

Retirement Planning Seminar

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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!”**

Region 10 RAMS

- ❑ Includes 239 plans across Texas, assets of over \$145 million, and 164,000 participants
- ❑ Investment Advisory Committee (IAC)
- ❑ 457(b) Tax-Deferred Savings Plan
 - ❑ Voluntary, pretax deferrals from paycheck
 - ❑ Closest governmental equivalent to 401(k)
- ❑ TERRP (*Teacher/Employee Recruitment and Retention Program*)
 - ❑ A 401(a) plan
- ❑ 457 FICA Alternative Plan
- ❑ 403(b) Third Party Administration

Topics Today

- El Paso ISD Savings Plans (Region 10 Retirement Asset Management Services)
- Texas Teacher Retirement System (TRS)
 - ▣ Understanding formula & how to maximize your benefit
 - ▣ Which annuity option is best for you?
- Social Security Issues
- Financially Preparing for Retirement
 - ▣ Savings
 - ▣ Insurance

District Sponsored Plans

- 457(b) Tax-Deferred Savings Plan
 - ▣ Voluntary, pretax deferrals from paycheck
 - ▣ Closest governmental equivalent to 401(k)
 - ▣ Model Portfolios and Direct Investment Election Options
- 457 FICA Alternative Plan
 - ▣ Part-time and Substitutes
 - ▣ Default Model Portfolio
- Investment Advisory Committee (IAC)

Region 10 ESC

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

Remember that all investing involves risk.



To Get Information or Enroll

- 457(b) Tax-Deferred Savings Plan
 - ▣ Go to www.region10rams.org Plan Descriptions
 - 457 Plan Descriptions
 - El Paso ISD
 - ▣ Or call (800) 943-9179, or email: info@jemtpa.com
- 457 FICA Alternative Plan
 - ▣ You are enrolled automatically
 - ▣ For more information go to www.region10rams.org
 - Plan Descriptions
 - FICA Alternative Plan Descriptions
 - El Paso ISD
 - ▣ Or call (800) 943-9179, or email: info@jemtpa.com

- 403(b) Tax-Deferred Savings Plan
 - Voluntary, pretax deferrals from paycheck
 - Governmental equivalent to 401(k)
 - Big Changes 1/1/2009
 - New IRS Regulations
 - Require District to:
 - Administer Plan according to a Written Plan (Document)
 - All Rules must be in Written Plan
 - Oversee all Plan transactions
 - Distributions, Loans, Transfers, etc.
 - District has contracted with ESC Region 10 to provide administration

- 403(b) Tax-Deferred Savings Plan
 - Third Party Administrator is JEM Resource Partners
 - Can conduct all business (enroll, make changes, obtain approval for distributions):
 - www.region10rams.org
 - Call (800) 943-9179 or email 403b@region10rams.org
 - Choose from Vendors that meet 2 criteria
 - On TRS Approved List
 - Meet District Rules
 - Must agree to terms of 403(b) Written Plan
 - Must provide data to TPA electronically

- 403(b) Tax-Deferred Savings Plan
 - Sales Representatives must meet District rules
 - Cannot be on any campus or school location for the purposes of presenting 403(b) information nor call on any employees at any school location or campus for any reason.
 - Must be properly licensed
 - File information with EPISD

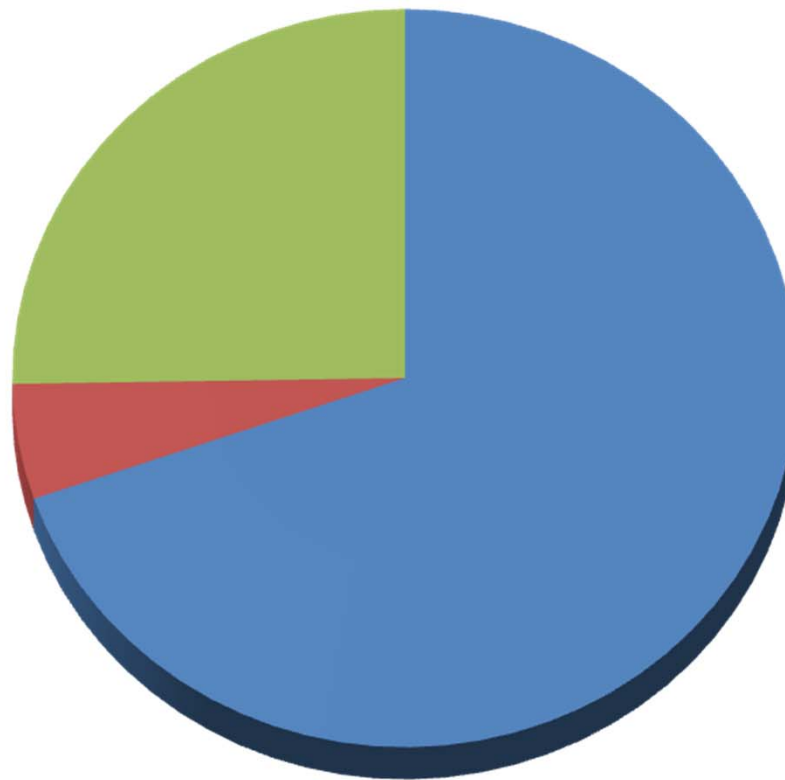
TRS PENSION & THE INCOME GAP



Educators Have a Very Different Retirement Picture

Income Sources

- Pension
- SS
- Investments



TRS Benefit Example

Vesting Schedule

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

TRS Members after 9/1/2007 — Minimum age 60 to retire and receive unreduced benefits

Retirement Formula

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



TRS Benefit Example

Retirement Formula

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

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

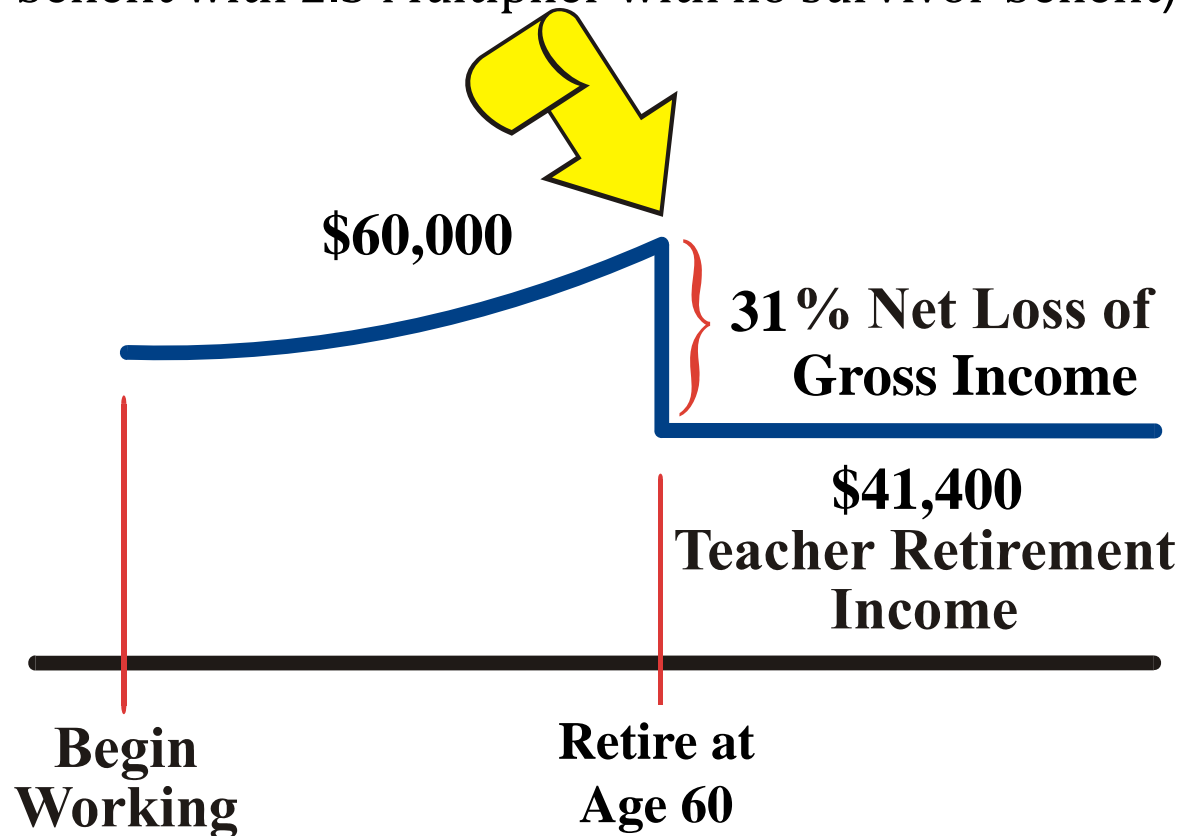
Teacher Retirement System

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)



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

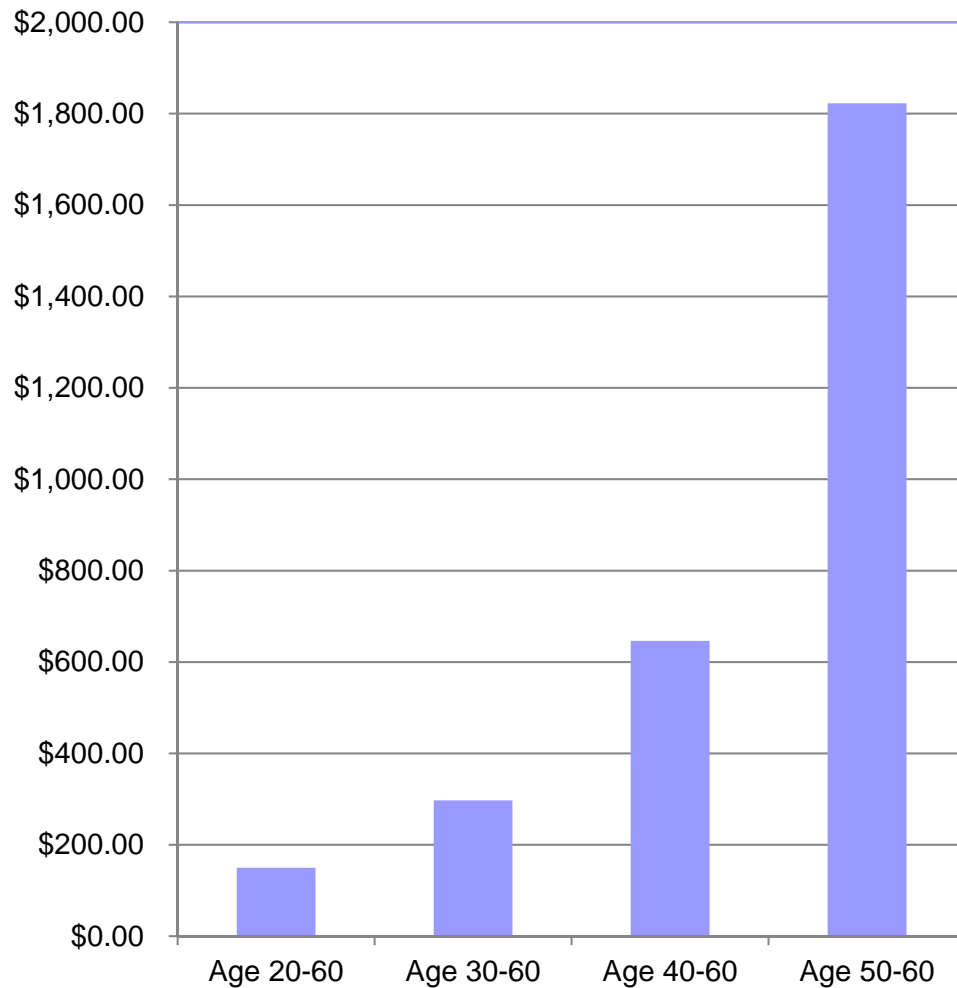
Investment Needed to Replace
Difference of
\$18,600 Annually
(TRS Benefit vs. Pre-Retirement
Income):

\$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.



Getting to the Goal



Years of Savings	Monthly Contribution
40	\$150.01
30	\$297.39
20	\$646.55
10	\$1,822.87

Assumes an 6% annual return after fees and expenses for illustration purposes only, not guaranteed.

How does this affect my paycheck?

Pay Frequency	Deferral Limit For 2011 \$16,500	Limit for Age 50 and Over Deferrals \$22,000
Weekly (52 pays)	\$317.30	\$423.07
Biweekly (26 pays)	\$634.61	\$846.15
Semimonthly (24 pays)	\$687.50	\$916.66
Monthly (12 pays)	\$1,375.00	\$1,833.33

Tax-Deferred Savings Plans

- Why you should consider
 - ▣ Immediate savings on you current taxes
 - ▣ 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

Remember that all investing involves risk.



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
- Annuity Riders
- Take Lump Sum, Invest, and Beat the State Retirement System

Remember that all investing involves risk.

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

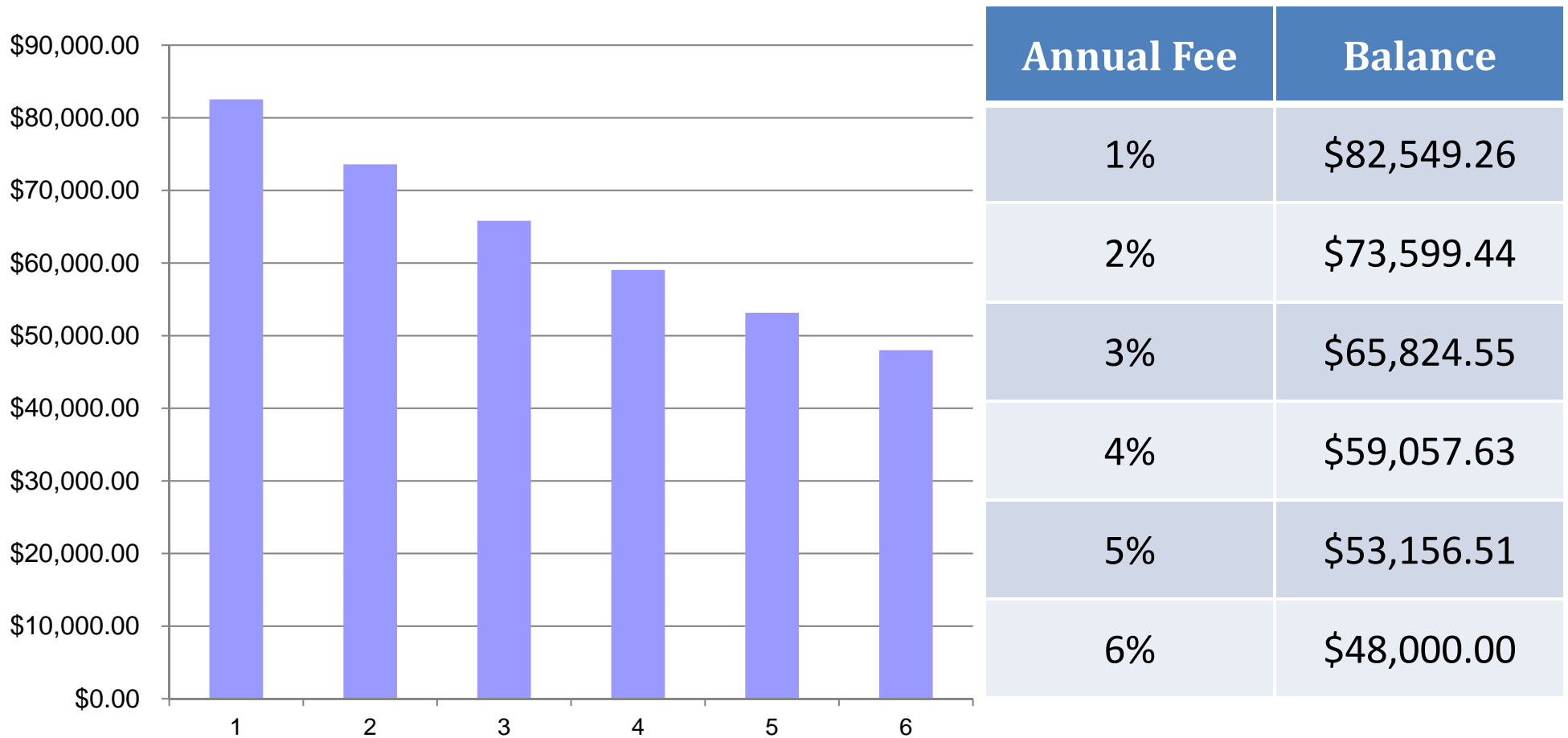
□ Reasons Not to Do

- 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

Shadow Marketing

- *SEC Snoozed as “Shadow Marketers” Skimmed Billions From Retirement Plans*
 - Forbes Magazine, Feb. 3rd, 2011, Author: Edward Siedle
- Nationwide Financial Services and National Association of Counties
 - Nationwide disclosed on website it was paying NACo \$7.3M in 2007 to push products
 - Exec Dir said relationship went back to early 1980s
- ING and NYSUT (teachers union)
 - Marketing to 50,000 teachers making payments up to \$3M to union
- Nationwide Retirement Solutions (NRS) and Alabama state employees association
 - 2010 NRS entered into settlement of \$16M
 - Paid association \$11.8M in fees and commissions, including trips

The Fee Effect



Balance based on 6% earning net of fees with \$200 monthly contributions for 20 years at the beginning of the month. Actual rate of return is not guaranteed and is for illustrations purposes only. Remember that all investing involves risk.

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

*Remember your TRS
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Security!*

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

*Remember your TRS
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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

*Remember your TRS
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Security!*

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 2011, 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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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>
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
2011	374.5	337.1	299.6	262.2	224.7	187.3	149.8	112.4	74.9	37.5	0.0

IMPORTANT TRS RULES YOU NEED TO KNOW



Changes in TRS

- Effective 9/1/2011
 - Full Actuarial Cost for All Service Purchases Except Military Service
 - Return to Work in TRS Covered Position with No Penalty if Retire and Out of TRS Covered Work for 12 Consecutive Months from Retirement Date
 - ❖ Same for Individuals Who Retired Prior to 1/1/2011
 - ❖ Repeal of Other Exceptions to Receiving Annuity While Working
 - ❖ No Change in Surcharge to Districts for Hiring Retirees
 - 5-Year Limit on Correction of Service Credit

Changes in TRS

- Effective 9/1/2012
 - ❖ 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

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 to TRS in 2011
 - ▣ Remains one of the best funded systems nationally
 - ▣ Legislature required TRS to issue a report on the impact of potential changes to retirement eligibility, average salary, multiplier, and creation of hybrid plan.

Types of Service Credits

- Contact TRS for Actual Cost
- Withdrawn Service
 - ▣ Amount withdrawn plus 8% annual interest (increased from 6%)
 - ▣ Have until 9/1/2013 to purchase at old cost
- Unreported & Substitute Service
 - ▣ Unpaid contributions plus 5% annual interest
 - ▣ Full actuarial cost as of 9/1/2011
 - ▣ Have until 9/1/2013 to purchase at old cost
- 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

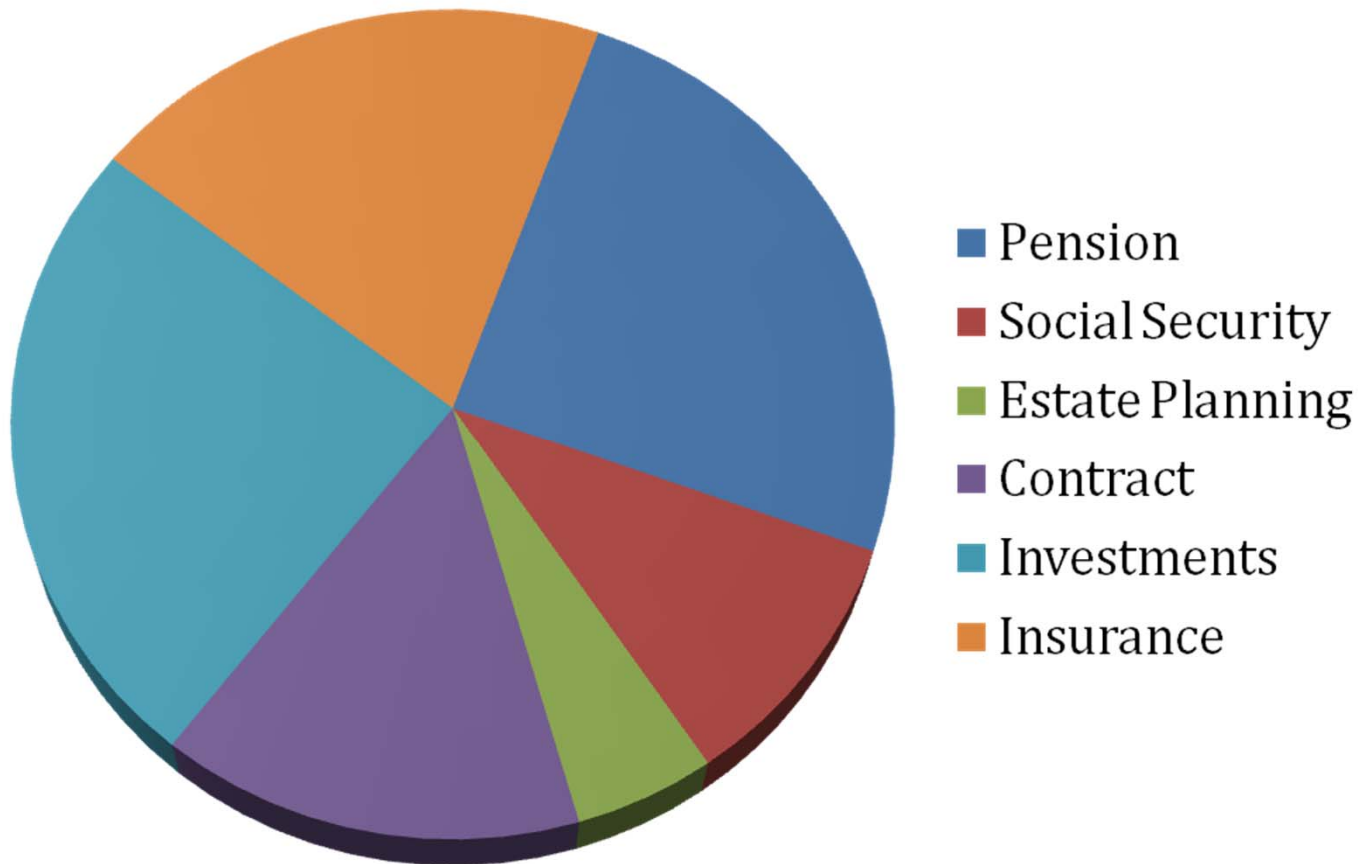
- May purchase 1 year of service credit for each year earned under TRS — up to 15 years
- 2 Different Cost Basis Methods
 - TRS Members as of 12/31/05 and out-of-state service earned prior to 1/1/06 (most of you)
 - 12% of 1st year salary (+) 8% annual interest
 - Have until 9/1/2013 to purchase at old cost
 - Do not meet both criteria
 - Actuarial cost

**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



Remember that all investing involves risk.

Factors Affecting Investment Decisions

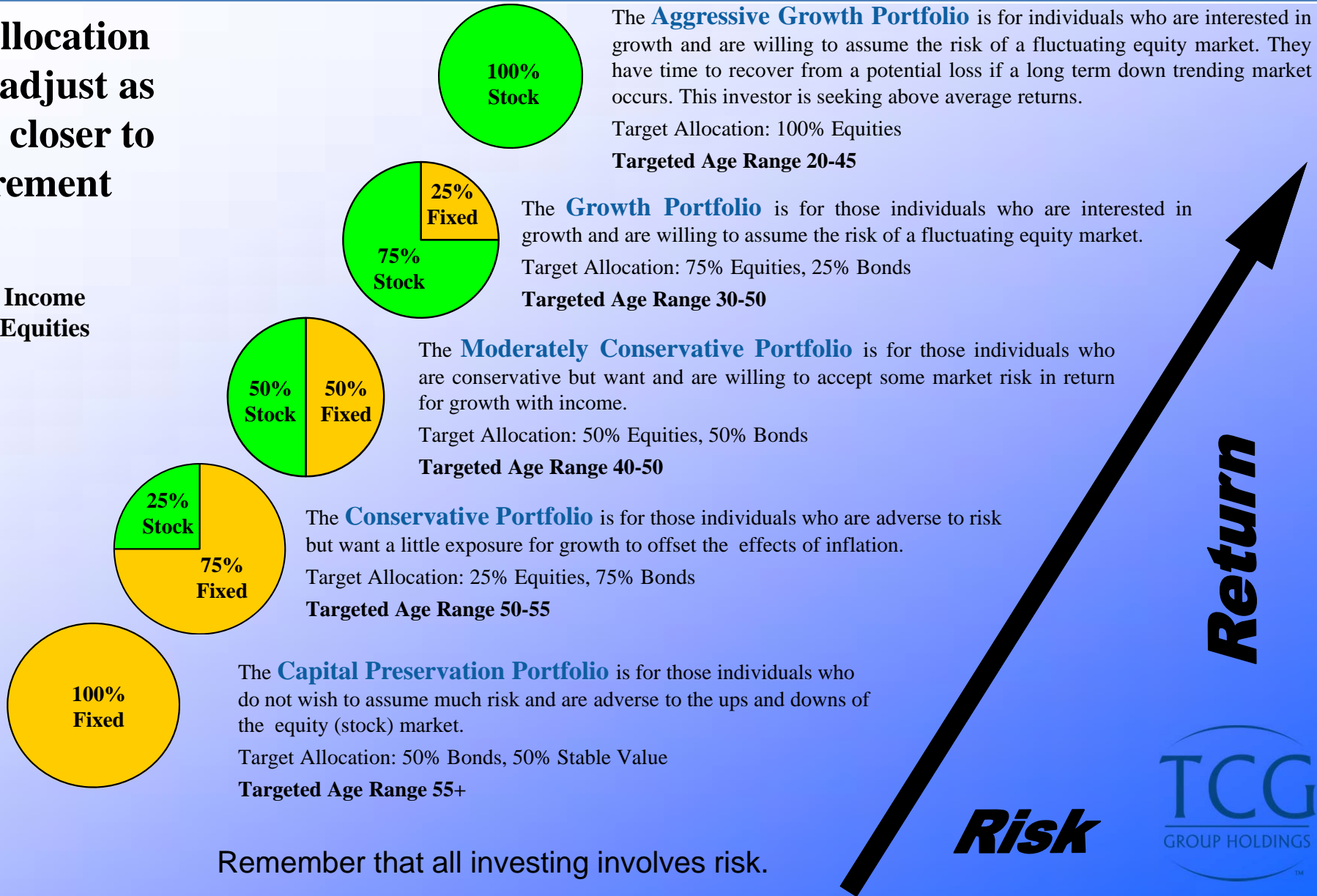
- Attitude toward investment risk
- Diversification
- Age
 - ▣ Current
 - ▣ Retirement
- Financial circumstances
 - ▣ Cash Needs

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.

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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