

# Investing and Retirement

Lesson 3: Teacher's Guide | Ages 14 & Up

# THE PAYOFF



## Performance Expectations

When making investment decisions during the game, communicate to students that they are to:

- Invest the maximum amount of money
- Fully match the employer match
- Select an index fund comprised primarily of stocks
- Avoid high fee investments

## Alignment to Jump\$tart Investing Knowledge Statements and Standards\*

Wealth can increase over time with regular investing and frequent compounding.

\*Source: [https://www.jumpstart.org/wp-content/uploads/2018/01/2017\\_NationalStandardsBook.pdf](https://www.jumpstart.org/wp-content/uploads/2018/01/2017_NationalStandardsBook.pdf)

# Lesson Procedures

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## Part 1: Students play The Payoff

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## Part 2: Instructional guide

### Directions:

**Part 1:** Instruct students to review each investment and make an investment decision that puts them in the best position to retire.

### Investment Options

#### **Peach Orchard Small Cap Mutual Fund**

Mutual Funds

YTD Return: 18%

Minimum Investment Amount: \$500

Net Expense Ratio 1.5%

**WARNING:** Historical investment returns do not guarantee future investment returns.

**BUY NOW** through Major Money Financial Planners\*

\*Dollar Capital Financial Planner Management Fee: 2%.

Buy now

#### **Peach Orchard Total World Stock ETF**

Tracker Funds

YTD Return: 17%

Minimum Investment Amount: \$500

Net Expense Ratio 0.25%

**WARNING:** Historical investment returns do not guarantee future investment returns.

**BUY NOW** through Big Time Financial Planners\*

\*Big Time Financial Planners Fee: 1%.

Buy now

After students make their investment selection, direct them to answer the following questions.

1. Which investment did you select, and why?

Answers will vary, but hopefully answers will present an opportunity to not be fooled by past returns, as they are not an indication of future returns.

## Part 2: Instructional guide, cont.

2. If selecting an investment that you will not need for 40 years, and given a choice, would you choose stocks, bonds, or a savings account? Why?

Answers will vary, but it is important to point out that over time stocks have always out-performed bonds and any money saved in a savings account.

3. Assume your employer offers you a dollar-for-dollar match of 6% on your \$50,000 annual salary in their 401k plan and that you are wise, and take full advantage of it. Calculate the anticipated return of the Peach Orchard Small Cap Mutual Fund and Peach Orchard World Stock ETF using the following assumptions and financial calculator for assistance: [www.practicalmoneyskills.com/resources/financial\\_calculators/savings\\_investment/savings\\_grow](http://www.practicalmoneyskills.com/resources/financial_calculators/savings_investment/savings_grow).

- Initial investment amount: \$6,000
- Future annual contributions: \$6,000
- Number of years: 40
- Rate of return: 9% (market average)
- Peach Orchard Small Cap Mutual Fund Total Expense Ratio: 3.5%\*
- Peach Orchard World Stock ETF Total Expense Ratio: 1.25%\*

\* Be sure to deduct the fees from the rate of return before entering into the calculator

Projections after 40 years	Peach Orchard Small Cap Mutual Fund (Enter as Fund 1)	Peach Orchard World Stock ETF (Enter as Fund 2)
After Fee Investment Value	\$915,793.39	\$1,469,038.03

4. What surprised you most about the projections? Please elaborate.

Answers will vary, but should center around the impact fees have on returns. Also, after students enter the variable in the calculator, part of the response includes “\*Please note, you will be taxed on interest earnings.” It is important to point out to students that this is not the case when they invest in a 401k.

5. Fees clearly erode investment returns. Repeat the process using the same numbers, except assume the investor waits until the age of 40 to begin investing for retirement, entering 20 years.

Projections after 20 years	Peach Orchard Small Cap Mutual Fund (Enter as Fund 1)	Peach Orchard World Stock ETF (Enter as Fund 2)
After Fee Investment Value	\$238,223.00	\$295,447.91

## Part 2: Instructional guide, cont.

6. How does time impact retirement savings?

It's important that students walk away understanding that because of the magic of compounding, time is one of the greatest variables to accumulating retirement savings.

7. Investment returns are a significant factor in your score when playing The Payoff. How will this lesson influence your choice when you play?

Answers will vary, but hopefully students will select low fee stock index funds and take full advantage of the employer match.

8. Explain why failing to fully take advantage of your employer's match in a retirement plan is a bad idea.

Because they are giving up free money.

9. Summarize two lessons you have learned that you plan to apply in your own life when you are old enough to invest for retirement.

Invest as much as you can as young as you can; avoid high fee products, invest in index funds (stocks), take full advantage of an employers match.

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## Part 4: Play Again

Students play The Payoff game using what they have learned in this lesson when making investment selections.

## Teacher Resources

Resource	Resource URL
<p><b>Investor.gov Office of the U.S. Securities and Exchange Commission:</b>  <i>Brought to you by the SEC's Office of Investor Education and Advocacy, Investor.gov is your online resource to help you make sound investment decisions and avoid fraud.</i></p>	<a href="http://investor.gov">investor.gov</a>
<p><b>Financial Industry Regulatory Authority (FINRA):</b>  <i>FINRA is dedicated to investor protection and market integrity through effective and efficient regulation of broker-dealers.</i></p>	<a href="http://finra.org">finra.org</a>
<p><b>MyMoney.gov Save and Invest:</b>  <i>Learn helpful hints and tips for saving and investing.</i></p>	<a href="http://mymoney.gov/save-invest/Pages/saveandinvest.aspx">mymoney.gov/save-invest/Pages/saveandinvest.aspx</a>
<p><b>Practical Money Skills Countdown to Retirement:</b>  <i>Learn how saving decisions can impact your life playing Countdown to Retirement.</i></p>	<a href="http://practicalmoneyskills.com/play/countdown_to_retirement#">practicalmoneyskills.com/play/countdown_to_retirement#</a>
<p><b>Practical Money Skills Save a Million Calculator:</b>  <i>Striving to become a millionaire? Determine how much you'll need to save every month to meet your goal.</i></p>	<a href="http://practicalmoneyskills.com/resources/financial_calculators/family_and_life/save_million">practicalmoneyskills.com/resources/financial_calculators/family_and_life/save_million</a>
<p><b>Practical Money Skills article Do You Know How to Save on Online Brokerage Fees?:</b>  <i>Read up on fees associated with maintaining a brokerage account.</i></p>	<a href="http://practicalmoneyskills.com/resources/practical_money_matters/do_you_know_how_to_save_on_online_brokerage_fees">practicalmoneyskills.com/resources/practical_money_matters/do_you_know_how_to_save_on_online_brokerage_fees</a>
<p><b>Practical Money Skills Mutual Funds:</b>  <i>Read up on the basics of mutual funds.</i></p>	<a href="http://practicalmoneyskills.com/resources/economy_101/mutual_funds">practicalmoneyskills.com/resources/economy_101/mutual_funds</a>
<p><b>Practical Money Skills Stocks Part 1:</b>  <i>Read up on the basic types of stocks.</i></p>	<a href="http://practicalmoneyskills.com/resources/economy_101/stocks_part_1">practicalmoneyskills.com/resources/economy_101/stocks_part_1</a>
<p><b>Practical Money Skills Stocks Part 2:</b>  <i>Learn about the history of stocks.</i></p>	<a href="http://practicalmoneyskills.com/resources/economy_101/stocks_history">practicalmoneyskills.com/resources/economy_101/stocks_history</a>
<p><b>Practical Money Skills Treasury Bills:</b>  <i>Learn about treasury bills and how to purchase them.</i></p>	<a href="http://practicalmoneyskills.com/resources/economy_101/treasury_bills">practicalmoneyskills.com/resources/economy_101/treasury_bills</a>

## Teacher Resources, cont.

Resource	Resource URL
<b>Practical Money Skills Bonds:</b> <i>Learn about bonds and common bond types.</i>	<a href="http://www.practicalmoneyskills.com/resources/economy_101/bonds">www.practicalmoneyskills.com/resources/economy_101/bonds</a>
<b>Practical Money Skills Lessons 9-12:</b> <i>Learn about relevant financial skills like managing salary, buying a car and avoiding debt.</i>	<a href="http://practicalmoneyskills.com/teach/lesson_plans/grades_9_12">practicalmoneyskills.com/teach/lesson_plans/grades_9_12</a>
<b>Payoff: Top 10 Investment Tips:</b> <i>In The Payoff game, play the role of Alex or Jess, two up-and-coming video bloggers who are preparing for a life-changing video competition while managing their finances and handling unexpected events.</i>	<a href="http://payoff.practicalmoneyskills.com">payoff.practicalmoneyskills.com</a>