

Retirement Investment Strategies

Jean Lown

Family, Consumer & Human
Development, USU



Are you Behind in Investing for Retirement?

- Procrastinators with little or no savings
- Catch-up savers making up for lost time
- People who lost investment money





Topics

- Amount of money needed to retire
- Retirement planning tools
- Tax incentives for catch-up savers
- Strategies to increase retirement savings
- Strategies to stretch retirement income
- Retirement catch-up resources





Time is Your Friend

- It's not too late to make up for lost time
- Life expectancy is investment time horizon
- Start taking action today
- “If it is to be, it is up to me”



How Much Money is Needed?

It Depends

- 50% - 100% or more of pre-retirement income ?
- No “one size fits all” answer
- Amount needed depends on
 - Age at retirement
 - Health status and life expectancy
 - Goals (e.g., travel, hobbies, work after retirement)
 - Lifestyle decisions (e.g., choice of area and housing)
 - Available resources (e.g., retiree health benefits) 5





Five Key Variables

- Age at retirement
- Amount of money currently saved
- Amount of annual income needed
- Rate of return on investments
- Number of years in retirement



Resources For Making Retirement Estimates



- *Ballpark Estimate*
 - www.choosetosave.org
- Cooperative Extension publications and Web sites
- Non-profit organizations and government agencies
- Social Security Statement and Web site:
 - www.ssa.gov

Are you Saving 10%?

- Baby boomers median financial assets
 - \$50,700
 - 5% withdrawal rate = \$2,535/year
- 10% was the standard when most workers had a defined-benefit pension plan
- Is 10% enough today?
- Reactions?

What are Obstacles to Saving?

- I've got lots of time before I need to start thinking about retirement/later life
- I don't have time to plan for financial security in later life
- That's my husband's responsibility
- Others?

Tax Incentives For Late Savers

- Higher contribution limits through 2010
 - Individual Retirement Accounts (IRAs)
 - Tax-deferred employer plans (e.g., 401(k) plans)
- Additional catch-up contributions
 - Age 50+ savers (IRAs and tax-deferred plans)
- Tax credit: retirement plan deposits (through 2006)
- Savings opportunities for business owners

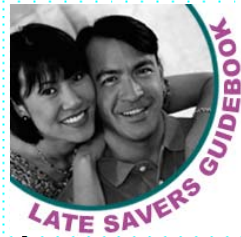


IRA Basics

- Individual account (worker/spouse)
- Investments grow tax deferred
- Penalty for withdrawals before age 59.5
- Traditional IRA: must start withdrawals by age 70.5
 - Taxed when you withdraw funds
- Roth IRA
 - Withdrawals are tax-free

Maximum Contribution Limits: Individual Retirement Accounts

- **2005:** \$4,000 + \$500 catch up (age 50+)
- **2006:** \$4,000 + \$1,000 catch up (age 50+)
- **2007:** \$4,000 + \$1,000 catch up (age 50+)
- **2008:** \$5,000 + \$1,000 catch-up (age 50+)
- **2009-2010:** Additional inflation adjustments



Maximum Contribution Limits: Tax-Deferred Employer Plans: 401(k), 403(b), 457

- **2005:** \$14,000 + \$4,000 catch up (age 50+)
- **2006:** \$15,000 + \$5,000 catch up (age 50+)
- **2007-2010:** Additional inflation adjustments



Retirement Savings Contribution Credit

- For low & moderate income taxpayers
- For retirement investing
- **Tax credit** of up to \$0.50 for each \$1 invested on the first \$2,000 you contribute to your employer's plan or to an IRA
- Maximum tax credit is \$1,000
- Expires after the 2006 tax year

Retirement Contribution Credit

Married Couples Filing Jointly	Heads of Households	Single Filers	Percent of Tax Credit
\$0–\$30,000	\$0–\$22,500	\$0–\$15,000	50%
\$30,000–\$32,500	\$22,500–\$24,375	\$15,000–\$16,250	20%
\$32,500–\$50,000	\$24,375–\$37,500	\$16,250–\$25,000	10%
Over \$50,000	Over \$37,500	Over \$25,000	0%

Questions? Comments?

Strategies to Increase Retirement Savings

- Increase retirement plan contributions
- Accelerate debt repayment and spend less
- “Moonlight” for extra income
- Invest assertively (more stock in portfolio)



More Strategies to Increase Retirement Savings

- Maximize tax breaks
- Reduce investment expenses
- Diversify and dollar-cost average
- Invest in multiple plans
- Preserve lump sum distributions if you change jobs



Increase Retirement Plan Contributions

- “Kick it [plan deposits] up a notch”
- Small extra deposits (1% or 2% of pay) can result in five-figure sums by age 65
- Employer match is “free money”
- Impact of saving \$20 per week:
 - **10 years:** \$13,700 (5% return); \$18,200 (10% return)
 - **20 years:** \$36,100 (5% return); \$65,500 (10% return)
 - **30 years:** \$72,600 (5% return); \$188,200 (10% return)



Accelerate Debt Repayment and Spend Less



- Reposition debt payments to savings
- Compound interest works **for** you- not against
- Pay more than minimum payment on credit cards
- Request a lower interest rate from creditors
- Transfer high rate balances
- Extension PowerPay© analyses

“Moonlight” For Extra Income

- Second job or self-employment
- Increases income available to invest
- Can maintain or develop career skills
- Access to retirement plans for self-employed
- Tax-deductibility of business expenses
- Tradeoff: time required to work extra hours



Invest Assertively



- More stock in portfolio: increased investment risk
- Over long time periods, stocks have higher return
- Investment volatility is reduced over time
- Determine your personal risk tolerance level
 - See www.rce.rutgers.edu/money/riskquiz

Maximize Tax Breaks



- Eliminate taxes
 - Tax-free investments: municipal bonds and Roth IRAs
- Defer taxes
 - Employer salary reduction plans: 401(k) & 403(b)
 - Traditional IRAs

Reduce Investment Expenses



- Costs matter, especially over time
- Expense ratio: mutual fund expenses as % of assets
- Example: \$25,000 deposit; 10% return; 20 years
 - \$31,701 difference: 0.2% and 1.3% expense ratios
- Low expense investment options include:
 - Tax-efficient mutual funds
 - Index mutual funds and exchange traded funds (ETFs)

Diversify and Dollar-Cost Average

- Diversification: spread money around to reduce investment risk
 - Invest money in several asset classes
 - Choose different investments within each
- Dollar-Cost Averaging: invest equal amounts of money at regular time intervals



Invest In Multiple Plans



- Workers' IRA and spousal IRA
- Employer plan and an IRA
- Tax-deferred employer plans and a SEP or Keogh (if self-employed)

Don't Spend Retirement \$ When Changing Jobs



- Roll lump sum distributions into:
 - A rollover IRA
 - A new employer's retirement plan (if allowed)
- Small sums- over time- make a big difference!
- EBRI example: \$5,000 at ages 25, 35, 45, 55
- \$193,035 at age 65 with 8% average return
- \$84,413 at age 65 if age 25 sum is spent

Which Strategy Works for You?

- Commit to adopting at least one strategy

Strategies to Stretch Retirement Income

- Trade down to a smaller home
- Move to a less expensive location
- Delay retirement
- Work after retirement
- Reverse mortgages and sale-leaseback
- Tax-efficient asset withdrawals



Trade Down To A Smaller Home

- Example: \$250,000 home to \$150,000 condo
- Proceeds from the sale are available to invest
- Maintenance, utilities, & taxes decrease
- No age requirements for capital gains exclusion
- Tradeoff: less square footage and storage space



Move To A Less Expensive Location

- Lower living expenses reduce required savings
- Could keep same size home as before- for less
- Minimal down-sizing may be required
- Research the new locale thoroughly
- Factor in travel costs to visit family and friends
- Tradeoff: moving hassles and proximity to family, friends, and medical providers



Delay Retirement Date

- Provides additional income to invest
- Postpones asset withdrawals so money can grow
- May increase Social Security benefit
- May increase pension benefit
- “Phased retirement” may be an option



Benefits of Delayed Retirement



Work After Retirement

- Part-time work, consulting, or a small business
 - Provides income
 - Provides a sense of fulfillment and identity
 - Provides social contact and a daily routine
- Reduces withdrawals needed from savings
- Stretches retirement assets



Reverse Mortgage and Sale-Leaseback Arrangements

- Reverse Mortgage
 - Good for people age 62 + and “house rich/cash poor”
 - Provides lump sum, monthly payment, or line of credit for any purpose
 - Repaid from equity after owner(s) move, sell, or die
- Sale-Leaseback
 - Homeowners sell home and rent it back
 - Proceeds from sale are available to invest



What action are you going to take?

- Talk to spouse/family members
- Start an Individual Retirement Account
- Increase contributions to employer plan
- Estimate life expectancy
- Pay off debt quickly to free money to invest

Resources For Late Savers

- Books & web sites
- Financial newspapers and magazines
- Financial services professionals
- Employer retirement seminars
- Extension programs & information
- NEFE publications (see www.nefe.org)



Local Resources

- Cache County Extension 752-6263
 - PowerPay debt reduction software
 - Take Charge of Your Money
- USU Family Life Center 797-7224
 - PowerPay
 - Free housing & financial counseling
- Financial Planning for Women
 - Second Wednesday of the month 12:30 & 7 pm
 - www.usu.edu/fpw

Baby Boomer Women Research

- Motivating women to plan for financial security in later life
- Survey (packets available)
 - Return survey by Friday, Feb 3 for prize drawing
- Focus Group (informal discussion)
 - \$25 cash compensation

Questions? Comments? Experiences?



Remember, various retirement catch-up strategies can be combined. **Example:** Increase 401(k) savings by 2% + move to smaller home + delay retirement date by two years.

To download, the *Guidebook to Help Late Savers Prepare For Retirement*, visit www.nefe.org/latesavers/index.html.

Financial Security in Later Life Extension national initiative:
<http://www.csrees.usda.gov/nea/economics/fsll/fsll.html>.

