

**Certified Retirement Counselor®  
(CRC®) 1 - Review**

**Fundamentals of Retirement Planning**

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM

InFRE International Foundation for Retirement Education

1

*Chapter 1*

*Retirement Planning  
Across the Life Cycle*


FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM

InFRE International Foundation for Retirement Education

2

**Life Cycle**

- Lifecycle
  - Predictable
  - Unpredictable
- Relationship between lifecycle and expenses and income
- Relationship of life cycle to retirement

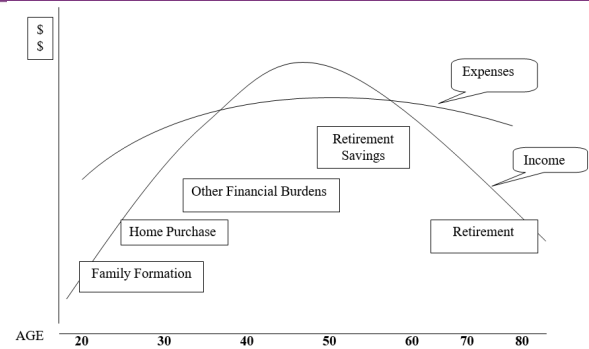


FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM

InFRE International Foundation for Retirement Education

3

**Income & Expenses Over a Lifecycle**

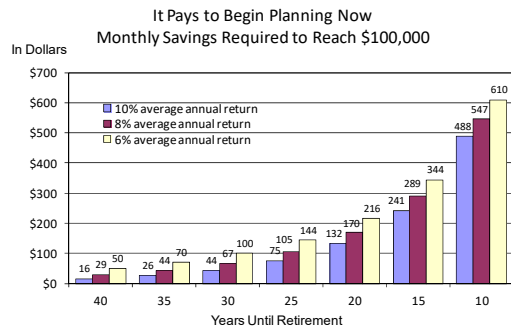


FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM

InFRE International Foundation for Retirement Education

4

## Starting Early



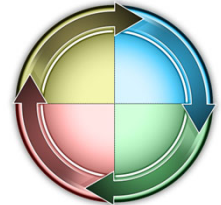
FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



5

## 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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



6

## Challenges to Retirement Education Initiatives/

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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



7

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



8

## The Power of Time

Age	Amount Invested Investor #1	Amount Invested Investor #2
25	\$ 2,000	0
26	\$ 2,000	0
27	\$ 2,000	0
28	\$ 2,000	0
29	\$ 2,000	0
30	\$ 2,000	0
31	\$ 2,000	0
32	\$ 2,000	0
33	0	\$ 2,000
34-64	0	\$ 2,000 per year
65	0	\$ 2,000
Total Dollars Invested	\$ 16,000	\$ 64,000
Amount at Age 65 Before Taxes	\$347,691	\$328,074

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



9

## Challenges: Mid-Generation

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



10

## Planning for the Unexpected

- Unexpected events prior to retirement impact planning for retirement
- Caveat: loans from qualified plans



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



11

## Planning for the Unexpected

- Death
- Financial challenges of divorce
  - Value of distributed assets
  - Cash flow/income of parties after a divorce
  - Issues with defined benefit plan
- Children

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



12

## Planning for the Unexpected

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



13

## Planning for the Unexpected

- Termination of employment
  - Emergency fund
  - Vesting of retirement assets
  - Disposition of company-sponsored retirement plans
  - Insurances
    - COBRA/ACA
    - Continuation/conversion



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



14

## Life Cycle Tables (see text)

- Compare and contrast across categories and life cycles
- Note specific financial tasks at each stage
- Identify key challenges at each stage

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



15

## Chapter 2

*Retirement Readiness:  
It's Not Just About Money*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



16

## Retirement—Myth and Fact

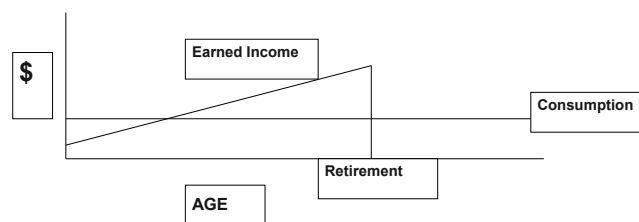
- Myth of the leisure retirement
  - Economic life hypothesis
  - Three phases of the life cycle

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



17

## Economic Lifecycle



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



18

## Three Boxes of Life



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



19

## Retirement—Myth and Fact

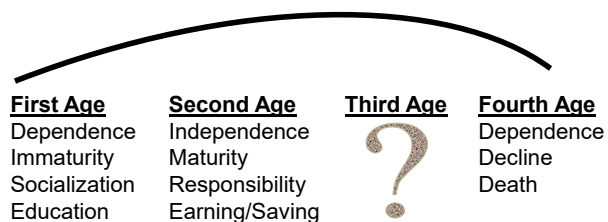
- Myth of the leisure retirement
  - Economic life hypothesis
  - Three phases of the life cycle
- Retirement signified by shift of living from earnings to savings

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



20

## Retirement: The Third Age



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



21

## Retirement—Myth and Fact

- Myth of the leisure retirement
  - Economic life hypothesis
  - Three phases of the life cycle
- Retirement signified by shift of living from earnings to savings
- The new retirement
  - Interdisciplinary
  - Trans life cycles

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



22

## Planning & Counseling in the New Retirement

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



23

## Retirement Readiness

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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



24

## Retirement Readiness = Well-Being

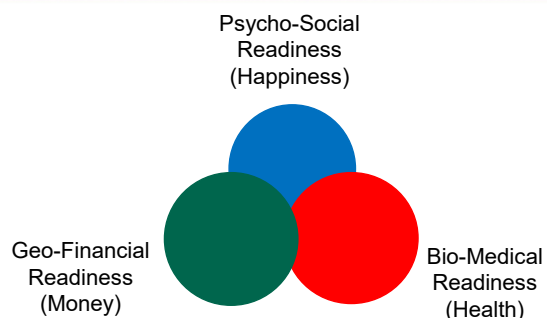
- Cross disciplines
- Strengths-based approach
- Opening scene from “The Intern”

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



25

## The Retirement Readiness Model



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



26

## Sample Topics

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



27

## Career Stage Retirement Readiness

- Usefulness of retirement information
- Application of knowledge
- Difference between “wanting” to retire and being “prepared” to retire involves non-financial criteria



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



28

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



29

## Chapter 3

### *Retirement Mindsets and Behavioral Finance*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



30

## Money Personalities

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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



31

## 6 Money Personality Types

- Deniers
- Strugglers
- Impulsives
- Cautious savers
- Planners
- Retiring savers

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



32



## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



33

## 4 Behavioral Investor Types (BITs)

- Passive preservers
- Friendly followers
- Independent individualists
- Active accumulators

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



34

## Passive Preservers' Behavioral Biases

- Endowment bias
- Loss aversion bias
- Status quo bias
- Regret aversion bias
- Anchoring bias
- Mental accounting bias

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



35

## Friendly Followers' Behavioral Biases

- Recency bias
- Hindsight bias
- Framing bias
- Cognitive dissonance bias
- Ambiguity aversion bias

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



36

## Independent Individualists' Behavioral Biases

- Conservatism bias
- Availability bias
- Representativeness bias
- Self-attribution bias
- Confirmation bias

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



37

## Active Accumulators' Behavioral Biases

- Overconfidence bias
- Illusion of control bias
- Self-control bias
- Optimism bias

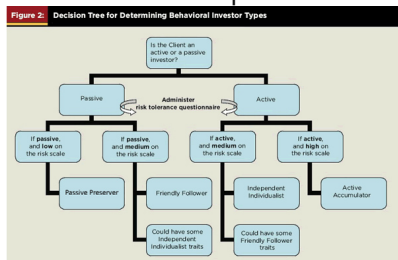
FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



38

## Determining a Behavioral Investment Type

- Identify active versus passive traits
- Provide a risk-tolerance questionnaire



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



39

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



40

## 6 Stages of Retirement

- Imagination
- Hesitation
- Anticipation
- Realization
- Reorientation
- Reconciliation

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



41

## Chapter 4

### *Financial & Retirement Goal-Setting*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



42

## Setting Goals

- Values
- Specificity
- Priorities

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



43

## Goals Worksheet

Goal	Dollar amount required	Deadline in months	Start saving in month X?	Number of months to save	Monthly savings amount
Down payment on a Sports Utility Vehicle	\$3,000	24	4	20	\$150
Retire at age 65 at a level of living equivalent to pre-retirement life style	\$600,000	480	12	468	\$142
Vacation to New York City for one week next summer	\$900	12	1	12	\$75
Children's college at a public university in our state	\$20,000	180	60	120	\$122
Down payment on a two-bedroom vacation home	\$20,000	120	??	??	??

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



44

## Setting Goals

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



45

## Goals Defined

- Short-term
- Intermediate
  - Inflation impact
- Long-term

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



46

## Time Value of Money

- Present value
  - Discount rate
- Future value
  - Compound rate
- Examples
  - <https://www.calculator.net/future-value-calculator.html>

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



47

## More Time Value of Money

- Rule of 72
  - $72/\text{rate of return} = \text{number of years for an investment to double in value}$
- Future value of an annuity
- Present value of an annuity

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



48

## Savings Rates Guidelines

- Ballpark estimate
  - Breaking down the component parts & assumptions
    - Draw SS at 65; 3% real rate of return
  - Examples

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



49

## INTERACTIVE BALLPARK

1. Enter your age:
2. Enter current annual salary/wage:
3. Enter planned retirement age:
4. Enter the desired replacement rate (the percentage of your current income you would like to receive during retirement):  %
5. Enter expected age of death:
6. Input inflation assumption:  %
7. Input wage growth assumption:  %
8. Input the rate of return you assume you will earn on your investments BEFORE you retire. (Note: we need you to enter a nominal rate for this calculation, in other words, do NOT subtract out the rate of inflation to produce a real rate of return.)  %
9. Input the rate of return you assume you will earn on your investments AFTER you retire. (Note: we need you to enter a nominal rate for calculation, in other words, do NOT subtract out the rate of inflation to produce a real rate of return.)  %
10. Do you expect to receive benefits from one or more defined benefit pension plans? (Note: this is a type of pension that promises the employee a certain amount of retirement income, typically based on compensation and years of service. It is NOT the same as a defined contribution plan in which employees have individual accounts and the account balances will fluctuate with employee and/or employer contributions as well as investment income. Also, this does NOT include your Social Security benefits)

[www.asec.org/tools](http://www.asec.org/tools)



50

## Savings Rates Guidelines

- Ballpark estimate
  - Breaking down the component parts & assumptions
    - Draw SS at 65; 3% real rate of return
  - Examples
- National Savings Rate Guidelines
  - Assumptions
    - Retire at 65, 80% income replacement rate, adjust for 2.5% inflation, single person
  - Examples

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



51

## Saving Guidelines

Age	Gross Income	Saving Rate	Deduction for Each \$10,000 of Current Savings
25	\$20,000	5.8%	1.60%
25	\$40,000	8.2%	0.78%
25	\$60,000	10.0%	0.55%
25	\$80,000	11.2%	0.40%
30	\$20,000	7.0%	1.65%
30	\$40,000	10.0%	0.79%
30	\$60,000	11.8%	0.54%
30	\$80,000	13.6%	0.42%
35	\$20,000	8.6%	1.75%
35	\$40,000	12.2%	0.86%
35	\$60,000	14.6%	0.55%
35	\$80,000	16.4%	0.43%
35	\$100,000	17.6%	0.34%
40	\$20,000	10.2%	1.67%
40	\$40,000	14.8%	0.86%
40	\$60,000	17.6%	0.57%
40	\$80,000	19.8%	0.42%

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



52

## 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

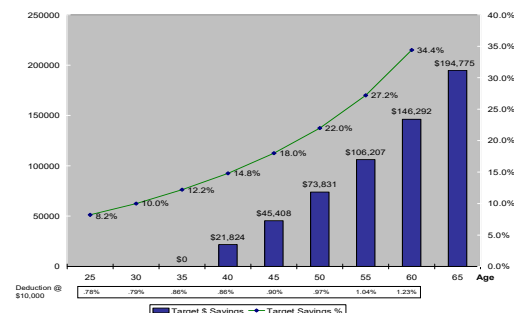
FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



53

## Quickcheck Tools

Retirement Saving Guideline: \$40,000 Gross Income



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



54

## Staying on Track

- Visuals
- PYF: pay yourself first
  - Payroll deduction
  - Automatic deposits
- Just start
- Be consistent/habitual

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



55

## Chapter 5

### Budgeting

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



56

## Budgeting—First Step

- Nitty gritty topic and not glamorous
- Transform the perception
  - Means to an end not an end in itself
- Way to achieve financial goals
  - Requires that goals be set

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



57

## Tools for Planning

- Budget
  - Plan for cash in/cash out
- Personal balance sheet
  - Where client is presently
- Cash flow statement
  - Where client has been in the past

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



58

## Balance Sheet—Snapshot in Time

- What you own (minus) what you owe
- Categories of assets and liabilities
- Increase in net worth
  - When income exceeds expenditures
  - When value of assets increase

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



59

## Cash Flow Statement

- “Where does the money go?”
- Specific to a period of time
- Net gain/loss = amount remaining after expenses are subtracted from income



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



60

## Tools for Planning

- Too much spending
- Too little saving
- State of investments (diversified?)
- Amount of income from investments
- Provide data for financial ratios



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



61

## Four Financial Ratios

- Basic liquidity ratio (3.0 or higher)
  - Monetary assets/monthly expenses
- Assets to debt ratio (1.0 or higher)
  - Total assets/total liabilities
- Debt to income ratio (.35 or lower)
  - Annual debt payments/annual gross income
- Investment assets to net worth ratio (higher)
  - Investment assets/net worth

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



62

## Planning a Budget

- Income
  - Salary
  - Investment income
- Expenses
  - Food
  - Housing
  - Transportation
  - Clothing
  - Medical

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



63

## Savings

- Important to categorize “Savings”
- Understand “opportunity cost” when allocating spending/saving
- Remember: pay yourself first
- Savings as a priority (like a bill) or as a leftover
  - Budget estimates



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



64



## Implementing a Budget

- Record expenses as they occur
- Monitor monthly expense levels throughout the month

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



65

## Evaluating a Budget

- Add up income and expenses for a month
- Review/revise those categories that were over-/under-budget
- Rinse and repeat: constant improvements leading to better accuracy
- Psychology of budgets: celebrate the “wins,” buff up the “losses”

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



66

## Wise Use of Credit

- Encumber future income to pay for current consumption
- Annual Percentage Rate (APR)
  - Most, but not all, fees included in APR
- Distinguish between carry-forward balances and convenience purchases
- Caveat emptor
  - Teaser rates
  - Cash advances



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



67

## Credit and Your Clients

- Basics of planning: credit and budget
- Note APRs being paid by clients
- Match source of credit to use of funds
- Asset-to-debt ratio should increase as client approaches retirement

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



68

## 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 first, the next highest, etc.
  - Pay off smallest debt and move to next highest, etc.
- Credit score
- Utilize Consumer Credit Counseling



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



69

## Chapter 6

### *Risk Management*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



70

## Risk and Loss

- Uncertainty
  - Not the same as the commonly understood definition of *odds, chance, probability*
- “If” it will occur and the magnitude of loss



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



71

## Insurance and Risk

- Speculative risk
- Pure risk
- Risk management
  - Identify exposure to risk and potential loss
  - Evaluate potential loss that might occur
  - Decide upon the best way to handle risk/loss
  - Implement the risk management program

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



72

## Risk Management

- Avoid
- Retain
- Control
- Transfer
- Reduce
  - Through insurance and the law of large numbers



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



73

## Focus on Insurance

- Especially relevant for retirement planning
  - Premature death
  - Health-related
  - Unable to work and earn a living
  - Property and casualty



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



74

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



75

## 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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



76

## Health Care Insurance

- Managed care plan
  - Preferred Provider (PPO)
  - Health Maintenance Organization (HMO)
- Deductibles, co-pays, coinsurance
- Health savings account

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



77

## Medicare

- Federal health insurance for persons age 65+, anyone with permanent kidney failure, and certain disabled persons
- Original Medicare Plan is a fee-for-service plan that has 2 parts—A and B
- Expenses not covered by A and B may be covered with the purchase of additional private insurance called Medicare supplement policies (Medigap)

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



78

## Part A

- Part A automatic coverage
- Premium paid from current workers through OASDI taxes
  - Inpatient hospital care
  - Post-hospital *skilled nursing care*
  - Home health care
  - Hospice

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



79

## Part B

- Part B is available via voluntary enrollment
  - Penalty may apply if waiting past 65
- Premium paid through a deduction from Social Security benefit
- Covers doctor's services, diagnostic tests, X-rays and medical supplies

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



80

## Part C – Medicare Advantage

- Private sector response to government health care
  - Medicare managed care plan
  - Medicare private fee-for-service plan
  - Medicare-Preferred Provider Organization plans (PPOs)
  - Medicare specialty plans
- Individuals must be enrolled in both Parts A and B to select Part C

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



81

## Part D – Medicare Prescription Drug Plan

- Begun in 2006 in response to high prescription costs
- Plan requires premiums
- Co-payments and/or deductibles
- Medigap policies

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



82

## Medicaid

- Joint federal and state program for medical costs for people with limited income and resources
  - Eligibility for elderly generally means low income level
- States must seek recovery of legitimate costs paid for nursing facility expenses (estate recovery)
- Long-term care coverage and Medicaid

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



83

## Long Term Care Insurance

- Provides reimbursement for care received in nursing home or at home
- Key features
  - Type of care
  - Per day indemnification benefit
  - Age when policy is purchased
  - Benefit period
  - Waiting period before benefits begin
  - Inflation protection



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



84

## Chapter 7

### *Elder Care*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



85

## Older Americans

- Increasingly larger percentage of general population
- More prosperous
- Healthier
- Increasing cost of health care



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



86

## Housing Options

- Traditional home ownership
- Renting
- Group housing
  - Activities of daily living
  - Home care
  - Aging in community
  - Adult care facilities
  - Assisted living
  - Continuing care retirement community

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



87

## Housing Option Considerations

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



88

## Healthy Aging

- Health risks
- Cognitive health
- Avoiding falls
- End-of-life issues

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



89

## Wellness Programs

- Public and private resources
- Diverse program offerings

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



90

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



91

## *Chapter 8*

### *Income Tax Strategies*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



92

## Arriving at Taxable Income

- Income—taxable and exclusions
  - Interest earned on state/local bonds
  - For some, Social Security benefits
  - Life insurance proceeds
  - For some, disability insurance benefits
  - Capital gain exclusion on the sale of a house if certain requirements are satisfied



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



93

## Arriving at Taxable Income

- Adjustments to income – “above the line” deductions
  - Qualified moving expenses
  - IRA contributions (maybe)
  - 50% of self-employment tax
  - Portion of health insurance premium paid by self-employed
- Results in Adjusted Gross Income (AGI)

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



94

## Arriving at Taxable Income

- Income tax deductions reduce total amount of taxable income
  - Schedule A – Itemized deductions
    - Medical
    - Taxes
    - Interest
    - Charitable contributions
    - Theft/casualty loss/certain business expenses
  - OR
  - Standard deduction
    - Higher for taxpayers over age 65 and the blind
    - Standard deduction different for each filing status
      - Married/filing jointly
      - Single
      - Head of household
      - Married, filing separately



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



95

### 2022 Federal income tax brackets<sup>1</sup>

Taxable income					Taxable income				
Over	But not over	Tax*	% on excess	Of the amount over	Over	But not over	Tax*	% on excess	Of the amount over
Unmarried individuals (other than surviving spouses* and heads of households)					Head of household				
\$0	\$10,275	\$0	10%	\$0	\$0	\$14,650	\$0	10%	\$0
\$10,275	\$41,775	\$1,027.50	12%	\$10,275	\$14,650	\$55,900	\$1,465	12%	\$14,650
\$41,775	\$89,075	\$4,807.50	22%	\$41,775	\$55,900	\$89,050	\$6,415	22%	\$55,900
\$89,075	\$170,050	\$15,213.50	24%	\$89,075	\$89,050	\$170,050	\$13,708	24%	\$89,050
\$170,050	\$215,950	\$34,647.50	32%	\$170,050	\$170,050	\$215,950	\$33,148	32%	\$170,050
\$215,950	\$539,900	\$49,335.50	35%	\$215,950	\$215,950	\$539,900	\$47,836	35%	\$215,950
\$539,900	∞	\$162,718	37%	\$539,900	\$539,900	∞	\$161,218.50	37%	\$539,900
Married filing jointly and surviving spouse*					Trusts and estates				
\$0	\$20,550	\$0	10%	\$0	\$0	\$2,750	\$0	10%	\$0
\$20,550	\$83,550	\$2,055	12%	\$20,550	\$2,750	\$9,850	\$275	24%	\$2,750
\$83,550	\$178,150	\$9,615	22%	\$83,550	\$9,850	\$13,450	\$1,979	35%	\$9,850
\$178,150	\$340,100	\$30,427	24%	\$178,150	\$13,450	∞	\$3,239	37%	\$13,450
\$340,100	\$431,900	\$69,295	32%	\$340,100	Standard deductions <sup>2</sup> 2022				
\$431,900	\$647,850	\$98,671	35%	\$431,900	Unmarried individuals (other than surviving spouses* and heads of households)				
\$647,850	∞	\$174,253.50	37%	\$647,850	Married filing jointly and surviving spouses*				
Married filing separately					Married filing separately				
\$0	\$10,275	\$0	10%	\$0	Head of household				
\$10,275	\$41,775	\$1,027.50	12%	\$10,275	Aged or blind (Additional standard deduction amount)				
\$41,775	\$89,075	\$4,807.50	22%	\$41,775	MFJ: \$1,400				
\$89,075	\$170,050	\$15,213.50	24%	\$89,075	Single: \$1,750				
\$170,050	\$215,950	\$34,647.50	32%	\$170,050	Personal exemption <sup>3</sup>				
\$215,950	\$323,925	\$49,335.50	35%	\$215,950	Kiddie tax				
					2022				
					Unearned income**				
					\$1,150				

96



## Arriving at Taxable Income

- Tax bracket
- Declare a filing status
- Progressive tax system
  - As income increases, higher percentage of income is taxed



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



97

## Arriving at Taxable Income

- Tax credit reduces the actual tax owed
  - Refundable tax credit
    - Earned Income Credit
  - Non-refundable credit
    - Adoption expenses
    - Child and dependent care expenses to caregivers can work or attend school
    - Saver's Credit

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



98

## Additional Taxes

- Self-employment
- Penalty taxes on early withdrawals from IRAs and qualified plans
  - 10% penalty on early withdrawals (plus regular taxation!)
- Alternative Minimum Tax (AMT)
  - Used by taxpayers whose net tax liability is too low
- State and local taxes



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



99

## 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
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)

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



100

## Reduce Taxes

- Reducing taxable income
  - Participating in company benefit plans
  - Shift or gift income
  - Converting ordinary income into capital gains
  - Timing of taxable events
- Direct tax reduction
  - Child tax credit
    - Not the Child and Dependent Care Credit
  - Saver's credit

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



101

## Tax Planning in Retirement

- Taxable defined benefit pension income
- Withdrawals from IRAs and qualified plans
  - Required distributions at age 72
- Use of Roth IRAs
- Possible taxation of Social Security benefits

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



102

## Early Distribution Penalty

- Prior to age 59½ for qualified plans and IRAs
  - Special exceptions exist for both types
  - IRAs
    - Purchase of a residence
    - Higher education expenses

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



103

## Required Minimum Distributions

- Minimum amount be distributed beginning at age 72
- **All qualified plans, 403(b) and 457 plans**
  - Must begin by April 1 of the year following the later of
    - The year the participant turns 72
    - OR
    - The year the participant retires
- **Regular IRA owners** must begin no later than April 1 of the year the owner turns age 72
- 50% penalty tax imposed on money that should have been withdrawn, if not withdrawn

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



104

## Chapter 9

### *Estate Planning*

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



105

## Purpose of an Estate Plan

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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



106

## Titling of Accounts

- Indicates how the asset is owned
  - Sole ownership
  - Joint tenants with rights of survivorship (JTWROS) (equal shares)
  - Joint tenants/tenants in common (can have unequal shares with beneficiaries)
- Assets may avoid probate
  - JTWROS
  - Beneficiary
  - Trust

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



107

## 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
- Will not supersede a beneficiary designation



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



108

## Estate Planning Documents

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



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



109

## Advance Directives

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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



110

## Gifts and Estate Planning

- Gift is a completed transfer made during life
- Gifts in any amount can be given to anybody—with some “strings”
  - Gifts over the annual gift tax exclusion require a gift tax return except between spouses
    - Gift splitting for married couple
  - Recipient of gift receives the cost basis
- Gift tax returns considered when estate tax is computed



FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



111

## Transfers at Death


- Federal Gift and Estate Tax
  - Tax assessed on gifts (made during lifetime) and at death
  - Exemption amount allowed to be gifted during life or passed on at death
    - No tax due on the exempted amount
    - Tax computed on amount over the exemption
- Current exemption for estate purposes
- Current exemption for lifetime gifts

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR STUDY PROGRAM



112

## Estate Tax Calculation


- Gross estate
  - Valuation date/Alternative valuation date
  - Gifts over the annual gift exclusion brought back into computation
- Deductions (debts, funeral costs) 
- Taxable estate
- Subtract estate credit
  - Estate tax exclusion translates into an estate tax credit
- Net tax liability
  - Filed within nine months after the date of death

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



113

## Retirement Plan Assets


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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



114

## 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

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



115

## Certified Retirement Counselor® (CRC®) 1 - Review

**Fundamentals of  
Retirement Planning**

**You made it!**

FUNDAMENTALS OF RETIREMENT PLANNING  
CERTIFIED RETIREMENT COUNSELOR® STUDY PROGRAM



116