

Retirement Planning Seminar

February 2011



TCG Advisors, LP

- ❑ Registered Investment Advisor
- ❑ Regulated by the Securities & Exchange Commission (SEC)
- ❑ Fee-Based Services (client is employer)
- ❑ Maintain a Fiduciary Relationship
- ❑ Sit on the same side of the table
- ❑ Assets Under Management of over \$300M

RAMS – Region 10

- Includes 240 plans across Texas, assets of over \$135 million, and 163,000 participants
- Investment Advisory Committee (IAC)
- 457(b) Tax-Deferred Savings Plan
 - Voluntary, pretax deferrals from paycheck
 - Closest governmental equivalent to 401(k)
- 457 FICA Alternative Plan
- 403(b) Third Party Administration

RAMS - EPISD

457(b) Retirement Savings Plan

- ❑ Providers selected through a competitive process
- ❑ High quality no-load and load-waived mutual funds
- ❑ Education provided by a financial advisor
- ❑ Full disclosure of fees
- ❑ No surrender charges or other penalties to transfer funds
- ❑ Fiduciary protection
- ❑ Managed portfolio or self-directed investment options

TRS PENSION & THE INCOME GAP

TRS Benefit Example

Vesting Schedule

(TRS membership before 9/1/07)

<u>Yrs of Service</u>	<u>Age</u>
5	65
20	60
30	50

Retirement Formula

*Years of Service (x) State Factor 2.3% (x)
Average 3/5 Highest Years of Income*

Maximizing TRS

- Increase Salary — Good Luck!
- Increase Years of Service Credits
 - ▣ Work longer
 - ▣ Purchase Service Credits
- Types of Service Credits
 - ▣ Withdrawn, Out-of-State, Military, Unreported or Substitute, etc.
 - Cost varies depending on type of service
 - Contact TRS for cost estimate

TRS Benefit Example

Retirement Formula

*Years of Service (x) State Factor 2.3% (x)
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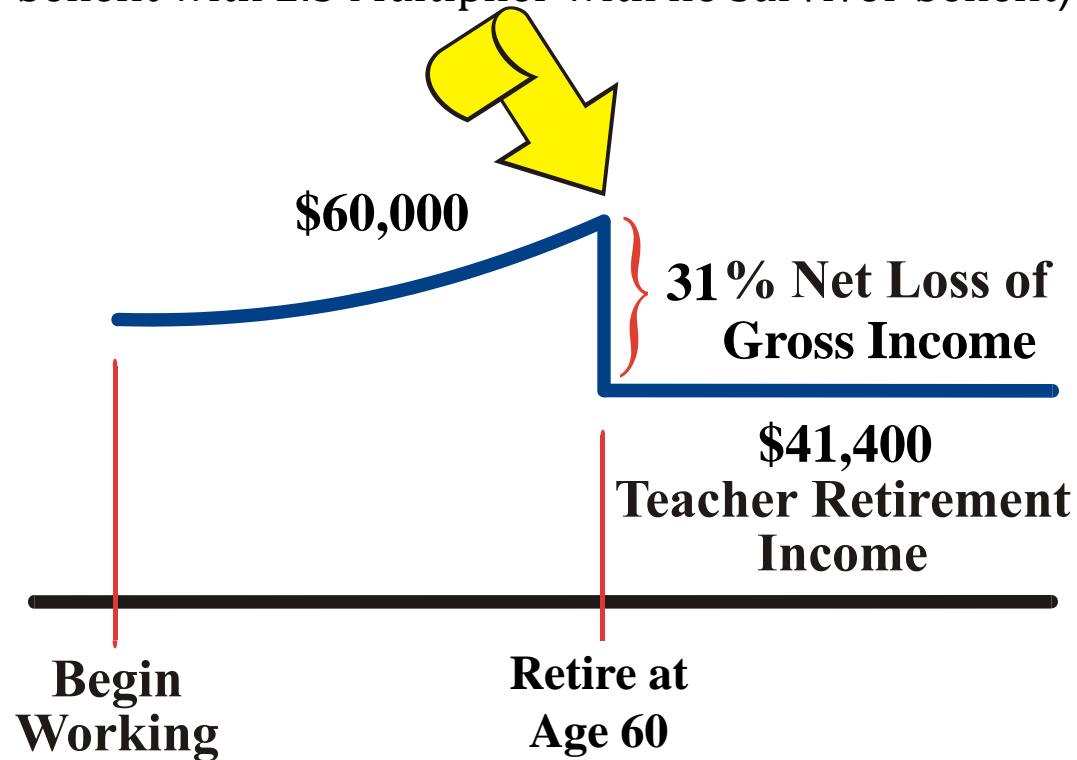
Years of Service:	30
Average Income:	\$60,000
<u>State Multiplier (2.3%):</u>	<u>69 %</u>
Maximum Benefit:	\$41,400

Teacher Retirement System Benefit Example

Retirement Age: 60 Service: 30 Years

Last Year / High 3 Yr. Salary: \$60,000

(Full TRS benefit with 2.3 Multiplier with no survivor benefit)



Investment Needed to Replace
Difference of
\$18,600 Annually
(TRS Benefit vs. Pre-Retirement
Income):

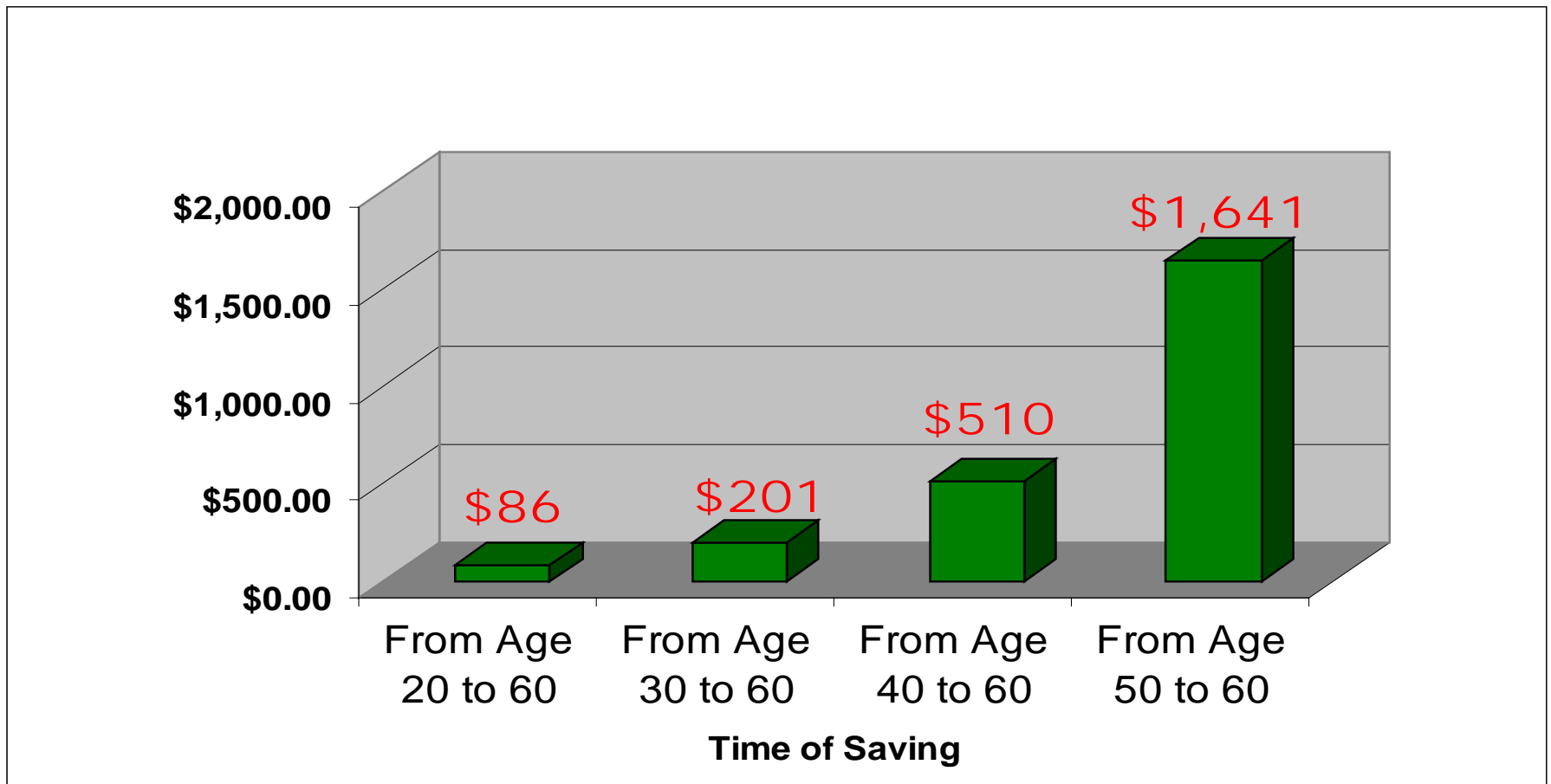
\$300,224*

*Assumptions include a lump sum invested at 5% interest, with annual amount paid at beginning of each year for 30 years. This rate is assumed for illustration purposes only and is not guaranteed.



Remember that in our previous example, the educator needed \$300,224 to retire comfortably . . .

How much would someone have to save a month to have \$300,224 at Retirement?



Assumes an 8% annual return after fees and expenses for illustration purposes only, not guaranteed.

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Investments and Financial Planning



**“I retire on Friday and I haven’t saved a dime.
Here’s your chance to become a legend!”**

Tax-Deferred Savings Plans

- 403b and 457 Plans
- Why you should consider
 - Immediate savings on you current tax
 - Easy way to accumulate wealth — requires less discipline (comes out of paycheck)
 - Tax deferred growth and earnings
 - Earnings on earnings
 - Earnings on money normally paid in taxes

Not All Plans Are Created Equal

Feature	403(b)	457(b)
Individual vs. Group Plan	Most have higher fees, pay commission/sales loads. Limited number of no commission options	Low fees relative to most 403(b) plans; no commissions, full disclosure of fees
Penalty to withdraw fund (+ income tax)	10% (<i>goes away at age 59½ or age 55 and retired</i>)	None
Investment Options	Fixed/Variable Interest Annuities or Mutual Funds/Custodial Accounts	Managed Portfolio or Self-Directed Mutual Funds
Investment Committee/Advisor Oversight	No	Region 10 RAMS — Yes, managed by TCG Advisors and Investment Advisory Committee
Contribution Limits (can contribute to both plans)	\$16,500; \$22,000 age 50+	\$16,500; \$22,000 age 50+

Greatest Abuses We See in Educator Retirement Investments

- ❑ Excessive Hidden Fees
- ❑ Inappropriate Types of Investments
- ❑ Lack of Monitoring of Investments

Possible *Schemes*

- Life Insurance as an Investment
- Pension Maximization
 - Taking the Standard Annuity and buying life insurance with the “savings”
 - Insurance company may raise rates
 - Death benefit needed is usually much higher
- Take Lump Sum, Invest, and Beat the State Retirement System

Partial Lump Sum

□ Possible Reasons to Do

- Poor Health
- Estate and Critical Need for Heirs (e.g., disabled child)
- Other Estate Needs — Guarantees money to heirs instead of reversion to retirement system at death
- No Savings Going into Retirement

□ Reasons Not to Do

- You will not be able to invest the money and beat the Retirement System
 - Pay **Actuarial Cost** for funds; Usually have to earn minimum **Net 11.00%** if try to match State — Can you do this with no risk??
- You have not planned for inflation and budget in retirement so your income runs short later
- You will be tempted (and give in) to spend the money you planned to save

NYSUT'S MEMBERS BENEFITS UNIT SETTLES PROBE

Settlement is Part of Ongoing Investigation of Retirement Products

Attorney General Eliot Spitzer today announced an agreement to resolve an investigation of the marketing of retirement products to members of the state's largest teachers' union.

Under the agreement, an arm of the New York State United Teachers (NYSUT) will adopt a series of reforms and pay \$100,000 to the state to cover costs of the investigation.

The agreement follows a lengthy probe revealing that NYSUT's Member Benefits unit accepted payments from an insurance company to promote the company's retirement products to NYSUT members. The unit did not disclose this arrangement and, instead, took steps to conceal it.

"A simple rule that my office has enforced time and time again is that fiduciaries must place the interests of their clients first," Spitzer said. "Accordingly, an office set up to counsel union members on retirement alternatives should always provide objective advice and full disclosure of relevant facts. That did not happen in this instance. But as result of this agreement, reforms have been adopted to ensure that this standard will be met in the future."

The investigation revealed that a retirement product endorsed by the unit – a so-called 403(b) plan offered by the Dutch insurance giant ING and its predecessor, Aetna Life Insurance and Annuity Company– charged investors fees and expenses as high as 2.85 percent per year while delivering only limited benefits. The unit endorsed the plan (even though cheaper alternatives were available) in return for undisclosed payments of as much as \$3 million per year.

The unit took pains to hide this "silent partnership" with ING/Aetna. The unit would urge union members to attend financial planning seminars, claiming that: "There's no sales pitch - they [the seminars] do not promote specific products or services." But contrary to this claim, the seminars were used as a "foot in the door" to promote ING/Aetna retirement products.

In addition, the unit redirected calls it received arising from the retirement seminars to ING/Aetna employees, who answered the phones with their first names only. Callers thought they were talking to NYSUT benefits unit personnel when in fact they were talking to the insurance company's marketing representatives.

In late 2004, after it became aware of the Attorney General's investigation of insurance and retirement products, the unit drafted a new disclosure policy, which was described by officials in an internal e-mail as moving from a "try to hid[e] it" approach to a more open approach that included disclosing all payments from ING.

Under today's agreement, the unit agrees to the following:

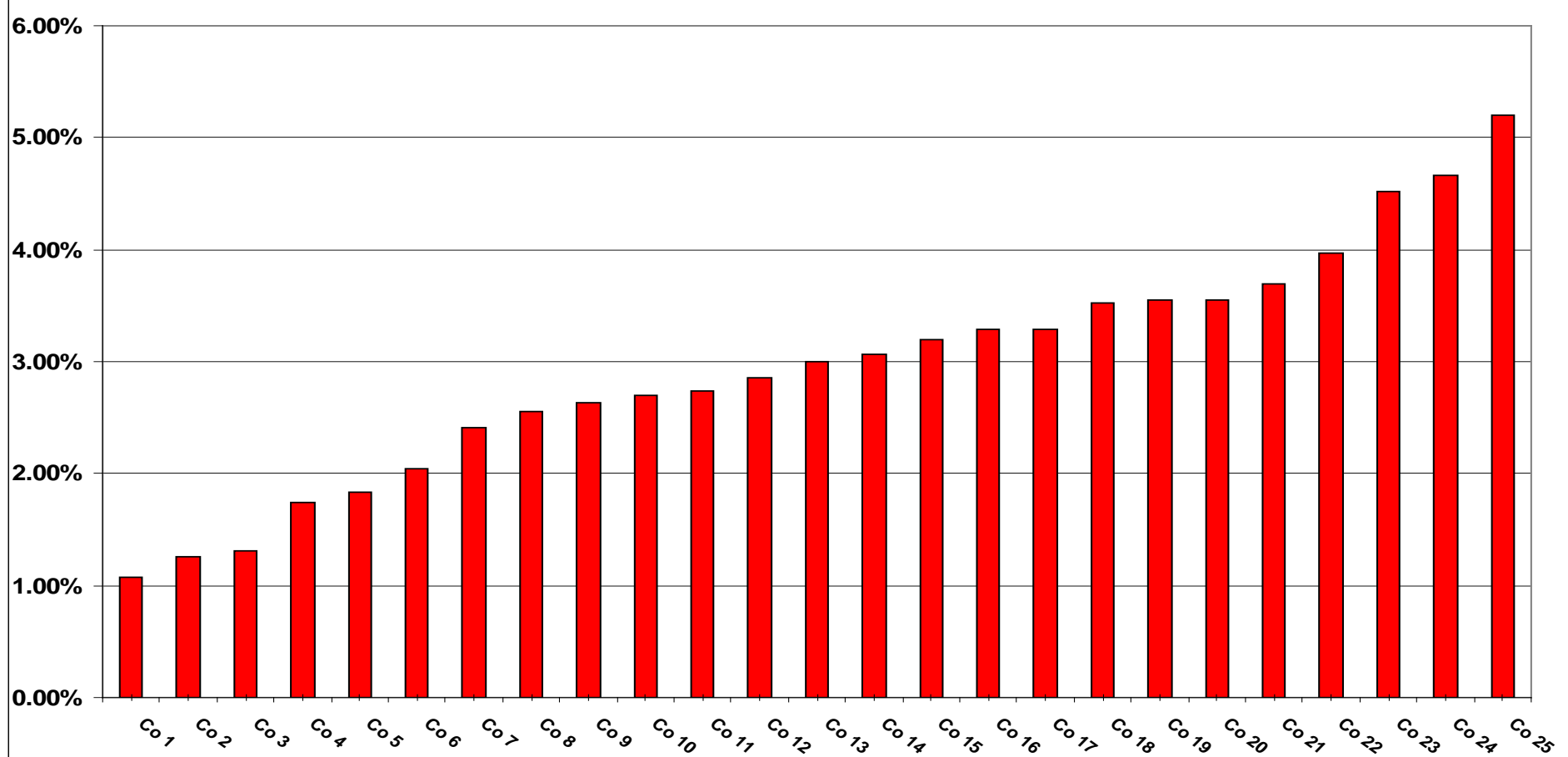
- Conduct open bidding for future retirement plan endorsements;
- Provide full disclosure of any and all payments from insurance companies;
- Allow members an opportunity to roll over savings to a new endorsed plan at no cost;
- Provide free and objective investment advice to members; and
- Hire an independent consultant to oversee reforms and report to the Attorney General's office.

More than 50,000 New York teachers and other school district employees bought into the retirement plan without having been told by the unit of the payments it received from ING/Aetna.

Fee Comparison

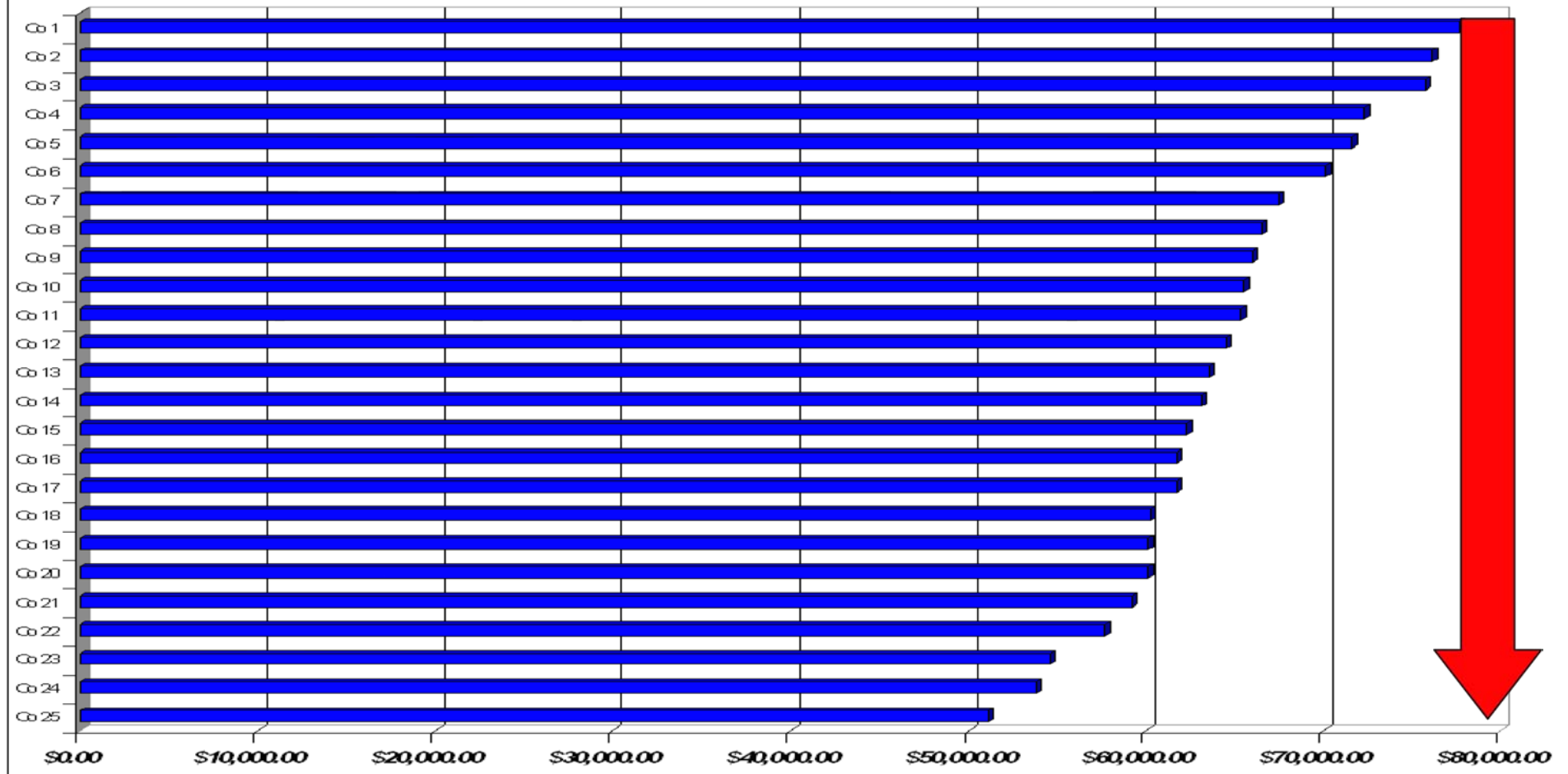
Annual Fees in One 403(b) RFP Process Conducted by TCG Consulting

Avg Ann Fees - 5 Yrs



The Bottom Line: What you have at Retirement

Value of Account at End of 20 Years - Fee Illustration Only



\$200 per month @ 6.00% Earnings After Fees Rate of return is assumed for illustration purposes only and is not guaranteed

Excessive Fees

- ❑ 12b-1 Fee
 - ❑ Generally allows distributors to compensate broker/dealers and representatives for selling their funds. It also can be a charge to cover marketing and distribution costs of the investment.
- ❑ Withdrawal Charge (a.k.a. Surrender Charge)
 - ❑ A fee charged by some annuities and funds when an investor takes money out of his or her account.
- ❑ Mortality and Expense Fee (M&E)
 - ❑ This applies to some types of annuities and covers insurance related costs.
- ❑ Transfer Fee
 - ❑ This is an amount charged by a fund to transfer either within the fund family or to another company.

Excessive Fees

- Expense Deductions
 - Charges for investment management, administration and distribution services.
- Management Fee
 - Also called the investment advisory fee, this represents the company's cost for managing the money in the fund.
- Wrap Account Fee
 - Charged by some types of funds for fund management, this is an annual percentage of the investor's assets in the account.
- Custodial Fee
 - The charge for safekeeping or physically holding the securities in the fund.

SOCIAL SECURITY ISSUES

*Remember your TRS
Annuity is never
reduced by Social
Security!*

Social Security Considerations

- 2 Regulations
- Windfall Elimination Provision (WEP)
 - *Applies to member's OWN Social Security benefits*
 - (SSA Pub No. 05-10045)
- Government Pension Offset (GPO)
 - *Applies to member's SPOUSAL Social Security benefits*
 - (SSA Pub No. 05-1007)
- WWW.SSA.GOV
- Periodically bills are filed to repeal GPO and WEP at Federal level — very costly to repeal

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Government Pension Offset

SPOUSAL BENEFIT

- ❑ You are eligible for your *spouse's benefit* if you retire from an SS-covered and TRS-covered position
- ❑ The “LOOP-HOLE” closed July 1, 2004
- ❑ **Old Law:** You were employed by an SS-covered District on your last day of employment
- ❑ **Current Law:** You have to be employed by an SS-covered District for you last 60 months to be eligible
- ❑ This law uses a two-thirds offset rule
- ❑ Two-thirds of your TRS Annuity benefit will be subtracted from your *spousal SS benefit*
- ❑ Does *NOT* reduce TRS Pension Benefit

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GPO Example

SPOUSAL BENEFIT

- TRS Pension - \$2,100
- Spousal SS Benefit - \$1,000
- Subtract 2/3 of TRS benefit from eligible SS benefit

SS Benefit	\$1,000
— (2/3 of \$2,100)	-\$1,400
=	- \$ 400

TRS Member is *not* eligible for spousal benefit, but receives full TRS annuity

- TRS Pension - \$2,100
- Spousal SS Benefit - \$1,600
- Subtract 2/3 of TRS benefit from eligible SS benefit

SS Benefit	\$1,600
— (2/3 of \$2,100)	-\$1,400
=	\$ 200

TRS Member is eligible for spousal benefit of \$200 plus full TRS annuity

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Windfall Elimination Provision

YOUR BENEFIT

- ❑ Does NOT reduce TRS Pension Benefit
- ❑ Effects employees who are eligible for their OWN government/state pension and Social Security
- ❑ Uses a factor to calculate your SS benefit income based on 'Years of Substantial Earnings'
- ❑ Different than 'Service Credits' under SS

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Service Credit from SS vs. Years of Substantial Earnings

- Service Credits under Social Security
 - Eligible for 4 credits per year
 - Total of 40 credits to qualify for a benefit
 - For 2009, received 4 credits if earned \$4,480
- Year of Substantial Earnings
 - Higher income number
- May accumulate all Service Credits under SS without earning Years of Substantial Earnings

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Windfall Elimination Provision

YOUR BENEFIT

Year	Substantial earnings	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010					
1937–1950	\$900	\$5,100	\$5,550	\$6,075	\$6,675	\$7,050	\$7,425	\$7,875	\$8,175	\$8,400	\$8,925	\$9,525	\$9,900	\$10,350	\$10,725	\$11,250	\$11,325	\$11,625	\$12,150	\$12,675	\$13,425	\$14,175	\$14,925	\$15,750	\$16,125	\$16,275	\$16,725	\$17,475	\$18,150	\$18,975	\$19,800	\$19,800					
1951–1954	\$900																																				
1955–1958	\$1,050																																				
1959–1965	\$1,200																																				
1966–1967	\$1,650																																				
1968–1971	\$1,950																																				
1972	\$2,250																																				
1973	\$2,700																																				
1974	\$3,300																																				
1975	\$3,525																																				
1976	\$3,825																																				
1977	\$4,125																																				
1978	\$4,425																																				
1979	\$4,725																																				

Years of substantial earnings	Percentage
30 or more	90 percent
29 -	85 percent
28 -	80 percent
27 -	75 percent
26 -	70 percent
25 -	65 percent
24 -	60 percent
23 -	55 percent
22 -	50 percent
21 -	45 percent
20 or less	40 percent*

*Actual Reduction cannot be greater than 50%

Maximum Monthly Reduction Amount

	Years of substantial earnings										
	<u>20 or less</u>	<u>21</u>	<u>22</u>	<u>23</u>	<u>24</u>	<u>25</u>	<u>26</u>	<u>27</u>	<u>28</u>	<u>29</u>	<u>30</u>
2004	306.0	275.4	244.8	214.2	183.6	153.0	122.4	91.8	61.2	30.6	0.0
2005	313.5	282.2	250.8	219.5	188.1	156.8	125.4	94.1	62.7	31.4	0.0
2006	328.0	295.2	262.4	229.6	196.8	164.0	131.2	98.4	65.6	32.8	0.0
2007	340.0	306.0	272.0	238.0	204.0	170.0	136.0	102.0	68.0	34.0	0.0
2008	355.5	320.0	284.4	248.9	213.3	177.8	142.2	106.7	71.1	35.6	0.0
2009	372.0	334.8	297.6	260.4	223.2	186.0	148.8	111.6	74.4	37.2	0.0
2010	380.5	342.5	304.4	266.4	228.3	190.3	152.2	114.2	76.1	38.1	0.0

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There's more....

Dual-Entitlement Provision

If Qualify Under Both GPO & WEP
SS applies a dual formula that protects part of the benefit earned on your own

Multi-Step Formula
Difficult to explain, but it may provide a *higher* benefit

IMPORTANT TRS RULES YOU NEED TO KNOW

Important TRS Rules

- 5 Year or 3 Year Average Salary
- “Partial Lump Sum” Eligibility — Rule of 90
 - Subject to grandfathering
- Service Purchase Changes
 - ▣ “Airtime” Repealed
 - ▣ Full Cost of Out-of-State Education Service

Pension Issues & Legislative Update

- Traditional Pension Plans — Major Headlines
 - ▣ Many states transitioning to 403(b) style plan or hybrid
 - ▣ States also lowering benefits for existing and future members — and Retirees
- No Major Changes Expected to TRS this Year
 - ▣ Remains one of the best funded systems nationally
 - ▣ COLA of 13th Check
 - ▣ Will face pressure in the future

Types of Service Credits

- Contact TRS for Actual Cost
- Withdrawn Service
 - Amount withdrawn plus 6% annual interest
- Unreported & Substitute Service
 - Unpaid contributions plus 5% annual interest
- Military Service
 - Purchase up to 5 years
 - Cost basis dependent on when military time was served (+) 8% annual interest
- Out-of-State Service

Out-of-State Service Purchase

- May purchase 1 year of service credit for each year earned under TRS — up to 15 years
- 2 Different Cost Basis Methods
 - TRS Members as of 12/31/05 and out-of-state service earned prior to 1/1/06 (Most of you)
 - 12% of 1st year salary (+) 8% annual interest
 - Do not meet both criteria
 - Actuarial cost

Possible Changes in TRS

- Year of Service = 90 Work Days in a School Year (Already adopted by TRS Board)
- Change Definition of School Year to 9/1 – 8/31 for All Districts and All Positions *
 - Exception in Year of Retirement — 1 Semester in School Year*
- Full Actuarial Cost for All Service Purchases*
- Return to Work in TRS Covered Position with No Penalty if Retire and Out of TRS Covered Work for 1 Year*

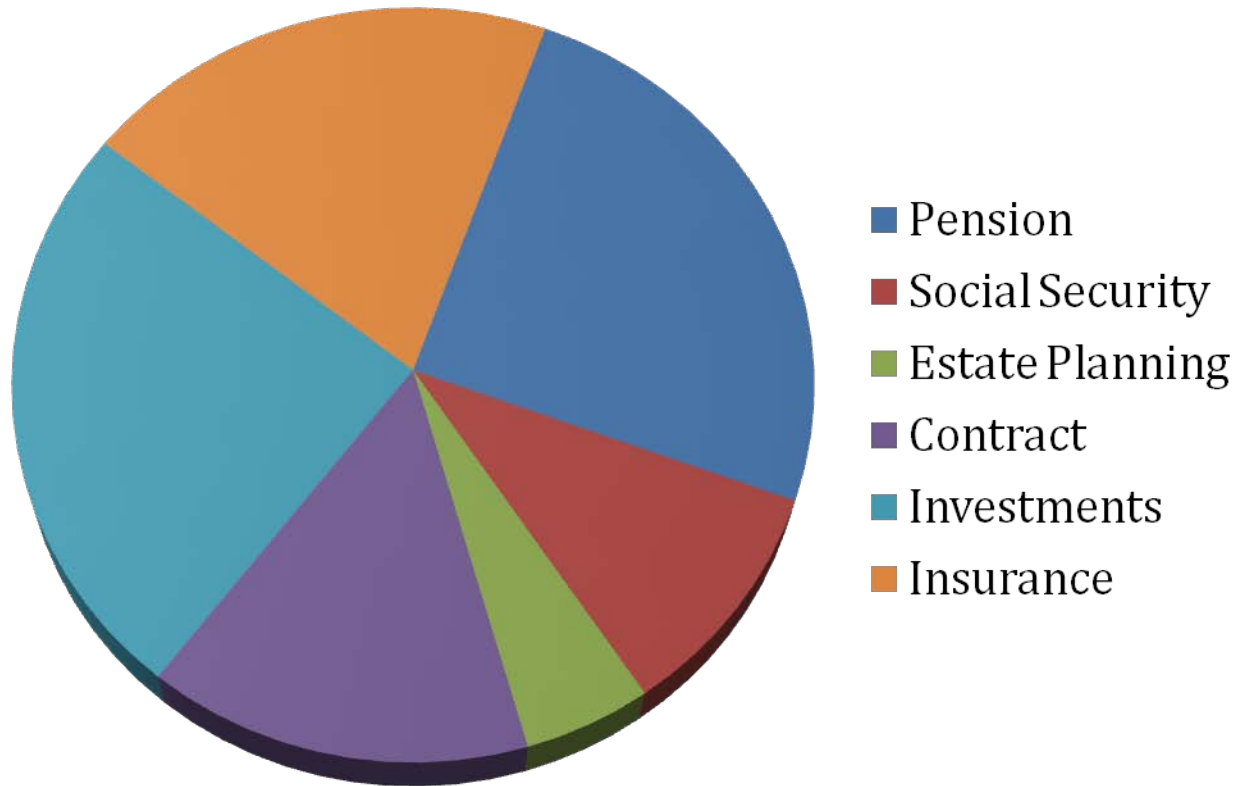
*Proposed changes by TRS to Legislature, per presentation at 2011 TASA Midwinter Conference by Brian Guthrie, Deputy Director - TRS

**WHAT CAN I DO TO
PREPARE?**

TRS Annuity Options

- Standard Annuity
 - Maximum benefit for retiree's life only
- Option 1: 100% Joint Survivor
 - Reduced annuity, payable for retiree's life with continuous payments for beneficiary's life. If beneficiary pre-deceases, retiree's annuity is increased to standard annuity amount
 - Most common, typically 8-13% reduction from Standard Annuity
- Option 2: 50% Joint Survivor
 - Reductions range from 4-8% based on same age beneficiary
- Option 3: 60 Month Period Certain
 - Reduced annuity, payable for retiree's life with annuity payments guaranteed for a minimum of 60 months
 - If retiree dies before 60th payment, beneficiary will receive the remaining payments
 - Typically 1-2% reduction from Standard Annuity
- Option 4: 120 Month Period Certain
 - Typically 1-4% reduction from Standard Annuity
- Option 5: 75% Joint Survivor
 - Reductions range from 6-12% based on same age beneficiary

Total Financial Planning



Insurance Protection

Insurance Needs	Near Retirement	5+ Years
Disability Protection	Need Decreases if Vested in TRS	Group Policy — Very important
Life Insurance	TERM — Decreasing Need, Analyze TRS Annuity Options	GROUP/INDV TERM Income Replacement, College Funding, Goals
Umbrella Coverage	YES	YES

Factors Affecting Investment Decisions

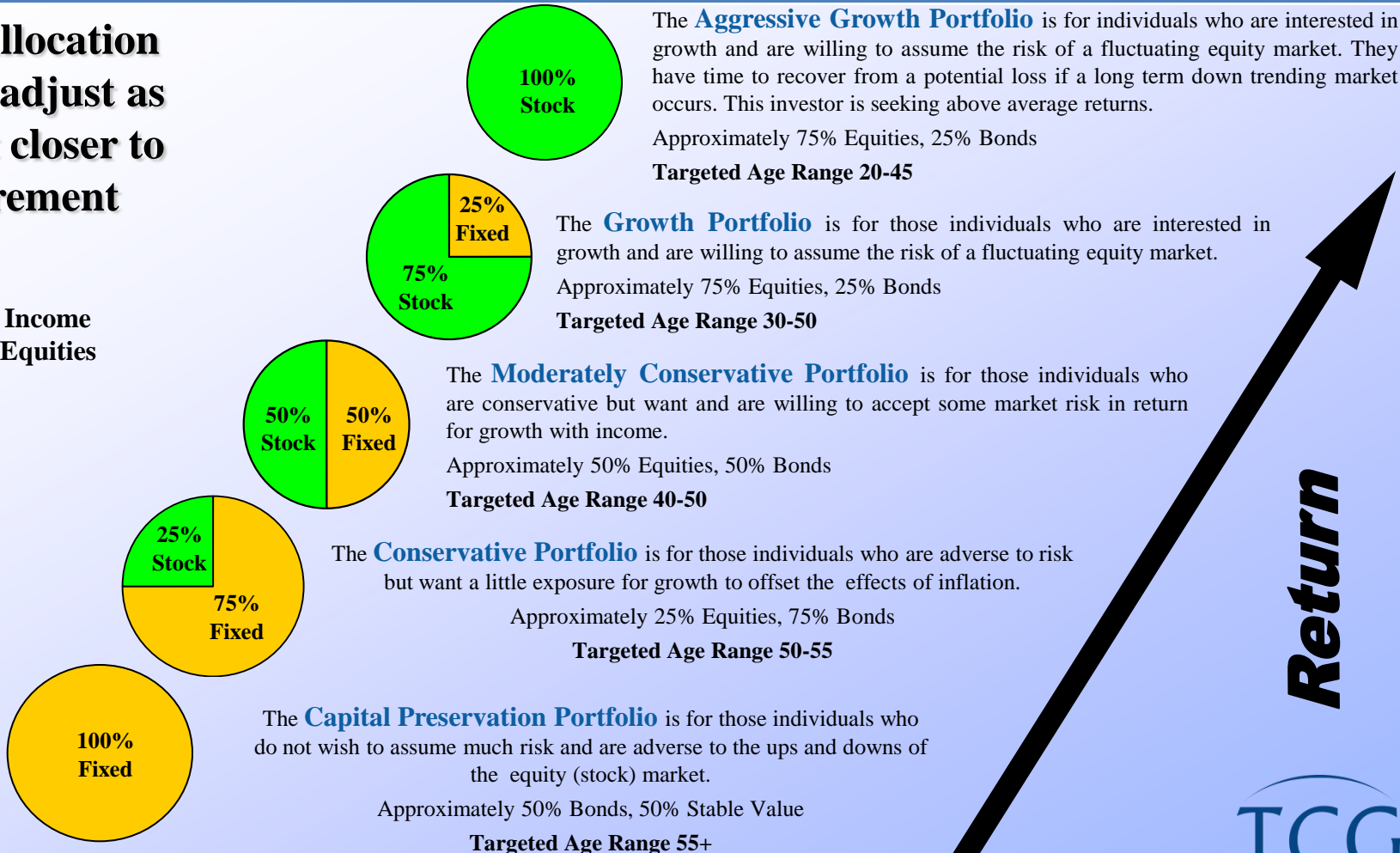
- Attitude toward investment risk
- Diversification
- Age
 - ▣ Current
 - ▣ Retirement
- Financial circumstances
 - ▣ Cash Needs

Remember that all investing involves risk.

Portfolio Allocation

Your Allocation should adjust as you get closer to Retirement

■ Fixed Income
■ Stock/Equities



Remember that all investing involves risk.

Risk

Return

Steps to Success

1. Know your goals!
 - ▣ How much will I need?
 - ▣ Who do I need to provide for?
 - Spouse, Children, Parents, Charities, etc.
 - ▣ Any other quantifiable goals?
2. Choose portfolio allocation designed to achieve investment return needed
 - Only take the **risk** you need to meet the **goal**
3. Monitor your investments — are they performing?
4. Choose investments to meet goals!
5. Retirement planning is a process not an event!

Remember that all investing involves risk.

THANK YOU

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