

InFRE NPEA 2016

Fundamentals of Retirement Planning

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Chapter 1

Retirement Planning Across the Life Cycle

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Life Cycle

- Lifecycle
 - Predictable
 - Unpredictable

- Relationship between lifecycle and expenses and income

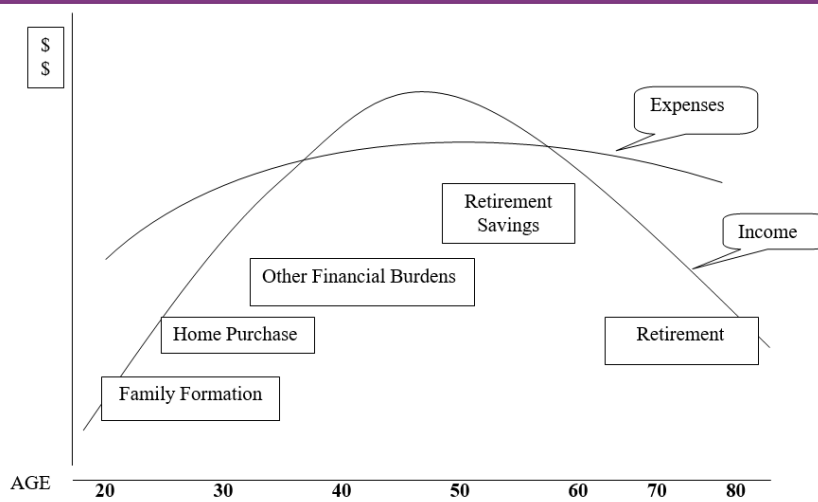
- Relationship of life cycle to retirement



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Income & Expenses Over a Lifecycle

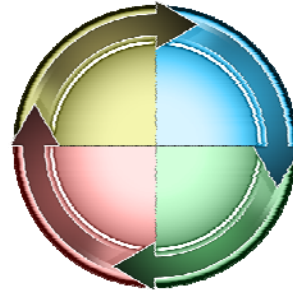


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Retirement and the Life Cycle

- While working
 - Early-, mid-, late-career
- End of formal career/
full-time work
 - Early-, mid-, late-retirement
- Transition between stages



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Challenges to Retirement/ Education Initiatives

- Diverse audience at various stages—all at the same time!
 - Age
 - Gender
 - Educational level
 - Earning power
 - Culture
 - Retirement systems



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Challenges—Younger Clients

- “Always a tomorrow”
- Postpone current consumption in return for a secure retirement?
- Strategy:
 - Develop and use good savings habits: automatic
 - Living beneath one’s income
 - Treasure of time
 - Biggest enemy to success: procrastination

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Challenges: Mid-Generation

- Biggest issue: competing goals
 - InFRE Retirement Readiness Survey
- Strategy:
 - Saving even small amounts
 - Concretize goals
 - Acknowledgement of multiple financial demands
 - Importance of setting multiple financial goals

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Planning for the Unexpected

- Unexpected events prior to retirement impact planning for retirement
- Caveat: loans from qualified plans
- Death
- Financial challenges of divorce
 - Value of distributed assets
 - Cash flow/income of parties after a divorce
 - Issues with defined benefit plan
- Children

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Planning for the Unexpected

- Elder care
- Natural disasters
- Insurance protects against many of the unexpected events
 - Elder care
 - Disability
 - Natural disaster
 - Natural disaster
- Termination of employment

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Chapter 2

Retirement Readiness: It's Not Just About Money

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Retirement Readiness

- Diverse meanings of “readiness”
- Traditional: retirement income adequacy
- Interdisciplinary approach
- Link to gerontology



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Planning & Counseling in the New Retirement

- Relationship of financial planning-- retirement planning-- retirement counseling--
- Distinctions among the three

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Retirement Readiness = Well-Being

- Cross disciplines
- Strengths-based approach
- Opening scene from “The Intern”

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The Retirement Readiness Model

Psycho-Social
Readiness
(Happiness)

Geo-Financial
Readiness
(Money)

Bio-Medical
Readiness
(Health)

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Sample Topics: Not Just Money

Geographical	Financial	Biological	Medical	Psychological	Social
Retirement Relocation	Asset Allocation	The Aging Process	Alzheimer's Disease	Depression	Sandwich Generation
Cultural and Educational Opportunities	Income Planning	Life Expectancy	Health Care Providers	Meaning and Fulfillment	Social Networks

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Worksheets and Checklists

- Identify various distinctions among each type
 - Geographical readiness
 - Financial readiness
 - Biological readiness
 - Medical readiness
 - Psychological readiness
 - Social readiness

- Complete each worksheet for yourself

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Small Group Exercise

- Which elements of retirement readiness does your system address? Which are ignored, and why?

- What member worksheets and/or tools do you use in your system to help participants assess their retirement readiness?



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Chapter 3

Retirement Mindsets and Behavioral Finance

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Large Group Exercise

- Demographic communication methods
 - Boomers (1946-1964)
 - Generation X (1965-1980)
 - Millennials (1981-1998)

How does your system communicate with different generations? (mode, frequency, etc.)



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A Few Demographic Stats

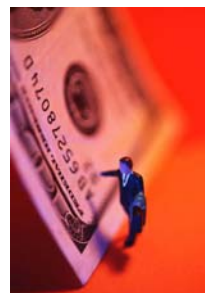
- Percentage who fear they will be financially unprepared for retirement:
 - Millennials 74%
 - Gen X 79%
 - Boomers 57%
- Percentage who say they have a diversified portfolio:
 - Millennials 84%
 - Gen X 80%
 - Boomers 77%

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Money Personalities

- Various ways of dealing with money—spending, saving, planning
- Awareness of the personality types may provide direction for planning and communication



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Role of Behavioral Finance

- Attempt to understand the investor and financial markets from a psychological perspective
 - How clients think about their money
 - How they behave with their money
 - How to deal with irrational investor behavior
- Use of behavioral investor types
 - Help professionals make rapid, insightful judgments about clients

4 Behavioral Investor Types (BITs)

- | | |
|---|--|
| <ul style="list-style-type: none"> ■ Passive preservers <ul style="list-style-type: none"> – Passive investor – Low risk tolerance – Focus on family/security – Emotional bias ■ Friendly followers <ul style="list-style-type: none"> – Passive investor – Low/medium risk tolerance – High cash balances – Cognitive limitation | <ul style="list-style-type: none"> ■ Independent individualists <ul style="list-style-type: none"> – Active investor – Medium/high risk tolerance – Beat the market/contrarian – Cognitive bias ■ Active accumulators <ul style="list-style-type: none"> – Active investor – High risk tolerance – Quick decisions/overconfidence – Emotional bias |
|---|--|

Retirement Mindset

- Permeates an individual's life and career and evidenced by the choices made during that life

- Retirement stages
 - Based on proximity to actual date of retirement
 - Changing priorities
 - Background vs. Foreground

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Small Group Exercise

- Which factor do you think most impacts retirement readiness: generational identity or behavior investor type (BIT)? Why?

- What does your system do to help a member take action to enhance his/her retirement readiness based on the member's BIT?



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15 Minute Break

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Chapter 4

Financial & Retirement Goal-Setting

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Setting Goals

- Values
- Specificity
- Priorities
- Needs versus wants
- Opportunity cost



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Savings Rates Guidelines

- Ballpark estimate
 - Break down the component parts & know the assumptions
 - Examples
- National Savings Rate Guidelines
 - Know the assumptions
 - Examples



Rules of thumb?



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Savings Benchmarks

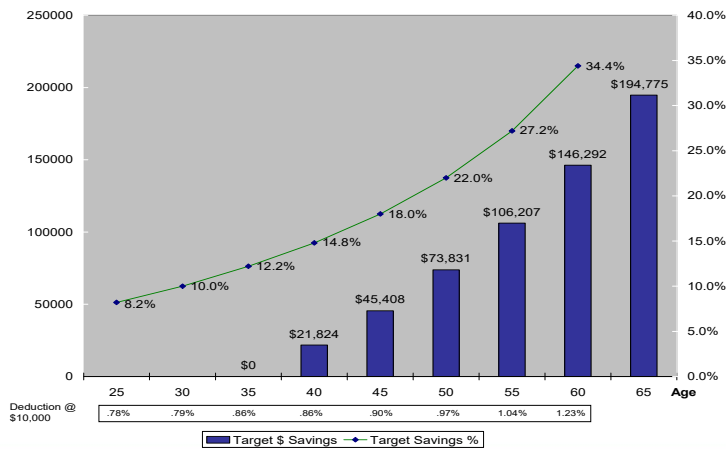
Age	Income \$20,000	Income \$40,000	Income \$60,000	Income \$80,000	Income \$100,000	Income \$120,000
35	\$0	\$0	\$0	\$0	\$0	\$0
40	\$7,692	\$21,824	\$39,176	\$58,674	\$78,710	\$103,038
45	\$16,005	\$45,408	\$81,512	\$122,082	\$163,768	\$214,387
50	\$26,023	\$73,831	\$132,533	\$198,497	\$266,277	\$348,581
55	\$37,434	\$106,207	\$190,650	\$285,540	\$383,042	\$501,436
60	\$51,562	\$146,292	\$262,607	\$393,310	\$527,612	\$690,691
65	\$68,650	\$194,775	\$349,637	\$523,658	\$702,467	\$919,594

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Quickcheck Tools

Retirement Saving Guideline: \$40,000 Gross Income



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Small Group Exercise

- What savings benchmarks does your system use?
 - Spending benchmarks?
- What tools does your system offer to help retirement savers get/stay on track (such as payroll deduction, auto enrollment, auto escalation, reminder email messages, etc.)?



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Chapter 5

Budgeting

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Budgeting

- Nitty gritty topic and not glamorous (aka, budget = diet)
 - Spending plan? Other names?
- Transform the perception
 - Means to an end not an end in itself
 - Football analogy
- Way to achieve financial goals
 - Requires that goals be set

“Sign up” or
“Activate?”

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Credit and Your Clients

- Look for the danger signals of too much debt
 - Borrowing from retirement plans
 - Reducing amounts contributed to retirement plans
- Create a debt reduction plan
 - Pay off highest APR
 - Pay off smallest debt and move to next highest, etc.
- Credit score (FICO)



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Chapter 6

Risk Management

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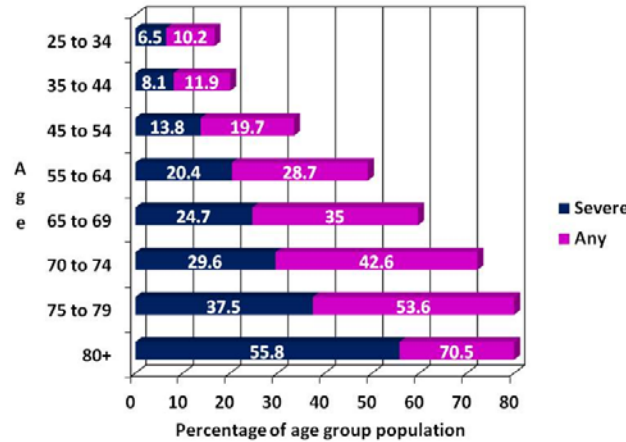
Life Insurance

- Protects against financial loss due to death of the insured
- Need for insurance greater when savings are low
- Private insurance companies and Social Security
- Utilize the “Needs Approach” to determine the appropriate amount of life insurance
- Cash value vs. Term insurance

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Disability by Age Group



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Disability Income

- Replace income lost due to illness or accident
- Premium related to various factors
- Available through private insurers
- Available through Social Security
 - Eligible workers and dependents
 - Disability to last 12 full months or until death
 - 5-month waiting period for benefits
 - Social Security definition of disability



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Causes of Long-Term Disability

- #1: Accidents? Nope—only 10%!
- Illness #1
 - Musculoskeletal/connective tissue (arthritis): 22%
 - Neoplasms (cancer): 14%
 - Circulatory system (stroke, hypertension): 10%
 - Pregnancy: 9%
 - Mental disorders (depression): 9%

Disability Impact on Retirement Readiness

- DB plans: benefits accrue while on disability
- Disability impact on DC plans
 - Any employer contributions while disabled?
 - No/reduced employee contributions because only 60% income
 - Possible early withdrawal of retirement funds during disability

Healthcare Risks

- Healthcare inflation 6 - 6½%
- People age 80 and over who need adult daycare, home health, hospice or nursing home care: 63-94%

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URS Transitioning to Retirement

Aging Well: What Makes a Meaningful Life? Generosity

- Time
- Experience
- Money

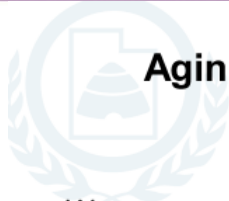


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URS Transitioning to Retirement

Aging Well: Busy = Satisfied



Women

- Personal: reading
- Time with family
- Socializing with friends
- Volunteering
- Caring for others

Men

- Sports
- Working full/part-time
- Career activities

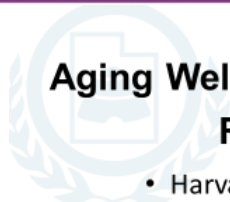


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Bottom Line: Better Health, Better Longevity

Aging Well: What Really Matters? Relationships!



- Harvard Study of Adult Development
- 75 year study
- Research about work, home life, health



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Large Group Discussion

- How does your system help members address death, disability and/or health risks as part of becoming prepared for retirement?

**URS' retirement systems
paid out \$1.3 billion in
retirement benefits in 2015**



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Chapter 7

Elder Care

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Housing Option Considerations

- Financial commitment
- Proximity to family
- Quality of services
- Availability of activities
- Social networks
- Flexibility for change

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Healthy Aging

- Health risks (heart disease, cancer, stroke, etc.)
- Cognitive health (dementia)
- Avoiding falls
- End-of-life issues

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Wellness Programs

- Public and private resources
- Diverse program offerings
 - Fall prevention
 - Food safety
 - Hearing clinics
 - Dental exams
 - Exercise programs

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Elder Abuse

- Declining cognition
- Con artists
- Family abuse
- Red flags
 - Restricted access to mail
 - Financial activities “taken over” by a family member
 - Changes to legal documents
- Many different types of scams

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Chapter 8

Income Tax Strategies

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The Income Tax Process

From:	Gross income (salaries, wages, etc.)
Subtract:	Adjustments to gross income
To arrive at:	Adjusted Gross Income (AGI)
Subtract:	Itemized Deductions OR Standard Deduction AND Personal exemptions
To arrive at:	Taxable income
Multiply by:	Applicable tax rate
To determine:	Gross tax liability
Subtract:	Credits
To arrive at:	Net Tax Liability (your tax bill)

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Tax Planning in Retirement

- Taxable defined benefit pension income
- Withdrawals from IRAs and qualified plans
 - Required distributions at age 70 ½
- Use of Roth IRAs
- Health savings accounts
- Taxation of Medicare benefits
- Possible taxation of Social Security benefits
 - Over \$34,000 single, over \$44,000 MFJ = 85% taxable benefit

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Tax Planning for Retirees

- Order of withdrawals
 - Taxable
 - Tax-deferred
 - Tax-free
- But 15% “bucket” strategy (2016 brackets)
 - \$37,650 taxable income for singles
 - \$75,300 for married filing joint

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Large Group Discussion

- How does your system address income tax considerations with retirement savers?
- With retirement spenders?



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Chapter 9

Estate Planning

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Purpose of an Estate Plan

- Assets distributed to heirs
- Reduces/minimizes estate taxes
- Streamlines process of estate administration



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Titling of Accounts

- Indicates how the asset is owned
 - Sole ownership
 - Joint tenants with rights of survivorship (JTWROS)
 - Joint tenants/tenants in common
- Assets may avoid probate
 - JTWROS
 - **Beneficiary**
 - Trust

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Probate

- Guided by a will
- May minimize length of probate and shorten time to distribute assets
- Does not result in reduced estate and gift taxes



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Estate Planning Documents

- Will
 - Roadmap through probate
- Trusts
 - Inter vivos trust (living trust)
 - Testamentary trust (effective at death)
 - Revocable vs. Irrevocable
 - Multiple purposes
 - Save time and costs
 - Control assets
 - Minimize taxes



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Advance Directives

- Power of attorney (POA)
 - Narrow in scope; temporary
 - Maker must be competent when POA is exercised
- Durable power of attorney (DPOA)
 - Act when the maker is incapacitated
- Living will
 - Used at final illness or when death is imminent
- Health care power of attorney
 - Identify a health care surrogate to make medical decisions

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Retirement Plan Assets

- Best practice is to name a beneficiary so assets pass directly without going through the estate (probate)
- If no beneficiary named, assets will pass through the estate and be divided as directed in the will



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Strategies

- Proper distribution of an estate based on individual's wishes
- Dilemma for retirement planning
 - Balance of assets and income
 - Balance of estate tax liability and assets to heirs
- Special attention to distribution issues for surviving beneficiaries of qualified plans and IRAs
- Be sure beneficiary designations are current
 - Married, divorced, new kids, new grandkids



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