# FINANCIAL PLANNING

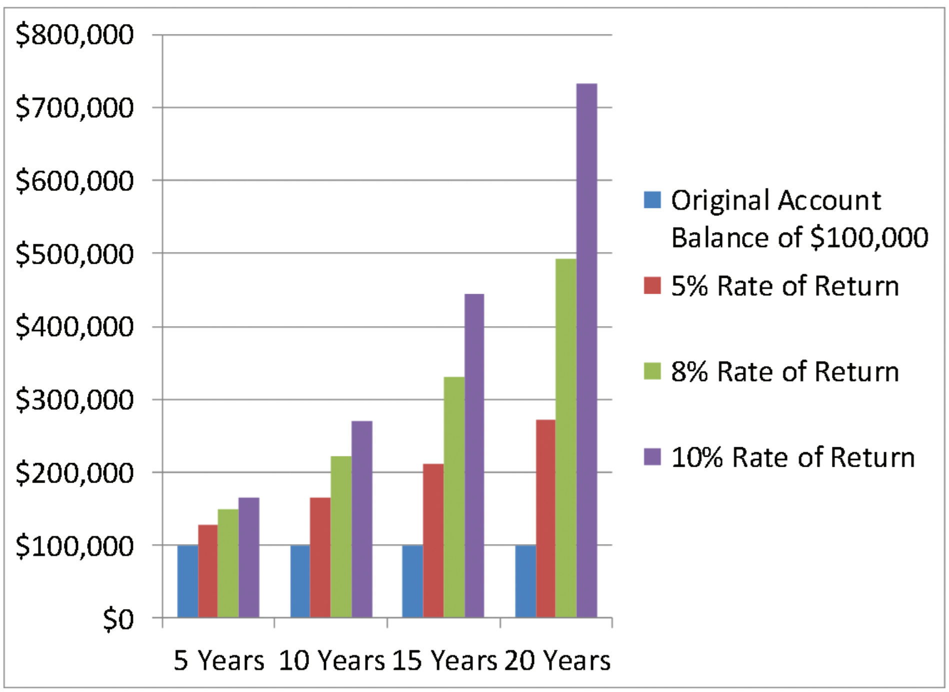
Your NYSTRS pension and Social Security benefits (see page 30) can provide you a solid foundation of retirement income. But as inflation drives expenses up, the buying power of your income will go down. So, your personal investments may ultimately decide how comfortable a retirement you can afford.

## Starting Early

Many people put off investing for retirement in the early part of their careers because they know retirement is a long way off and often find it hard to make ends meet on their salary. As their salary increases over time, though, their expenses tend to increase as well — from buying a house, to raising children, to paying for vacations, to making home improvements, etc. So it may never seem like a convenient time to begin investing. But to take advantage of the power of compounding, regular savings should start as early as possible, even if only small amounts can be set aside.

Investments like 403(b) and 457 plans allow you to contribute before taxes are taken out of your earnings. These investments defer taxes on your plan earnings, so your money can accumulate faster than in a comparable taxable plan. The chart below demonstrates how compounding accelerates growth, and how investing throughout your career can pay off at retirement.

***Compounding Chart***




## Catching Up

If you are nearing retirement and haven't invested as much as you would have liked to this point, the good news is you still have time. Tax-deferred plans offer several additional contribution opportunities for those close to retirement. If you are age 50 or older, you may contribute an additional $6,500 above the 2020 deferral limit of $19,500. (Note: This information reflects the laws in place as of 2020.)

457 Plans: If you haven't contributed the maximum amount in prior years, you may instead take advantage of a special catch-up provision called the "final three year" provision for those approaching retirement. This permits you to contribute as much as twice the deferral limit. IRS publication 525 (available at www.irs.gov) has more information about 457 Plans.

403(b) Plans: If permitted by your 403(b) plan, you may also contribute an additional $3,000 per year, up to a maximum lifetime catch-up of $15,000 under what's referred to as "the 403(b) lifetime catch-up" or "the 15-year rule." To qualify, you must have at least 15 years of service with your employer and have annual average contributions of less than $5,000 per year. IRS publication 571 (available at www.irs.gov) has more information about 403(b) plans.

## Financial Planning Timeline

The chart below shows the time frames you should be aware of for making important investment decisions.

| Age | Action |
|---|---|
| 30- 50 | ◆ You should try to maximize your contributions to your tax-deferred accounts and consider using the "403(b) lifetime catch-up" provision. |
| 50 | ◆ At this age and beyond you can make additional catch-up contributions to tax-deferred savings accounts. |
| 55 | ◆ You can begin to withdraw from your tax-deferred accounts without penalty if you are retired. |
| 59½ | ◆ You can withdraw from tax-deferred accounts without penalty even if you are still working. |
| 60 | ◆ You can receive Social Security benefits as a widow or widower. |
| 62 | ◆ You can begin to receive reduced Social Security benefits. |
| 65 | ◆ You qualify for Medicare benefits. |
| 65-67 | ◆ You can receive a full Social Security benefit (for full retirement age, see page 31) and have unlimited earnings. |
| 72 | ◆ You must begin to receive required minimum distributions from your IRAs and post-1986 contributions in tax-deferred accounts. |

## Required Minimum Distributions (RMD)

You cannot keep funds in a tax-deferred account indefinitely. At age 72 you must begin to receive a required minimum distribution (RMD). If your annual distributions are not large enough, the IRS may require you to pay a 50% excise tax on the amount not distributed as required. IRS publication 590-B (available at www.irs.gov) contains additional information about required minimum distributions from tax-deferred accounts. (Note: This information reflects the laws in place as of 2020.)

The RMD is not intended to deplete the account quickly. The charts below illustrate how an account balance might change over time once the RMD (based on 2020 factors) is taken each year, assuming a 4% rate of return.

| Your Age | Uniform Life Expectancy | Account Balance | Minimum Distribution |
|---|---|---|---|
| 72 | 25.6 | $50,000 | $1,953 |
| 73 | 24.7 | $48,047 | $1,945 |
| 74 | 23.8 | $47,946 | $2,015 |
| 75 | 22.9 | $47,768 | $2,086 |
| 76 | 22.0 | $47,510 | $2,160 |
| 77 | 21.2 | $47,164 | $2,225 |
| 78 | 20.3 | $46,737 | $2,302 |
| 79 | 19.5 | $46,212 | $2,370 |
| 80 | 18.7 | $45,596 | $2,438 |

| Your Age | Uniform Life Expectancy | Account Balance | Minimum Distribution |
|---|---|---|---|
| 81 | 17.9 | $44,884 | $2,507 |
| 82 | 17.1 | $44,072 | $2,577 |
| 83 | 16.3 | $43,154 | $2,647 |
| 84 | 15.5 | $42,127 | $2,718 |
| 85 | 14.8 | $40,985 | $2,769 |
| 86 | 14.1 | $39,745 | $2,819 |
| 87 | 13.4 | $38,403 | $2,866 |
| 88 | 12.7 | $36,569 | $2,910 |
| 89 | 12.0 | $35,410 | $2,951 |

# Calculating Your Net Worth

What assets do you have and how much do you owe? The worksheet below can be used to review your assets and liabilities and should provide you with a snapshot of your personal worth. Your net worth is determined by subtracting what you owe from what you own.

After you have estimated your net worth, you may want to consider some of the following questions:

- Given your age and time to retirement, are you comfortable with your level of investment risk?
- Do you have a ready cash reserve?
- Can you reduce your tax liability — both your income tax and the estate tax your heirs may have to pay?
- Should you make any changes to your insurance coverage? Have your needs changed? Is your coverage duplicating your Social Security and NYSTRS benefits?

You may consider consulting with professional advisors before making major moves that will impact your future.

**Assets**

1. *Bank Deposits:*
   - Checking/Savings Accounts ______________
   - Money Market Accounts ______________
   - Certificates of Deposit ______________
2. *Investments:*
   - Stocks/Bonds ______________
   - Mutual Funds/Annuities ______________
   - Tax Shelters/IRAs ______________
3. *Life Insurance:*
   - Cash Value ______________
4. *Real Estate:*
   - Home ______________
   - Other ______________
5. *Personal Property:*
   - Auto ______________
   - Clothes/Jewelry ______________
6. *Other* ______________

**TOTAL ASSETS** ______________

**Liabilities**

1. *Home Mortgage* ______________
2. *Loans:*
   - Auto ______________
   - Educational ______________
   - Home Equity ______________
   - Credit Union ______________
   - Life Insurance ______________
3. *Tax Obligations* ______________
   ______________
   ______________
4. *Credit Cards* ______________
   ______________
   ______________
5. *Other* ______________
   ______________
   ______________

**TOTAL LIABILITIES** ______________

**Assets** ______________ - **Liabilities** ______________ = **Net Worth** ______________

# Comparing Your Income and Expenses

Most financial experts will tell you today you will need 60-80% of your current income to be able to retire and not have to change your standard of living. Many retirees say you'll need even more than that to guard against the "unexpected" expenses in retirement.

The comparison worksheets on page 24-25 should give you a good idea as to what you are actually living on today and what you will need to live on in retirement. When you compare your *gross* income while working with your projected *gross* income in retirement, it may seem like you will have a substantial reduction in income. However, you should bear in mind that your expenses will also change in retirement. When you compare your *net* income while working (after expenses) with your projected *net* income in retirement, you will typically find that the difference in income is not as great as it first appeared. In fact, you may be surprised to discover that point where you can "afford" to retire is closer than you thought. If you're not quite there yet, at least you will have a better understanding of how many more years you will have to work to get there.

Here are some suggestions for making adjustments to your current financial status to be in a better position to meet your retirement needs and goals.

- Review what's "coming in" and "going out" periodically and make adjustments as needed.
- Keep accurate records to track your spending.
- Reduce or eliminate credit card debts.
- Work to build up your credit score.
- Pay cash for purchases whenever possible.
- Cut costs and build long-term savings.
- Look at your other sources of income to "plug in" to meet increased expenses.
- Consider the financial implication when one spouse dies and the income for the surviving spouse is substantially reduced due to:
  - Social Security benefits decreasing by the amount of the lower of the two benefits.
  - Loss of the pension and/or earnings of the deceased spouse.

# Financial Planning Websites

A variety of financial planning websites are available to aid you in setting and achieving your financial goals. Whether you consider yourself a financial "novice" or well-versed in the field of finance, you can find assistance online. Some websites you may find helpful are:

- **mymoney.gov**
- **National Endowment for Financial Education (nefe.org)**
- **Choosetosave.org**

## Current vs. Retirement Income Worksheet

| Current | | Income | | Retirement |
|---|---|---|---|---|
| ______ | Self | Salary | Self | ______ |
| ______ | Spouse | | Spouse | ______ |
| ______ | Self | Pension | Self | ______ |
| ______ | Spouse | | Spouse | ______ |
| ______ | Self | IRA | Self | ______ |
| ______ | Spouse | | Spouse | ______ |
| ______ | Self | Social Security | Self | ______ |
| ______ | Spouse | | Spouse | ______ |
| | | Interest | | |
| ______ | Savings | | Savings | ______ |
| ______ | | | | ______ |
| ______ | Certificates | | Certificates | ______ |
| ______ | | | | ______ |
| ______ | Bonds | | Bonds | ______ |
| ______ | | | | ______ |
| | | Dividends | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Insurance | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Annuities | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Real Estate | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Home Equity | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Home Equity Conversion | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | Other Income | | |
| ______ | | | | ______ |
| ______ | | | | ______ |
| | | TOTAL INCOME | | |
| ______ | | | | ______ |

## Current vs. Retirement Expenses Worksheet

| Current | Expenses | | Retirement |
|---|---|---|---|
| | Mortgage Payments or Rent | | |
| | Property Taxes (if not included above) | | |
| | Utilities (gas and electric, oil, water) | | |
| | Telephone/Cellphone | | |
| | Food/Other Groceries (home consumption) | | |
| | Federal Income Taxes | | |
| | FICA (Social Security) | | |
| | NYS Income Taxes | | |
| | Premiums: | Homeowners Insurance | |
| | | Automobile Insurance | |
| | | Life Insurance | |
| | | Health Insurance | |
| | | Disability Insurance | |
| | Auto: | Loan/Lease Repayment | |
| | | Gas/Oil | |
| | | Repairs/Maintenance/Registration | |
| | Household Furnishings/Appliances | | |
| | Household Repairs/Maintenance | | |
| | Individual Retirement Account Contributions | | |
| | Other Savings/Investments | | |
| | Clothing (include cleaning) | | |
| | Non-reimbursed Medical/Dental/Drugs/Eye Care | | |
| | Vacation/Travel | | |
| | Entertainment (restaurants, movies, etc.) | | |
| | Books, Magazines, Hobbies, TV programming, Internet | | |
| | Personal Care (haircuts, health clubs, etc.) | | |
| | Gifts (birthdays, holidays, graduation, etc.) | | |
| | Educational Expenses - Children | | |
| | Loan Repayments (not shown in other categories) | | |
| | Professional Fees (attorney, accountant, etc.) | | |
| | Union Dues | | |
| | Charitable/Religious Contributions | | |
| | Other | | |
| | **TOTAL EXPENSES** | | |

# Investment Income in Retirement

The traditional approach to long term investing is to be fairly aggressive in your investment choices early in your career and then to become more conservative as you approach and enter into retirement. Risk is the chance you take of making or losing money on your investment. The greater the risk, the more money you stand to gain or lose. In retirement, you probably will not want to take as much risk as you were willing to earlier. You will be leaning toward preserving the principal of your investment, but you will still be looking for enough growth to keep ahead of inflation.

Low-risk investments will allow you to build a strong, safe foundation where you can access your money while your principal is guaranteed. These may include the following:

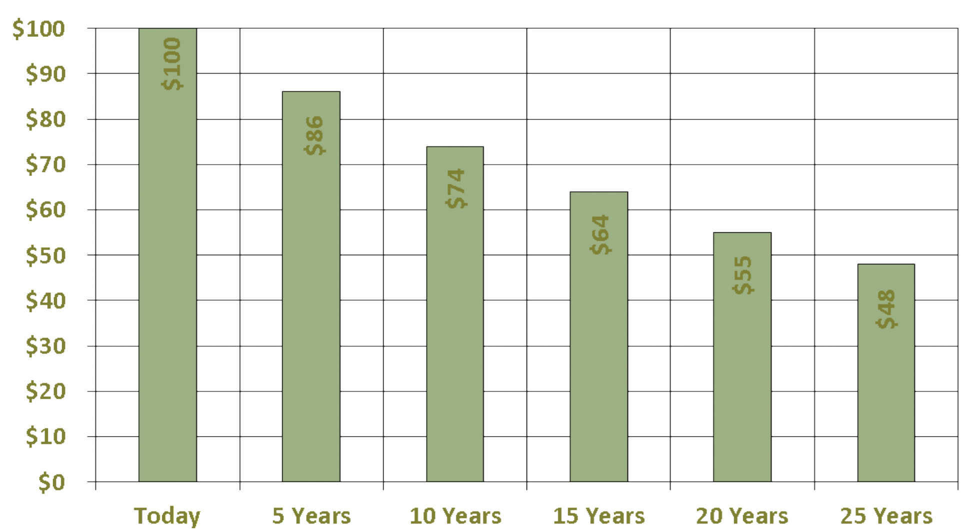
- savings accounts
- money-market funds
- certificates of deposit
- Treasury bills
- government-backed securities

As you build on that foundation, you can consider investments that have greater income growth potential with moderate risk involved. These would include stocks, bonds and mutual funds. With a historically higher rate of return, these funds may work as your hedge against inflation.

## Inflation

You can figure the impact of higher inflation on your cost-of-living by using the Rule of 72. Divide 72 by the inflation rate to find the number of years it will take prices to double. If inflation is 3%, prices will double in 24 years (72 divided by 3 = 24). The same rule will show how inflation affects the value of money in the future. For example, with a 3% rate, $100 today will be worth only $48 in 25 years. Inflation can cause problems for a fixed income like your pension. To stay ahead, you need to invest your money to earn more than the anticipated rate of inflation. Many experts say your return should be at least 3% more than inflation.

***Future Value of $100 with 3% Inflation***



## Investment Considerations

As you review your investment decisions, consider the following:

$ You may diversify your portfolio to include assets that respond to different economic factors. When some investments decline in value, others will increase and will continue to provide your needed return.

$ You may ladder, or stagger, your investments by choosing bonds or CDs with different maturity dates. If interest rates go up, you can take advantage of the higher rates as your short-term investments mature. If rates are low, you don't have to worry about investing all your money at once.

$ Investigate the investment thoroughly before you take any action. Don't make hasty decisions and don't panic over every change in condition which occurs.

$ You may use dollar cost averaging to hedge your bets on a long-term basis. If you make regular investments in mutual funds, you can buy more shares of stock when prices are low and fewer shares when prices are high. Over time, you can build a substantial investment.

$ Monitor the performance of your plan regularly and keep accurate records. This will also help at tax time.

$ If you are still a few years away from collecting your Social Security benefit and you need additional income, one option you might consider is tapping any private investments you have built up over the years. For example, the interest on a bond or dividends from a stock investment could cover day-to-day expenses if paid on a regular basis. You can also time some investments, like certificates of deposit and certain bonds, to mature on a specific schedule to use for expenses or build a cash reserve. If you have contributed to IRAs or tax-deferred accounts, explore the various payout options while paying close attention to the tax implications of these choices.

$ If you anticipate being in a relatively high tax bracket in retirement, you may consider putting some of your savings in a Roth IRA. Contributions to these accounts are taxed, but any gains or withdrawals are completely tax-free if the account has been open for at least 5 years. Check with a financial advisor on contribution limits for those with high incomes.

# Working with Financial Planners

Seek professional assistance and advice to make informed decisions about this important part of your financial planning. Contact the resources below for guidance on finding, selecting and evaluating financial planners, as well as information on overall financial planning.

- **Certified Financial Planner Board of Standards (cfp.net)**
- **The Financial Planning Association (fpanet.org)**
- **International Association of Qualified Financial Planners (iaqfp.org)**

## How Financial Planners Charge

The following information is largely from the Financial Planning Association's (FPA) website (fpanet.org):

Financial planners can be paid in a variety of ways, and each has its merits. Choosing the appropriate method depends on your individual situation. FPA advocates for the highest standards for competent and ethical planners, regardless of compensation or business model. However, before entering into a relationship with a planner, you should have a clear understanding of how he or she will be compensated.

**Fee only:** All of the financial planner's compensation from his or her client work comes exclusively from the clients in the forms of fixed, flat, hourly, percentage or performance-based fees.

**Commission-only:** There is no charge for the planner's advice or preparation of a financial plan. Compensation is received solely from the sale of financial products you agree to purchase in order to implement financial planning recommendations.

**Combination Fee/Commission:** A fee is charged for consultation, advice and financial plan preparation on an hourly, project or percentage basis. In addition, the planner may receive commissions from the sale of recommended products used to implement your plan.

**Salary:** Some planners work on a salary and bonus basis for financial services firms.

Please Note: In all of the above categories of compensation, you should request information on any real or potential conflicts of interest. In addition to commissions received from any financial product sales, you should ask whether there are outside incentives or bonuses to be gained by the planner for certain recommendations.

## Tips on Choosing a Financial Planner

1. Know what you want: Determine your general financial goals and/or specific needs (insurance policy analysis, estate planning, investment advice, college tuition financing, etc.) to better focus your search for a suitable financial planner.
2. Be prepared: Read personal finance publications (Worth, Money, SmartMoney, Kiplinger's Personal Finance, etc.) to maximize your familiarity with financial planning strategies and terminology.
3. Talk to others: Get referrals from advisors you trust, business associates and friends. Or contact one of the financial planning membership organizations for a referral to a financial planner in your area.
4. Look for competence: A number of specialty designations exist in the financial planning and services arenas. Choose a financial planning professional with the certification that indicates that he or she is ethical and has met standards of financial planning competency: the Certified Financial Planner™ certification.
5. Interview more than one planner: Ask the planners to describe their educational backgrounds, experience and specialties, the size and duration of their practice, how often they communicate with clients and whether an assistant handles client matters. Make sure you feel comfortable discussing your finances with the planner you select.
6. Check the planner's background: Depending on the financial planner's area of expertise, call the securities or insurance departments in your state regarding each planner's complaint record. Call the CFP Board toll-free at (800) 487-1497 or visit CFP.net to determine if a planner is currently authorized to use the CFP certification or has ever been publicly disciplined by the CFP Board.
7. Know what to expect: Ask for a registration or disclosure statement (such as a Form ADV) detailing the planner's compensation methods, conflicts of interest, business affiliations and personal qualifications.
8. Get it in writing: Request a written advisory contract or engagement letter to document the nature and scope of services the planner will provide. You should also understand whether compensation will be fee- or commission-based, or a combination of both.
9. Re-assess the relationship regularly: Financial planning relationships are quite often long term. Review your professional relationship on a regular basis and ensure that your financial planner understands your goals and needs as they develop and change over time. If you have concerns regarding the conduct of your Certified Financial Planner™ certificant, call the CFP Board toll-free at (800) 487-1497 or visit CFP.net and ask for a Complaint Package.

Source: *Certified Financial Planner Board of Standards, Inc.*