FINANCIAL LITERACY

SENIOR · INTERMEDIATE

Early retirement

If you retire earlier than at the normal retirement age then...

A. you get a lump sum to bridge the years until the normal retirement age
B. this does not affect your pension after the normal retirement age
C. you usually receive a lower pension per year

FINANCIAL LITERACY

SENIOR · INTERMEDIATE

Reverse mortgage

Reverse mortgage means...

A. that you give a housing loan to the bank
B. that you take a loan using your house as a collateral to finance consumption
C. that the housing loan is cancelled by the bank.

FINANCIAL LITERACY

SENIOR · INTERMEDIATE

A three-pillar retirement system

The third-pillar pension is...

A. only available to the self-employed
B. a voluntary pension plan supplementing the first and second pillar
C. only available if you do not have a first or second pillar pension

NUMERACY

SENIOR · INTERMEDIATE

Defined benefit plan

You participate in a defined benefit plan. After 20 years, you will receive 3% of your last year's salary, which was €60,000, for each year of employment. What is your monthly pension?

A. €4.000
B. €3,000
C. €5,000

NUMERACY

SENIOR · INTERMEDIATE

Supplementary pension program

Suppose your current income is €100,000 per year and you wish to retire with €75.000 per year. How much should you put away for retirement if you plan to retire in 5 years and live for 25 more years?

A. Not enough information to answer
B. Approximately 1,2 Million euros
C. Approximately 1,8 Million euros

NUMERACY

SENIOR · INTERMEDIATE

Future value

You compare two plans to invest €10,000 for 2 years. In plan 1 the return is 10% for year 1 and 9% for year 2, in plan 2 the return is 9% and then 10% compounded annually. Is the future value the same?

A. Future value is the same for both plans
B. Future value of plan 1 is higher
C. Future value of plan 2 is higher

FACTUAL

SENIOR · INTERMEDIATE

Life expectancy

Life expectancy at age 65 in the EU (as of 2018) was...

A. 25 years for men and 22 years for women
B. 18 years for men and 22 years for women
C. 10 years for men and 14 years for women

FACTUAL

SENIOR · INTERMEDIATE

Housing costs during retirement

What share of older people (aged 65 years or more) is overburdened by the cost of their housing in the EU, as of 2020?

A. 1 out of 230 households had housing costs over 40% of income
B. About 1 out of 13 households had housing costs over 40% of income
C. 1 out of 3 households had housing costs over 40% of income

FACTUAL

SENIOR · INTERMEDIATE

Old age dependency ratio

The old age dependency ratio was 34.1 % in 2019 and is projected to be 56.7% in 2050. This means we expect that in 2050...

A. there will be more than 2 older persons per working age person
B. there will be less than 2 working age persons per older person
C. there will be less than 3 working age persons per older person

ANSWER

B
18 years for men and 22 years for women

WHY?

Until Covid, life expectancy has been increasing steadily, though at a decreasing rate. For example, between 1959 and 2014, the United States experienced an unprecedented increase, with a rise from 69.9 years to 78.9 years. This can put strains on retirement systems, given the longer life span to be covered.
Source: Eurostat

ANSWER

B
About 1 out of 13 households had housing costs over 40% of income

WHY?

Downsizing housing, i.e. for example moving to a smaller home or renting part of the existing one, is one of the issues that one may need to address when transitioning from work to retirement when disposable income may decrease. 10% of overburdened households may seem to be a small number, but it is significant.
Source: Eurostat

ANSWER

B
there will be less than 2 working age persons per older person

WHY?

The old age dependency ratio – size of retired population (say 65-plus) divided by size of working age population (say 16-64) - is a sustainability indicator of retirement systems. For "pay-as-you-go-systems", current pensions are paid by current workers. As life expectancy increases, the retirement age should increase to leave the dependency ratio unaffected.
Source: Eurostat

ANSWER

B
€3,000

WHY?

In a defined contribution plan, money at retirement depends on how well the investments in the pension fund performed. In a defined benefit plan, the amount you receive will depend on your length of service and your wages.
Total pension rate = 3% x 20 = 60%
Annual pension = €60,000 x 60% = €60,000 x 0.6 = €36,000
Monthly pension = €36.000/12 = €3,000

ANSWER

A
Not enough information to answer

WHY?

There are many unknowns here that are part of the Retirement Planning process, for example: How much have you currently saved for retirement? Do you plan to work at all in retirement? What can you earn on the investments during retirement? The general idea is: needs in retirement - available income in retirement = funding deficit.

ANSWER

A
Future value is the same for both plans

WHY?

First investment: after first year = €10,000 x 1.10 = €11,000; after second year = €11,000 x 1.09 = €11,990
Second investment: after first year = €10,000 x 1.09 = €10,900 after 1 year; after second year = €10,900 x 1,10 = €11,990
The future value is the same.

ANSWER

C
you usually receive a lower pension per year

WHY?

Pension levels at retirement are usually higher, the larger the number of years of contributions, and lower the larger the number of years you will receive benefits (given by the difference between age at retirement and life expectancy). Early retirement impacts negatively on the pension level through both these factors.

ANSWER

B
that you take a loan using your house as a collateral to finance consumption

WHY?

Reverse mortgages are often used during the late retirement years by homeowners to convert part of their home equity into income. It works as the opposite of a mortgage. Instead of making payments to the lender, the lender makes monthly payments to the homeowner. This is a loan, however, and it must be repaid, e.g. by the heirs or from the revenues when the house is ultimately sold.

ANSWER

B
a voluntary pension plan supplementing the first and second pillar

WHY?

This is a voluntary pension which can have several forms. Saving for retirement consists of three main avenues, or "three pillars of retirement": government-administered plans, employment-based pension plans, and personal retirement savings plans.

SENIOR

FACTUAL

Home ownership and retirement

What percentage of people aged over 60 and living alone were homeowners in the EU in 2018?

A. 65%
B. 40%
C. 80%

INTERMEDIATE

SENIOR

FACTUAL

Volunteering and solidarity

To what extent do people aged 65-74 participate in formal volunteering in the EU?

A. One out ten participate in formal volunteering
B. A fifth participate in formal volunteering
C. 50% participate in formal volunteering

INTERMEDIATE

SENIOR

NUMERACY

Retiring later

You can buy an annuity of €20,000 per year if you retire at age 65. If you retire 3 years later...

A. the annuity you can buy is higher
B. the annuity you can buy is lower
C. the annuity you can buy is the same

INTERMEDIATE

ANSWER

A
65 %

WHY?

Home ownership is relatively widespread among retirees. As long as real estate is not oversized relative to needs, this can be an advantage because it reduces cost of living and can allow, if necessary, to enter a reverse mortgage whereby one can receive an extra income.
Source: Eurostat

ANSWER

B
A fifth participate in formal volunteering

WHY?

Volunteering activities can allow retirees to remain active. They can promote intergenerational solidarity and cooperation, creating value and benefiting young and old alike in terms of knowledge, experience and self-esteem.
Source: Eurostat

ANSWER

A
the annuity you can buy is higher

WHY?

If you retire later, you will have contributed for longer and you will have to finance a shorter period of your life-cycle (the difference between your age and your life expectancy). When possible, retiring later is financially advantageous.