Personal Finance, 6e **(Madura)**
Chapter 19 Retirement Planning

19.1 Social Security

1) The quality and timing of your retirement depend mainly on the quality of your employer's retirement plan.
Answer: FALSE
Diff: 2
Question Status: Revised

2) Social Security provides sufficient income to support the lifestyles of most individuals.
Answer: FALSE
Diff: 1
Question Status: Previous edition

3) To be eligible for Social Security retirement benefits on your own, you will need to have worked for the equivalent of at least 10 years (amassed 40 credits), earned the minimum required income each quarter, and contributed to Social Security through payroll taxes.
Answer: TRUE
Diff: 2
Question Status: Revised

4) Social Security benefits vary among states, as the system is administered by the individual states.
Answer: FALSE
Diff: 1
Question Status: Revised

5) The amount of income that you receive from Social Security when you retire is dependent on the number of years you earned income and your average level of income.
Answer: TRUE
Diff: 1
Question Status: Previous edition

6) To be eligible for Social Security full retirement benefits, a person must be retired and be at least 65 years old.
Answer: FALSE
Diff: 2
Question Status: Previous edition

7) In retirement, you can earn income and still receive Social Security benefits.
Answer: TRUE
Diff: 1
Question Status: Revised

8) The Social Security system allows people to receive reduced benefits before their full retirement age.
Answer: TRUE
Diff: 1
Question Status: Revised

9) Full Social Security retirement benefits begin at age 65 to 67 depending on what year you were born.
Answer: TRUE
Diff: 2
Question Status: Previous edition

10) Your Social Security retirement benefits are determined primarily by the amount
A) of current contributions by other employees.
B) of savings you have.
C) you contributed to Social Security over the years.
D) of the prime interest rate.
Answer: C
Diff: 2
Question Status: Previous edition

11) If a person who qualified for Social Security dies, which of the following are provided to the survivors?
A) A one time payment to the spouse.
B) Monthly income payments if the spouse is over age 60.
C) Monthly income payments to children under age 18.
D) All of the above.
Answer: D
Diff: 2
Question Status: New

12) Social Security is all of the following **except**
A) a good starting point when planning for your retirement funding.
B) financed through working individuals and employers.
C) a government program that provides benefits to the elderly and the disabled.
D) a program that provides benefits that replace about 60% of a worker's annual income.
Answer: D
Diff: 2
Question Status: Revised

13) To qualify for Social Security benefits, your income has to be at least ________ per quarter (in 2015) for the equivalent of 10 years.
A) $730
B) $874
C) $1,220
D) $1,123
Answer: C
Diff: 2
Question Status: Revised

14) You can elect to receive Social Security retirement benefits
A) at the full retirement age, which is being raised from 65 to 69.
B) at age 62 and take a reduced amount.
C) and limit your ability to keep on working and earning income.
D) and not be taxed on them, no matter how much other income you have.
Answer: B
Diff: 2
Question Status: Revised

15) In retirement planning, which of the following is **false**?
A) Social Security benefits are enough for retirement for most people.
B) IRAs can be a good way to provide for retirement.
C) You can continue to work and receive Social Security benefits at the same time.
D) There is some concern about whether full Social Security benefits will be available in the future.
Answer: A
Diff: 1
Question Status: Revised

16) Social Security replaces approximately ________% of a worker's average annual income from his or her working years.
A) 100
B) 40
C) 75
D) 85
Answer: B
Diff: 1
Question Status: Revised

17) If a person who qualified for Social Security benefits dies, all of the following are benefits provided to the survivors **except**
A) a one-time payment to the spouse.
B) monthly income payments to the spouse with eligible children or if the spouse is at least age 60.
C) monthly income payments to children.
D) tuition reimbursement for a child attending college.
Answer: D
Diff: 1
Question Status: Revised

18) Assuming Social Security income is not absolutely necessary at age 62, the decision whether to begin receiving reduced payments at age 62 versus waiting for full retirement age is
A) a financial analysis decision based on present value and life expectancy.
B) a moot point since the government tells you when you are eligible.
C) a decision based on expected inflation rates.
D) a moot point since you should take the money as soon as possible.
Answer: A
Diff: 2
Question Status: New

19) As you plan for retirement, you should consider Social Security benefits as a supplement to
A) your 401(k) savings.
B) your company pension if one exists.
C) your investment portfolio.
D) All of the above are correct.
Answer: D
Diff: 2
Question Status: New

20) Social Security benefits are ________, as are Social Security ________ on your income.
A) uncapped; withholding taxes
B) capped; withholding taxes
C) unlimited; fees
D) capped; fees
Answer: B
Diff: 2
Question Status: New

19.2 Employer-Sponsored Retirement Plans

1) Defined-contribution employer-sponsored retirement plans provide you with a specific amount of income when you retire, based on factors such as your salary and years of employment.
Answer: FALSE
Diff: 1
Question Status: Revised

2) All defined-benefit plans have the same qualifications for determining when employees are vested.
Answer: FALSE
Diff: 1
Question Status: Previous edition

3) Vesting means that employees have a claim to a portion of the retirement money that has been reserved for them upon retirement.
Answer: TRUE
Diff: 1
Question Status: Previous edition

4) In the past 20 years or so, many employers have shifted from defined-benefit to defined-contribution retirement plans.
Answer: TRUE
Diff: 2
Question Status: Revised

5) When you contribute to a defined-contribution retirement plan, your employer often puts in money too, and you are able to defer taxes on these contributions.
Answer: TRUE
Diff: 2
Question Status: Previous edition

6) When you contribute to an employer sponsored retirement account, it is usually with ________ dollars.
A) after-tax
B) pre-tax
C) optional
D) discretionary
Answer: B
Diff: 1
Question Status: Revised

7) Retirement fund withdrawals are usually taxed as ________ income.
A) short-term capital gains
B) long-term capital gains
C) ordinary
D) tax-free
Answer: C
Diff: 1
Question Status: Previous edition

8) You get a job with the Allred Corporation. Its retirement plan will pay you $250 a month for each year you work for the company; payments begin on your 65th birthday. You must work for the company for 10 years in order to qualify for the pension. This plan is a
A) defined-benefit plan.
B) defined-contribution plan.
C) traditional IRA.
D) Keogh plan.
Answer: A
Diff: 2
Question Status: Revised

9) In the last 20 years, many employers have shifted from
A) defined-contribution to defined-benefit plans.
B) defined-benefit to defined-contribution plans.
C) 401(k) plans to 403(b) plans.
D) SEP plans to SIMPLE plans.
Answer: B
Diff: 2
Question Status: Revised

10) If your retirement plan has no vesting requirement then it is **not** a
A) defined-benefit plan.
B) Roth IRA.
C) traditional IRA.
D) Keogh plan.
Answer: A
Diff: 2
Question Status: Revised

11) With which of the following plans will you be able to most accurately predict your retirement income?
A) 401(k)
B) 403(b)
C) Traditional IRA
D) Defined-benefit plan
Answer: D
Diff: 1
Question Status: Revised

12) Which of the following is **not** a characteristic of employer-sponsored retirement plans?
A) Help you save
B) Generally of two types
C) Part of a good benefits package
D) A good place from which to borrow
Answer: D
Diff: 2
Question Status: Previous edition

13) Most defined-contribution plans allow some investment flexibility and allow you to choose all of the following **except**
A) money market funds.
B) stock mutual funds.
C) bond mutual funds.
D) put and call options.
Answer: D
Diff: 1
Question Status: Previous edition

14) Which of the following investments is least likely to be allowed with most defined-contribution plans?
A) Stock mutual funds
B) Bond mutual funds
C) Money market funds
D) Individual corporate bonds
Answer: D
Diff: 1
Question Status: Previous edition

15) Under a defined-contribution plan, there are specific guidelines for all of the following **except**
A) how much you can contribute to your retirement fund.
B) how much your employer can contribute to your retirement fund.
C) early withdrawal penalties.
D) estimating how much you will receive monthly at retirement.
Answer: D
Diff: 2
Question Status: Revised

16) The best way to save for retirement is to
A) wait to contribute until after all your bills are paid.
B) have your contribution deducted directly from your pay.
C) borrow money for your contribution so you will pay it back fast.
D) wait until you have accumulated the amount in your checking account.
Answer: B
Diff: 1
Question Status: Revised

17) If you have a claim to a portion of the money in an employer-sponsored retirement account, you are considered to be ________ the plan.
A) committed to
B) permanent in
C) vested in
D) endowed in
Answer: C
Diff: 1
Question Status: Revised

18) If you have worked for a company long enough to claim a portion of your employer-sponsored retirement plan, you are ________.
Answer: vested
Diff: 1
Question Status: Previous edition

19) If you are allowed to change investments in your retirement plan over time, you have a(n) ________ plan.
Answer: defined-contribution
Diff: 1
Question Status: Revised

20) Since many employers have eliminated defined benefit retirement plans, it is important that the employee
A) contributes to the 401(k) opportunity especially if there is company matching.
B) makes extra money to compensate for the loss of benefit.
C) saves money throughout their career to prepare for retirement.
D) Both A and C are correct.
Answer: D
Diff: 1
Question Status: New

21) Many employers have eliminated defined benefit retirement plans for employees because
A) the employees did not appreciate the benefit.
B) the employees were reluctant to contribute to the plans.
C) the cost to the employer and long term liability became overwhelming.
D) All of the above are correct.
Answer: C
Diff: 2
Question Status: New

19.3 Your Retirement Planning Decisions

1) If your employer offers a retirement plan, that should be the first plan that you consider because your employer will likely contribute to it.
Answer: TRUE
Diff: 1
Question Status: Previous edition

2) How much to contribute to a retirement plan should **not** depend on your
A) liquidity.
B) age.
C) other investments.
D) mood at the time.
Answer: D
Diff: 1
Question Status: Previous edition

3) In an employer-sponsored retirement plan, you should contribute at least
A) the amount the employer will match.
B) 3% of your gross income in middle age.
C) 1% of your net income in your early working years.
D) 15% of your income in the last few working years.
Answer: A
Diff: 2
Question Status: Previous edition

4) Key retirement planning decisions include all of the following **except**
A) how much to contribute.
B) whether or not you should contribute.
C) when to contribute.
D) how to invest your contributions.
Answer: B
Diff: 1
Question Status: Revised

5) In determining the amount of money you will need for retirement, you should consider all of the following **except**
A) your personal needs and who else you will be supporting.
B) the expected cost of living due to inflation.
C) the number of years you expect to live while retired.
D) inheritance from your children.
Answer: D
Diff: 1
Question Status: Revised

6) If you are far away from retirement, you should consider investing in ________ for your retirement account.
A) Ginnie Mae or Treasury bond funds
B) certificates of deposit (CDs)
C) mutual funds with high growth stocks
D) corporate bonds
Answer: C
Diff: 2
Question Status: Previous edition

7) If you are close to retirement, you should consider investing in ________ for your retirement account.
A) Treasury bond funds
B) high yield bond funds
C) mutual funds with high growth stocks
D) index funds
Answer: A
Diff: 2
Question Status: Revised

8) If you are age 60, which of the following investments would you most likely **not** consider?
A) Money market funds
B) Junk bond funds
C) Treasury bonds
D) CDs
Answer: B
Diff: 2
Question Status: Previous edition

9) As you near retirement, you should
A) reduce risk in your portfolio and move funds from risky investments to income generating investments.
B) move all of your invested funds to risk free corporate bonds.
C) move all of your invested funds to tax-free municipal bonds.
D) move a major portion of your invested funds to growth stocks since you will have to replace your income when you retire.
Answer: A
Diff: 2
Question Status: New

19.4 Retirement Plans Offered by Employers

1) More than 80% of all employers offering 401(k) plans match a portion or all of an employee's contributions.
Answer: TRUE
Diff: 2
Question Status: Previous edition

2) It is often a good idea to invest most or all of your retirement savings in the stock of your employer so that you will demonstrate your loyalty.
Answer: FALSE
Diff: 1
Question Status: Previous edition

3) Both the SEP (Simplified Employee Pension) and the SIMPLE (Savings Incentive Match Plan for Employees) retirement plans are intended for use by smaller firms.
Answer: TRUE
Diff: 2
Question Status: Revised

4) An ESOP (employee stock ownership plan) is generally more risky than retirement plans invested in diversified mutual funds.
Answer: TRUE
Diff: 1
Question Status: Revised

5) Once you leave a job with an employer, you will probably forfeit your retirement account unless you have been with the company for 15 or more years.
Answer: FALSE
Diff: 1
Question Status: Previous edition

6) Which of the following is true about a 401(k) plan?
A) There is no penalty for early withdrawal of these funds.
B) There is no limit on the dollar amount you can contribute.
C) Your contributions are automatically vested and are yours, regardless of when you leave the firm.
D) 401(k) contributions are made after taxes are paid on your salary.
Answer: C
Diff: 2
Question Status: Previous edition

7) Which of the following is **false** about a 401(k) plan?
A) Withdrawals before age 59 1/2 result in a 10% tax penalty.
B) Less than 50% of all employers offering these plans match a portion of employee's contributions.
C) Your contributions are limited to a set dollar amount each year.
D) The money you contribute is deducted from your pay before taxes are assessed.
Answer: B
Diff: 3
Question Status: Revised

8) Your **worst** choice as an investment option for your 401(k) would be
A) 100% investment in the stock of the company for which you work.
B) mutual funds investing in high growth stocks.
C) mutual funds investing in blue chip stocks.
D) mutual funds investing in bonds.
Answer: A
Diff: 2
Question Status: Previous edition

9) Under federal guidelines, the 2015 maximum contribution to a 401(k) is
A) $18,000.
B) 80% of gross income.
C) $400 per month.
D) There is no limit.
Answer: A
Diff: 1
Question Status: Revised

10) Which of the following employers would be most likely to offer a 403(b) plan?
A) General Motors
B) Wright State University
C) Duke Electric Power Company
D) SBC Corporation
Answer: B
Diff: 2
Question Status: Revised

11) Under a SEP, an employee
A) is not allowed to make contributions.
B) can contribute up to $6,000 per year.
C) is not taxed until his or her contributions are withdrawn.
D) can defer taxes with contributions.
Answer: A
Diff: 3
Question Status: Previous edition

12) Which of the following employers might offer you a SEP?
A) Al's Gas Station
B) Ford Motor Company
C) U.S. Army
D) General Electric
Answer: A
Diff: 1
Question Status: Previous edition

13) When you leave an employer, your options with your 401(k) are all of the following **except**
A) leave it with your former employer.
B) transfer it to your new employer.
C) transfer it to a rollover IRA.
D) withdraw it with no tax penalty if done in 90 days.
Answer: D
Diff: 1
Question Status: Previous edition

14) Which of the following is a defined-contribution plan intended for firms with 100 or fewer employees?
A) 401(k) plan
B) SEP plan
C) SIMPLE plan
D) 403(b) plan
Answer: C
Diff: 1
Question Status: Previous edition

15) A ________ is established to transfer assets tax-free from a company retirement plan.
A) SEP
B) traditional IRA
C) rollover IRA
D) Keogh
Answer: C
Diff: 1
Question Status: Previous edition

16) Educational institutions and charitable organizations offer a defined-contribution plan called a(n) ________ plan.
Answer: 403(b)
Diff: 1
Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

A) a defined contribution plan for small firms (1 - 10 employees)
B) a retirement plan in which the employer contributes its own stock to the employee's retirement account
C) a defined contribution plan in which the employer contributes to employee retirement accounts based on a specified profit formula
D) a defined contribution plan that allows employees to contribute up to $18,000 per year in 2015 on a pre-tax basis

17) ESOP
Diff: 1
Question Status: New

18) profit sharing
Diff: 1
Question Status: New

19) 401(k) plan
Diff: 1
Question Status: New

20) SEP
Diff: 1
Question Status: New

Answers: 17) B 18) C 19) D 20) A

21) If you are contributing to a 401(k) plan at work, you can still contribute to
A) a traditional IRA.
B) a Roth IRA.
C) a SEP.
D) a Keogh plan.
Answer: B
Diff: 2
Question Status: New

19.5 Retirement Plans for the Self-Employed

1) The Keogh plan is another retirement savings option, which can supplement individual retirement accounts (IRAs) for employed persons.
Answer: FALSE
Diff: 2
Question Status: Revised

2) Both the one-participant 401(k) plan and the Simplified Employee Pension (SEP) plan are available to self-employed individuals for retirement savings.
Answer: TRUE
Diff: 2
Question Status: Revised

3) Which of the following is **not** true of retirement plans for the self-employed?
A) A Keogh plan is usually used by high income individuals.
B) Under a SEP, a maximum contribution of $53,000 is allowed for 2015.
C) Self-employed individuals can choose from several plans including SEP plans and one-participant 401(k) plans.
D) A one-participant 401(k) plan is similar to 401(k) plans for employees except that it allows larger contributions.
Answer: D
Diff: 3
Question Status: New

4) Which of the following is not a defined-contribution retirement plan offered by employers?
A) 401(k) plan, 403(b) plan
B) SEP
C) 403(b) plan
D) Keogh plan
Answer: D
Diff: 1
Question Status: Revised

5) Which of the following statements with regard to SEP plans is **not** true?
A) Self-employed individuals can contribute up to 25% of annual net income.
B) They are also called Keogh plans.
C) The maximum contribution in 2015 is $53,000.
D) A SEP is a defined-contribution plan.
Answer: B
Diff: 1
Question Status: Revised

6) Which of the following plans is available to both firms with 10 or fewer employees and self-employed individuals?
A) SEP plan
B) ESOP
C) Keogh plan
D) 403(b) plan
Answer: A
Diff: 1
Question Status: Revised

7) Bill is self-employed and has established a SEP retirement plan. Bill's net income for 2015 is $74,500. How much can Bill contribute to the SEP?
A) $40,000
B) $17,000
C) $18,625
D) $11,500
Answer: C
Explanation: C) lesser of 25% of $74,500 = $18,625 or $50,000
Diff: 1
Question Status: Revised

8) Name two types of retirement plans available to the self-employed.
Answer: Simplified Employee Pension plan (SEP), one participant 401(k) plan, and Keogh plan.
Diff: 1
Question Status: Revised

9) Jim is self employed and had a "banner" year in 2015, earning $350,000 net income. He wanted to make a significant contribution to his retirement planning and set up a SEP plan. Since the plan allows for contributions up to 25% of net income, his maximum contribution was
A) $53,000.
B) $87,500.
C) $75,000.
D) $63,000.
Answer: A
Diff: 1
Question Status: New

19.6 Individual Retirement Accounts

1) The traditional IRA allows tax-deductible contributions of up to $5,500 ($6,500 for those age 50 or older) in 2015 for individuals who are not covered by employer-sponsored retirement plans or meet income qualifications if they have an employer plan.
Answer: TRUE
Diff: 2
Question Status: Revised

2) The maximum amount that can be contributed to an IRA annually is adjusted periodically for inflation.
Answer: TRUE
Diff: 1
Question Status: New

3) Individuals normally incur a tax penalty if funds are drawn from a traditional IRA before the age of 59 1/2.
Answer: TRUE
Diff: 2
Question Status: Revised

4) Contributions to a Roth IRA are not tax deductible initially and, therefore, very few people are interested in using a Roth IRA.
Answer: FALSE
Diff: 1
Question Status: Previous edition

5) The tax characteristics of a Roth IRA and a traditional IRA differ in terms of initial contributions and withdrawals after retirement.
Answer: TRUE
Diff: 1
Question Status: Revised

6) If your marginal tax rate while working is low, but you expect your marginal income tax rate to be high after you retire, you may be better off investing in a traditional IRA than in a Roth IRA.
Answer: FALSE
Diff: 2
Question Status: New

7) Which of the following is **not** a characteristic of a traditional IRA?
A) For a married couple, the contribution limit doubles.
B) Individuals over 50 are allowed to make additional catch-up contributions.
C) Everyone is eligible for deductible contributions regardless of income.
D) A 10% penalty normally applies if funds are withdrawn before age 59 1/2.
Answer: C
Diff: 2
Question Status: Revised

8) Generally, there are tax penalties for withdrawals from a traditional IRA before the age of
A) 59 1/2.
B) 60.
C) 67 full retirement age.
D) all of the above.
Answer: A
Diff: 1
Question Status: Revised

9) Which of the following statements about IRAs is **not** true?
A) The annual contribution limit will increase gradually.
B) A married couple can contribute twice as much as an individual.
C) Individuals over age 50 are able to make larger contributions.
D) Penalties for early withdrawal are being phased out.
Answer: D
Diff: 1
Question Status: Revised

10) Contributing to which of the following will give you an immediate tax benefit?
A) Traditional IRA
B) Roth IRA
C) Rollover IRA
D) Regular brokerage account
Answer: A
Diff: 1
Question Status: Previous edition

11) With which of the following retirement plans will your withdrawals **not** be subject to taxes if you are over 59 1/2 and have had the account for at least five years?
A) Rollover IRA
B) Roth IRA
C) Traditional IRA
D) Keogh plan
Answer: B
Diff: 1
Question Status: Revised

12) If you are about to invest in a stock that has excellent growth potential over the next few years and the investment is to be part of your retirement, the best place to do this would be in a
A) bank trust account.
B) Roth IRA.
C) rollover IRA.
D) regular brokerage account.
Answer: B
Diff: 1
Question Status: Previous edition

13) When deciding whether to invest in a traditional IRA or a Roth IRA one would consider all of the following, **except**
A) the amount of income you expect to have during retirement.
B) whether you are covered by an employer-sponsored retirement plan and, if so, how much income you earn.
C) the marginal income tax rate you expect to have during retirement.
D) whether you want the money to accumulate tax-free or not.
Answer: D
Diff: 2
Question Status: Revised

14) Bob and Bonnie, husband and wife ages 56 and 58, have combined income of $80,000. What is the maximum combined IRA contribution that they can make in 2015?
A) $10,000
B) $11,000
C) $13,000
D) $40,000
Answer: C
Diff: 2
Question Status: Revised

15) What would be the difference in the tax consequences of an $18,000 withdrawal from a Roth IRA versus a traditional IRA if $15,000 represents long-term capital gains, $2,000 is short-term capital gains, and $1,000 is interest? Assume a tax rate of 30% and a capital gains tax rate of 10%.
A) $5,200 more in taxes with a traditional IRA
B) $4,800 more in taxes with a traditional IRA
C) $5,400 more in taxes with a traditional IRA
D) $5,400 more in taxes with a Roth IRA
Answer: C
Explanation: C) Tax on Roth withdrawals = 0; tax on Traditional IRA withdrawals = $18,000 × 0.3 = $5,400, therefore, $5,400 more in taxes with a Traditional IRA.
Diff: 2
Question Status: Revised

16) An individual retirement account in which capital gains and earnings on your investments will not be taxed upon withdrawal at age 59 1/2 is a(n) ________.
Answer: Roth IRA
Diff: 1
Question Status: Revised

17) Dave and Tammy are both employed but are eligible to contribute to a traditional IRA. If they each contribute $5,500 to their respective accounts, how much federal income tax will they save if they are in the 30% marginal tax bracket?
A) $3,300
B) $3,000
C) $1,650
D) $ 0, since contributions to a traditional IRA are not deductible from income for federal income tax.
Answer: A
Diff: 1
Question Status: New

19.7 Annuities

1) An annuity is similar to an IRA in that money accumulates tax-free during the build-up period.
Answer: TRUE
Diff: 1
Question Status: Previous edition

2) Which of the following statements is **not** true of annuities?
A) They can provide annual payments for life.
B) They provide no tax advantages.
C) They generally have high fees.
D) You can withdraw your investment as a lump sum.
Answer: B
Diff: 1
Question Status: Revised

3) A(n) ________ annuity provides a specific return on your investment so you know how much money you will receive at a future point.
A) guaranteed
B) fixed
C) variable
D) insured
Answer: B
Diff: 1
Question Status: Previous edition

4) A(n) ________ is a financial contract that provides annual payments until a specified year or until one's death.
A) savings account
B) annuity
C) mortgage
D) trust
Answer: B
Diff: 1
Question Status: Previous edition

5) The fees charged by financial institutions for annuities may include all of the following **except**
A) management fees.
B) surrender charges.
C) insurance fees or commissions.
D) no-load annuity fees.
Answer: D
Diff: 2
Question Status: Previous edition

6) A financial contract that will provide annual payments over either a specified time period or a person's lifetime is a(n) ________.
Answer: annuity
Diff: 1
Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

A) a fee imposed on money withdrawn from an annuity
B) a financial contract that provides annual payments over a specified period

7) annuity
Diff: 1
Question Status: New

8) surrender charge
Diff: 1
Question Status: New

Answers: 7) B 8) A

9) Describe two types of annuities.
Answer: Fixed annuities provide a specified return on your investment, so you know exactly how much money you will receive at a future point in time. With variable annuities, the return is based on the performance of the selected investment vehicles.
Diff: 1
Question Status: Previous edition

19.8 Estimating Your Future Retirement Savings

1) All of the following is good advice on retirement planning and savings **except**
A) start early.
B) take advantage of employer plans.
C) take advantage of tax savings.
D) if you are eligible for Social Security, you will not need to worry about additional savings.
Answer: D
Diff: 1
Question Status: Previous edition

2) In estimating the future value of your retirement investments, you would consider all of the following **except**
A) the amount invested.
B) your annual return.
C) the number of years you will invest.
D) the age at which your spouse will retire.
Answer: D
Diff: 1
Question Status: Previous edition

3) How much would need to be contributed each year for 30 years to accumulate $1,300,000 assuming a return on the investments of 8%? Round to the nearest dollar if needed.
A) $43,333
B) $46,800
C) $11,476
D) $15,000
Answer: C
Explanation: C) $1,300,000/113.282 (FVIFA - i = 8 percent; n = 30) = $11,476 rounded
Diff: 2
Question Status: Revised

4) If an employer matches contributions to a 401(k) up to a maximum of $1,800 (employer and employee each contribute $1,800) and an additional $2,200 is contributed by the employee, how much will the employee have in 35 years if the investments in the 401(k) earn an average of 9%?
A) $152,600
B) $203,000
C) $1,251,122
D) $776,538
Answer: C
Explanation: C) ($1,800-employee's contribution + $1,800-employer's match + $2,200) × 215.705 (FVIFA - i = 9 percent; n = 35) = $1,251,089
Diff: 2
Question Status: Revised

5) How much could a self employed individual earning $187,000 per year accumulate in a SEP plan if the individual invests the maximum allowed for 20 years at a return of 9%? Round to the nearest dollar if needed.
A) $2,148,678
B) $2,391,736
C) $840,000
D) $935,000
Answer: B
Explanation: B) $187,000 × 0.25 = $46,750
$46,750 × 51.159 (FVIFA - i = 9 percent; n = 20) = $2,392,151
Diff: 2
Question Status: Revised

6) What three factors do you need to calculate how much money you will accumulate by retirement?
Answer: Time, interest rate, and amount contributed.
Diff: 1
Question Status: Revised

7) If an employee earning $75,000 per year annually for 20 years contributes 6% to their 401(k) plan and the employer matches 3%, plus contributes $5000 to a Roth IRA annually for 20 years, how much money will the employee have at the end of 20 years assuming all funds are invested at 6% per annum?
A) $432,231
B) $524,234
C) $450,456
D) $365,056
Answer: A
Diff: 3
Question Status: New

19.9 How Retirement Planning Fits Within Your Financial Plan

1) List three sources of income when you retire.
Answer: Social Security, IRAs, company pensions, employer-sponsored retirement plans such as 401(k) and 403(b) plans, retirement plans for self-employed individuals such as SEP and one-participant 401(k) plans, stock and bond funds, and money market accounts are possible answers.
Diff: 1
Question Status: Revised