

Planning for Retirement

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Account vs Fund

- Money Market Accounts
- Checking Accounts
- Savings Accounts

- Money Market Funds
- Mutual Funds
- Investment Funds

- Difference Between **Fund** and **Account**

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- How many people in the room currently have a retirement plan?
- More than one plan?

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- At the time you signed up for the plan, did you understand what you was going on?
- Do you understand the benefits now?

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- Annuities
 - Pre Tax - Tax Deferred Annuity
 - Post Tax – Tax Deferred Annuity
 - NQDA Non-Qualified Deferred Annuity

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Pre Tax vs Post Tax

Pre Tax and After Tax Calculations

	Post Tax Calculation		Pre Tax Calculation
Taxable Gross Annual Salary	\$ 120,000.00	Taxable Gross Annual Salary	\$ 120,000.00
20% Withholding Rate	<u>\$ (24,000.00)</u>	Pre Tax Investment	<u>\$ (17,500.00)</u>
Take Home Annual Pay	\$ 96,000.00		\$ 102,500.00
Annual After Tax Investment	<u>\$ (17,500.00)</u>	20% Withholding Rate	<u>\$ (20,500.00)</u>
	\$ 78,500.00		\$ 82,000.00
After Tax	\$ 24,000.00		\$ 82,000.00
Pre Tax	<u>\$ 20,500.00</u>		<u>\$ 78,500.00</u>
Taxes Saved	\$ 3,500.00	Additional Income	\$ 3,500.00

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- Defined Contribution Plan
- Define Benefit Plan

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- **All these various plans are invested in Mutual Funds.**
- **What are Mutual Funds?**

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- Defined Contribution Plan
 - Examples are?

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- 401-K --- 457 --- 403-B
- Employee Stock Option
- Profit Sharing Plan --- IRA's
 - TIAA-CREF
- (Teachers Insurance & Annuity Association
 - College Retirement Equities)

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Defined Contribution Plans

- 401-k Plans Mostly for Profit Companies
- 403-B Tax Exempt Organizations, Hospitals, Schools, Universities, Non-Profits, Religious Organizations
- 457 General towards Governments and Municipals

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- **Defined Contribution Plan:**
- **How does it work?**

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- **Time Value of Money**
- **Present Value**
- **Future Value**

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Say you invest **\$300.00** per month for **30 years** at a rate of return of 9%. (NOT INTEREST)

Fact: That's \$3,600.00 per year for 30 years

Fact: That's \$108,000.00 out of pocket over the 30 years.

What is the FUTURE VALUE of this Retirement Investment?

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Planning for Retirement

Say you invest **\$300.00** per month for **40 years** at a rate of return of 9%.

Fact: That's \$3,600.00 per year for 40 years

Fact: That's \$144,000.00 out of pocket over the 40 years.

What is the FUTURE VALUE of this Retirement Investment?

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- Define Benefit Plan
- Example?

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- **South Carolina State Retirement System**
- **SCSR**

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- **Defined Benefit Plan. How does this plan work?**
- **How does it differ for a Define Contribution Plan?**

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- Defined Benefit Plan
- You contribute 9% of your **pre tax salary** to the plan.
- Prior to July 1, 2012
 - 5 years to be vested
 - Retire with 28 years of service no matter your age
- (several other ways to retire as well)

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- **Prior to July 2012:** One example of how it works
- 2012 annual salary \$75,000.00
- 2013 annual salary \$80,000.00
- 2014 annual salary \$84,000.00
- Total \$239,000.00
- **Divided by 3 equal AFC \$79,666.67**
- **Years of service is 30 x 1.82 = 54.60%**
- **Retirement Income = \$79,666.67 x 54.60%**
- **Or \$43,498.01 per year before taxes.**

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- Again there are several ways to retire from the SCSR system.
- Sick leave is added to years of service up to 90 days or 720 hours.
- When annual leave is paid out your AFC is recalculated

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- **Under the new plan since July 1, 2012**
- It is now a combination of years of service and age that has to equal 90.
- Example:
 - Start working at age 22
 - Work continuously for 34 years
 - You are now 56 year old
 - $56 \text{ (age)} + 34 \text{ years (service)} = 90$
 - You could retire at age 56.
- **Again various ways to retire from the new system.**

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