAs. What is a ROTH IRA? How can I become a millionaire by simply putting money into an account? Why should I take my hard earned money from my summer job and think about saving for retirement - that is at least 40 years away? These are all questions we will be able to answer, once we sit down and look at how the smallest investments now, can bring you big bucks later! Isn't that something worth melting for?

**Lesson Author:** Kyleigh Lewis, Dorchester High School

**Personal Finance Standards (Nebraska):**

**Standard 3.** Students will evaluate savings and investment strategies to achieve financial goals.

**Benchmark 3.1** Explain the importance of saving to ensure financial security.

Sample performance indicators:

- Differentiate between saving and investing.
- Describe why and how people save.
- Describe ways to save regularly.
- Analyze the power of compounding and the importance of starting early in implementing a plan of saving.

**National Standards for Business Education:**

**Personal Finance**

**IV. Saving and Investing**

Achievement Standard: Evaluate savings and investment options to meet short- and long-term goals.

**Level 3 Performance Expectations:**

Evaluate the tax incentives available for certain investments

**Level 4 Performance Expectations:**

- Examine the role of saving and investing in creating a financial plan
- Examine the fundamental workings of the Social Security System and the system's effects on retirement planning.

**Key Concepts:**

- Retirement Savings Options
- Individual Retirement Accounts (IRA)
- Roth IRA

**Introduction:**

- Students should have read Chapter 13 in the Madura/Casey/Roberts textbook: "Methods of Savings" and focus on the various types of retirement savings options: Individual Retirement Accounts, Employer-Sponsored Retirement Plans, and Annuities.
- Today's lesson will focus on one of the types of Individual Retirement Accounts (IRA): Roth IRA.
- Roth IRA contributions are not tax deductible, but the earnings from an eligible account are never taxed, even after withdrawal. Eligibility to a Roth IRA phases out at high levels of income and has contribution limits.

Students will need a computer with access to the internet to look at how investing in a Roth IRA can dramatically change their investing future for their retirement by just the slightest investment each month starting at the earliest age. Students will put the "Time Value of Money" to the test.

### Resources:

- Personal Financial Literacy, Pearson Education, Inc./Prentice-Hall Publishing, 2010 ©. Jeff Madura, Mike Casey, Sherry J. Roberts, authors. Chapter 13 Methods of Saving: Pages 246-265.
- \* This assignment correlates with Essential Question Activities - #2. Look at each of the savings options discussed in this chapter. Choose one option (Roth IRAs) and discuss the following questions:
  1. What is unique about this savings option?
  2. How easy would it be to participate in this option?
  3. How will this savings option affect your financial plan now and in the future?
- <https://www.youtube.com/watch?v=6dzpNd3megg&app=desktop>  
**IRA Kids Club**
- <https://www.youtube.com/watch?v=UFatVn1hP3o>  
**Youtube link to Frozen's "In Summer" music video for introduction.**
- <http://www.bankrate.com/calculators/retirement/roth-ira-plan-calculator.aspx>  
**The Bankrate link to a Roth IRA planning calculator**

### Process:

- Bell Ringer: What is a Roth IRA? What benefits does it possess? (if time allows-Olaf "In Summer" music video to play during the bell ringer)
- Review of textbook materials on Roth IRA (p.252-255)
- YouTube Video: Biz Kid - IRA Kids Club
- Questions and Answers
- Assessment Activity (Roth IRA using a IRA calculator)
- Discussion
- Conclusion/Exit Ticket (Do you think that a Roth IRA is your ticket to your future retirement?)

**Conclusion:**

With the proper background information, I think this lesson will help students open their eyes to the potential they have of saving for retirement at such a young age. Not only will this spark interest in the topic, Roth IRA, but in the other retirement saving options we will discuss through various points in this chapter. Students will be able to crunch their own numbers and decide what will make the best opportunities for each student. All the students are different ages, so they can compare with the peers and lead discussions on their findings.

**Assessment Activity:**

Students will be required to determine what their retirement savings option with an IRA will be. They will use the Bankrate ROTH IRA calculator to establish how they will become a millionaire this summer. Students will use a \$1,000 as their starting balance that they received for their next birthday. They will use that age as their "current age" in the calculator. They will assume they will receive a 10% rate of return and marginal tax rate of 25%. Based off of their summer job, contributions to their income via other sources: babysitting, scooping snow, etc. to determine what their annual contribution will be to their Roth IRA to retire at whatever age they way. Students will record their information in the attached worksheet.

After the students have decided their track to becoming a millionaire, students will have to take a turn of events and decide to not invest in their Roth IRA until they turn 23 and graduate college? Based off their original numbers, *how much will they lose in investing power? Why is time value of money important?* All of these questions will be answered from their findings.

**Extension Activity:**

How do you know a Roth IRA is the right choice for you? The book discussed another common IRA: a traditional IRA. What if I invested the same amount of money into this type of retirement savings plan? Will I have a higher payout? Could I retire earlier? For tomorrow's activity, students should take the initial numbers from their Roth IRA and plug them into the traditional IRA calculator on Bankrate.

<http://www.bankrate.com/calculators/retirement/traditional-ira-plan-calculator.aspx>

Answer the following questions to begin tomorrow's bell ringer:

- What is the difference between a Roth IRA and a traditional IRA?
- Which type of investment plan would you choose?

# Roth IRA

## How Will I Become a Millionaire?

For this assignment, you will need to use a Roth IRA calculator to establish how you can become a millionaire by putting pennies away at your current age toward your retirement.  $59 \frac{1}{2}$  may seem a ways away, but  $59 \frac{1}{2}$  will look pretty nice with a million dollar paycheck awaiting your arrival.

Use the following link:

<http://www.bankrate.com/calculators/retirement/roth-ira-plan-calculator.aspx>

To establish the worth of your IRA at retirement, use the following information to decide what you will contribute and for how many years to reach your goal of a suitcase full of hundred dollar bills.

Your birthday is next week, you are going to receive a hefty \$1,000 paycheck from your grandparents as the starting balance for your IRA. When do you plan to retire? How much will you contribute annually until you reach your retirement age? You will receive an expected rate of return of 10% and a marginal tax rate of 25%.

Fill in the Blanks:

Retirement age: \_\_\_\_\_

1<sup>st</sup>: What do you think your annual contribution will need to be to reach one million dollars by your retirement age? \_\_\_\_\_

Did you become a millionaire with that amount? \_\_\_\_\_

2<sup>nd</sup>: What is the minimal (to the hundreds place) that you would need to contribute to reach a million dollars by your retirement age? \_\_\_\_\_

How much will that be each month? \_\_\_\_\_

3<sup>rd</sup>: What if you click, maximize contribution? How much is your IRA balance then? \_\_\_\_\_

How much would you have to contribute each month at the maximal contribution level? \_\_\_\_\_

Finally: What if you can't start saving until you are 23 and graduated from college. You will still have a \$1,000 to initially contribute. What if you use the same numbers from the 2<sup>nd</sup> part.

How much will your contribution be now by simply changing your age? \_\_\_\_\_

How much money will you miss out on if you wait until you graduate college?  
\_\_\_\_\_

## **Review:**

Why is it important to start saving for retirement now?

What is the time value of money?

What is unique about the Roth IRA plan?

How easy would it be to participate in this option?

How will this savings option affect your financial plan now and in the future?