

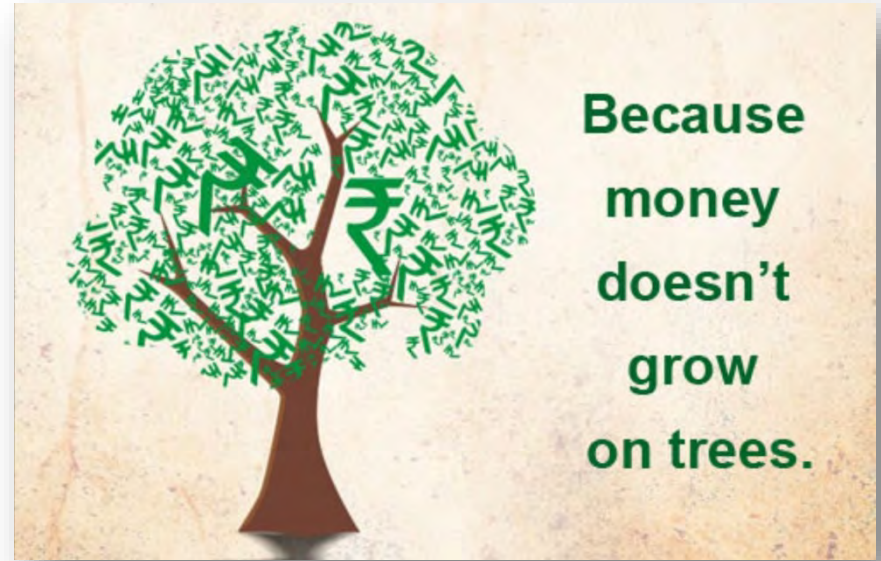


Financial Planning



Financial Planning (pages 19-28)

- ❑ Financial planning is a process that involves:
 - Setting financial goals
 - Evaluating income and spending needs now and in retirement, and maximizing retirement income sources (pension, Social Security, investments)
 - Knowing the effect inflation will have on income and savings
 - Understanding the necessity of putting money aside regularly (savings) to meet present and future income needs



Starting Early

- ❑ When you begin working, retirement seems like it's a long way off, BUT as your income increases, expenses also tend to increase
- ❑ It may seem like there is never a convenient time to start saving



How To Get To \$100,000

Open a 403(b)!

If you have:

5 years - \$1,500 per month

10 years - \$650 per month

15 Years - \$380 per month

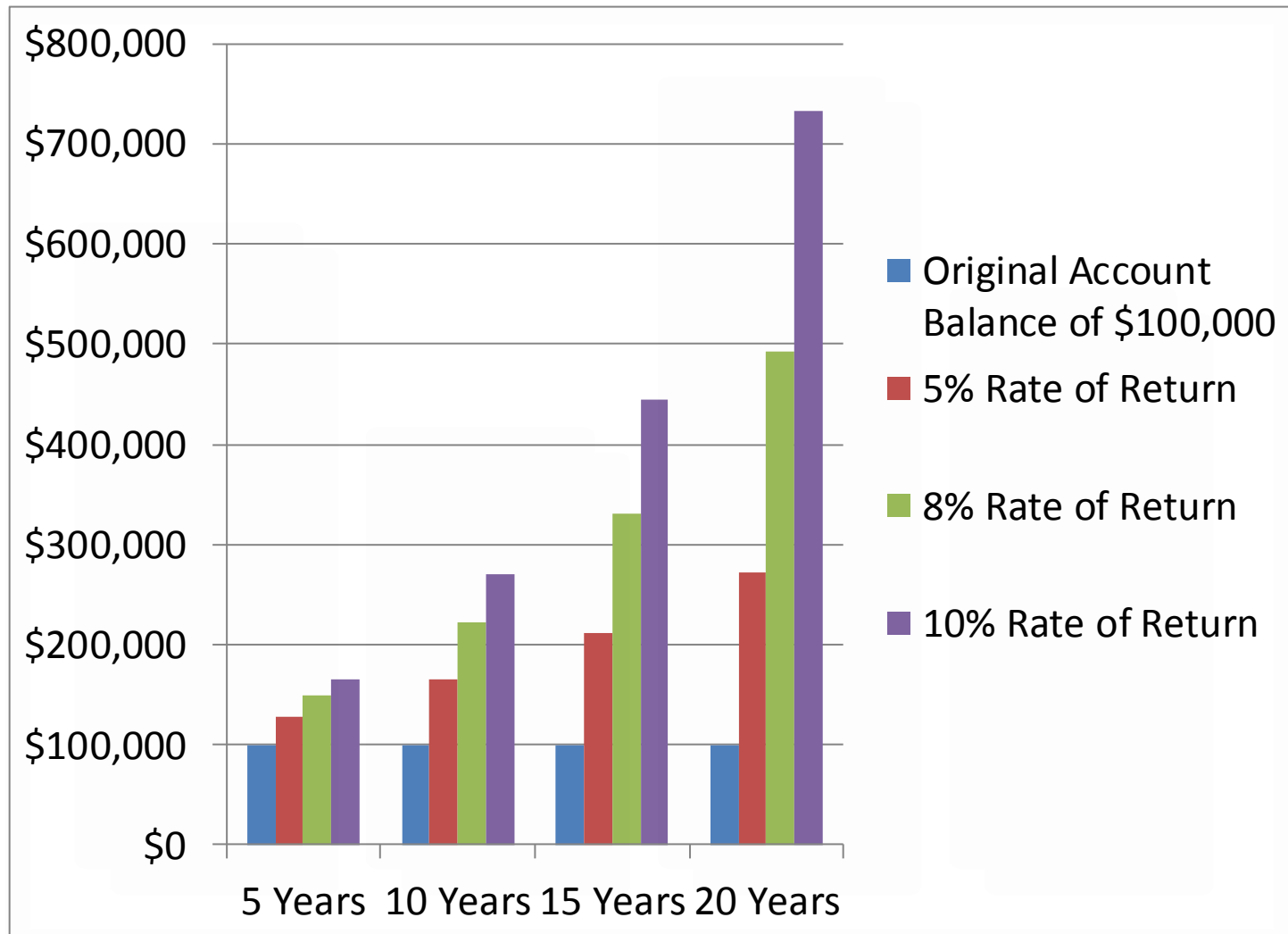
20 years - \$250 per month



* The above calculations assume an interest rate of 5%



Compounding (page 20)



Tax-Deferred Investments

(pages 20-21)

- ❑ Educators have a unique tax-deferred savings plan similar to 401K's and IRA's
- ❑ 403(b)'s, or **tax-sheltered annuities** as they are commonly referred to, give you the ability to set aside a considerable amount of money each year from your salary for future use in retirement
- ❑ Contributions are not reportable as income on federal or NYS tax returns
- ❑ Savings accrue on a tax-deferred basis until distributions (withdrawals) are made in retirement



Tax-Sheltered Annuity 403(b) Contributions



- ❑ You can contribute up to the limits allowed by the IRS for each calendar year, and these employee contributions are known as **“elective deferrals”**
- ❑ These elective deferrals are limited per calendar year:

2020

\$19,500

- This amount can go up in increments of \$500 depending on the cost-of-living



Tax-Sheltered Annuity 403(b) Contributions

- ❑ There is a catch-up provision for those who reach the year of their 50th birthday



- At age 50 and beyond (while still employed), you can contribute the amount below in addition to regular contributions

2020 \$6,500

- You can also make contributions under the 15-year rule if you are eligible...



Tax-Sheltered Annuity 403(b) Contributions

- ❑ In addition to the regular contribution limits, you may also be eligible to make additional contributions under a “Years-of-Service” catch-up provision:
 - This provision applies to those whose average 403(b) contribution each year has been under \$5,000
 - You can contribute up to \$3,000 more per year
 - The maximum total elective deferral under these provisions is \$15,000
 - You must have 15 years of service with your current employer to qualify



Tax-Sheltered Annuity 403(b) Contributions



- ❑ “Non-Elective” Contributions
Employer pays directly to 403(b)
- ❑ TOTAL Annual Deferrals
(elective and non-elective)
cannot exceed:

2020 - \$57,000



New York State Deferred Compensation Plan – 457*

Contributions

- ❑ Standard Deferral
 - 2020 - \$19,500
- ❑ Age 50+ Catch-up
 - 2020 - \$6,500 (total \$26,000)
- ❑ Special 457 Catch-up
 - 2020 – Up to \$39,000
 - (Participants who have contributed less than the maximum limit in previous years may contribute up to double the standard deferral in the three years prior to elected normal retirement age)

Withdrawals

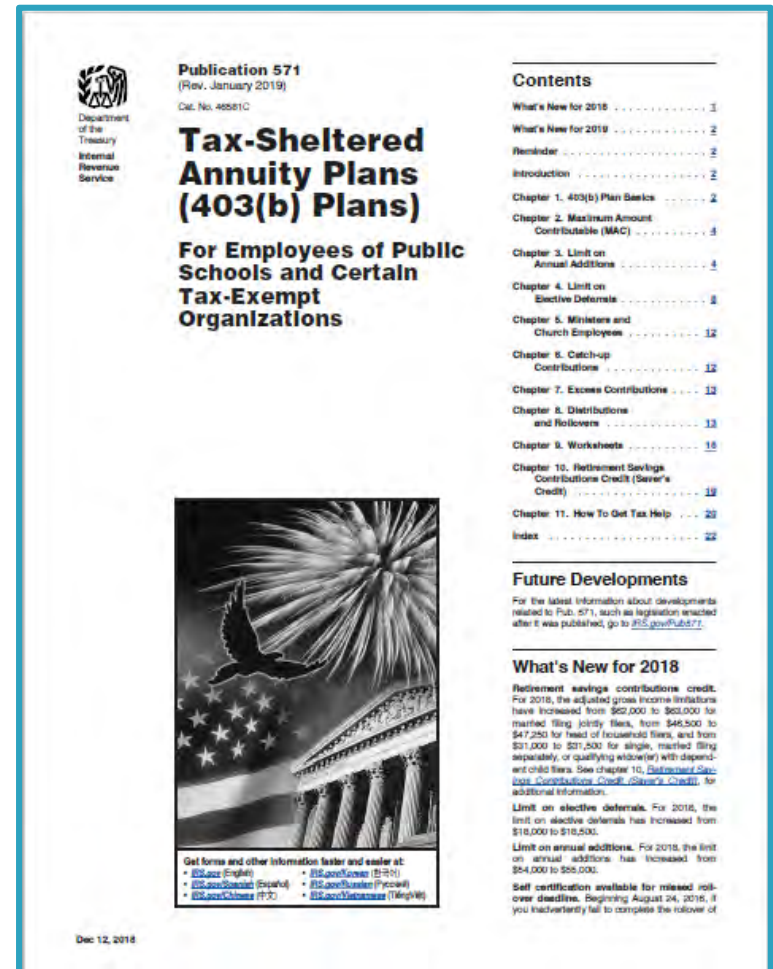
- ❑ Penalty-free at any age if you have left your employer
- ❑ RMD's required after age 72½
- ❑ Always federally taxable
- ❑ NYS exemption applies after age 59½

*Not available through all employers



Publication 571

- ❑ This publication can be downloaded from the IRS' website (**irs.gov**)
- ❑ It explains many of the rules governing 403(b) contributions
- ❑ Worksheets in this publication can be used to determine the maximum amount that can be contributed into a 403(b) plan each year



Tax-Sheltered Annuities

403(b) Withdrawals

Timing of withdrawals can make a difference!



Gross Income = \$55,000

Car Cost = \$40,000

I decide to buy the car and withdraw \$40,000 from my 403(b) account.



Impulse Solution: JUST DO IT!

MONTH/YEAR	TSA WITHDRAWAL
December 2020	\$40,000

2020 Taxable Income

\$55,000

+\$40,000

\$95,000



Tax Implications

Single (2020)

\$0-\$13,675	10%
\$13,675-\$43,925	12%
\$43,925-\$89,325	22%
\$89,325-\$167,100	24%
\$167,100-\$211,150	32%
\$211,150-\$522,200	35%
\$522,200 and up	37%

► **Pushes earnings into 24% tax bracket**

► **NYS Tax on \$20,000 of the total withdrawal**



Carefully Timed Solution

MONTH/YEAR	TSA WITHDRAWAL
December 2020	\$20,000
January 2021	\$20,000

2020 Taxable Income
\$55,000
+\$20,000
\$75,000

2021 Taxable Income
\$55,000
+\$20,000
\$75,000

(Instead of \$95,000)



Tax Implications

Single (2020)

\$0-\$13,675	10%
\$13,675-\$43,925	12%
\$43,925-\$89,325	22%
\$89,325-\$167,100	24%
\$167,100-\$211,150	32%
\$211,150-\$522,200	35%
\$522,200 and up	37%

▶ **Taxable Income of \$75,000 does not push me into higher tax bracket**

▶ **NO NYS TAX on withdrawal**



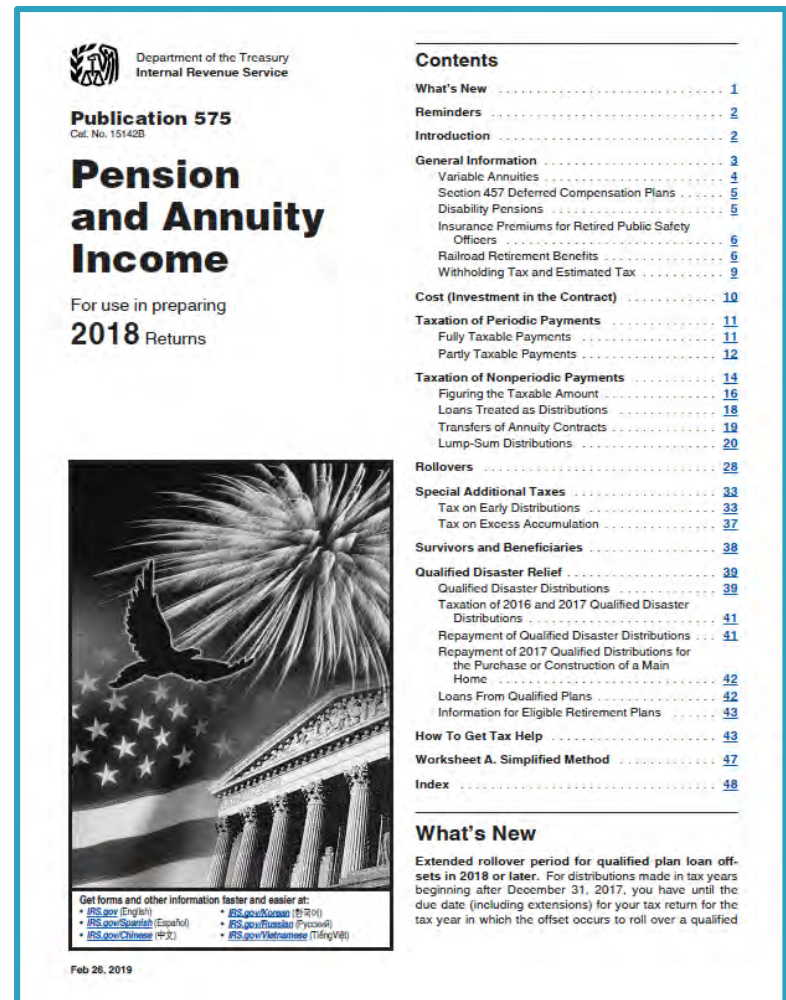
By Timing Withdrawals, You Can...

- ❑ Avoid a higher Federal Tax Bracket
- ❑ Better take advantage of the NYS allowed yearly exclusions
- ❑ SAVE MONEY ON TAXES
- ❑ Consult with your financial advisor and accountant before taking distributions



Publication 575

- ❑ This publication can be also downloaded from the IRS' website (**irs.gov**)
- ❑ It explains many of the rules governing withdrawals from pension and annuities like 403(b)'s



Tax-Sheltered Annuities

403(b) Withdrawals

❑ Once retired, you may decide to:

- Roll over your contributions to an IRA or other tax-deferred savings plan
 - Transfer your savings to a different company that may manage and invest your 403(b) contributions in a less expensive and more profitable way
- Be careful of transfer penalties if your original contributions were not in the plan for a certain period of time



Tax-Sheltered Annuities

403(b) Withdrawals



- ❑ If you are still working, you may take money out of your 403(b) without penalty starting at 59½
- ❑ Prior to this, you may make penalty-free withdrawals starting in the year you retire, but only if you retire in the year of your 55th birthday or thereafter
- ❑ No withdrawals **are required**, however, until the latter of these two dates:
 - April 1 of the year following the year you are 72½
 - Retirement beyond age 72½



Factors for Determining Required Minimum Distribution (RMD - page 21)



<u>Age</u>	<u>Factor</u>	<u>Age</u>	<u>Factor</u>
72	25.6	78	20.3
73	24.7	79	19.5
74	23.8	80	18.7
75	22.9	90	11.4
76	22.0	100	6.3
77	21.2	115	1.9



RMD

First year example

- ❑ If account balance was \$50,000 at age 72, the minimum withdrawal by the end of that year would be:

- ❑
$$\frac{\$50,000}{25.6} = \$1,953$$

This is the amount of money you would have to include in your taxable income in a given tax year

- ❑ The next year, the RMD withdrawal would be the account balance divided by 24.7
- ❑ 50% penalty for failure to take RMD



RMD – 18 year example

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
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	\$ 36,959	\$ 2,910
89	12.0	\$ 35,410	\$ 2,951

Minimum Distributions
over 18 years

Starting account
balance: \$50,000

After 18 years, balance
is still **\$35,410**

(Assumed rate of return: 4%)



Comparing Income and Expenses



Monthly Income (page 24)

Current	vs.	Retirement
\$5,665	Salary	\$0
\$0	Pension	\$3,200
\$0	Social Security or Employment	\$1,200
\$335	Investments	\$400
\$6,000	Gross Income	\$4,800



Monthly Expenses (page 25)

Current	Expenses	Retirement
\$1,150	Mortgage & property taxes	\$1,150
\$400	Utilities, phone, cable, internet	\$400
\$400	Food	\$400
\$1,600	Taxes (Federal, State & FICA)	\$460
\$200	Insurance: Home, auto, life, disability	\$150
\$400	Auto: loan, fuel, maintenance, registration	\$200
\$100	Household repairs/maintenance	\$100
\$500	Savings: personal, TSA, college, FSA	\$0
\$80	Clothing: purchase, cleaning	\$40
\$50	Medical: insurance premiums, prescriptions, copays	\$200
\$125	Travel, gifts, restaurants, hobbies, entertainment	\$250
\$100	Educational: tuition, room & board, fees, books	\$0
\$100	Professional Fees: attorney, accountant, etc.	\$100
\$160	Charitable/religious contributions	\$160
\$50	Other deductions	\$0
\$5,415	Total Expenses	\$3,310



Working for Nothing...or Less

Example: Tier 4; 30 years; age 62

Financials	Work	Retirement
Income	\$100,000	\$60,000
- TSA Contribution	- \$10,000	
- SS Tax	- \$7,650	
- Federal Tax	- \$15,000	
- NYS Tax	- \$5,000	
Subtotal	\$62,350	
SS Benefit	NA	
- Fed tax on SS	NA	
Bottom Line	\$62,350	



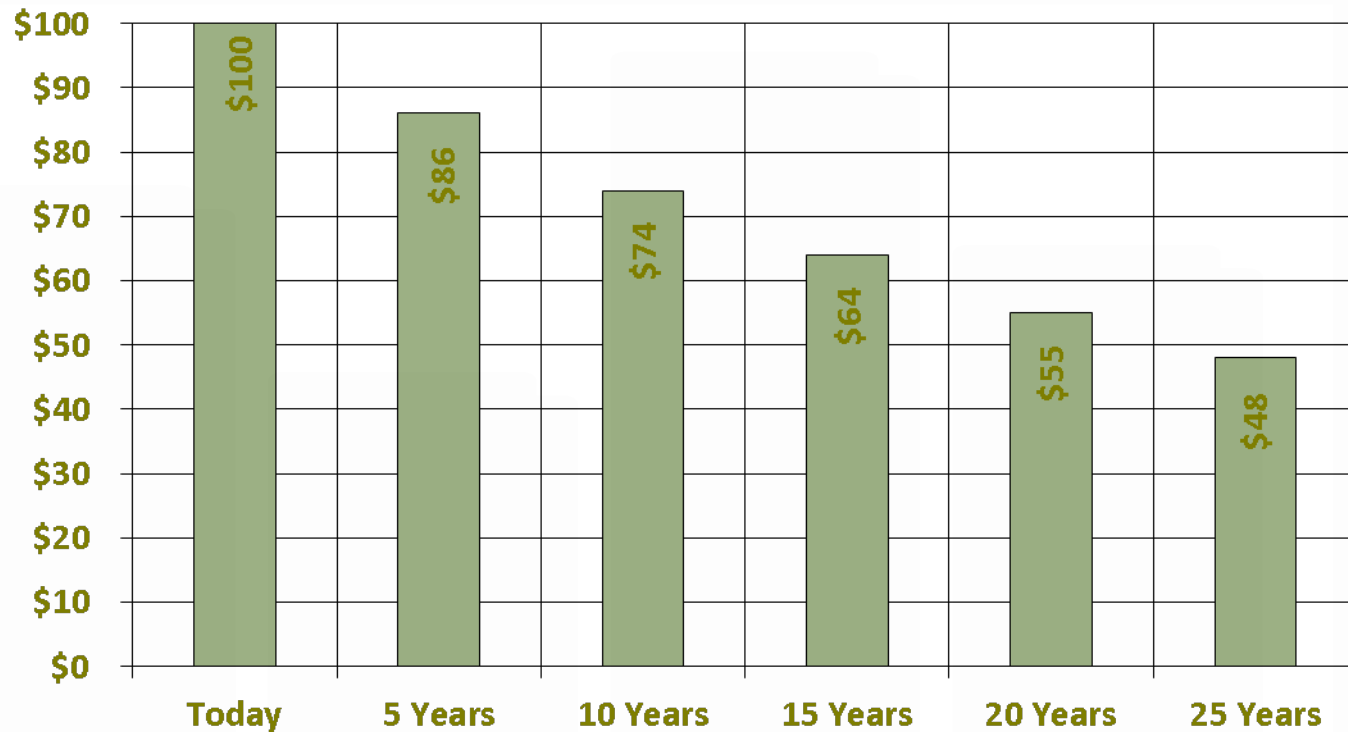
Working for Nothing...or Less

Example: Tier 4; 30 years; age 62

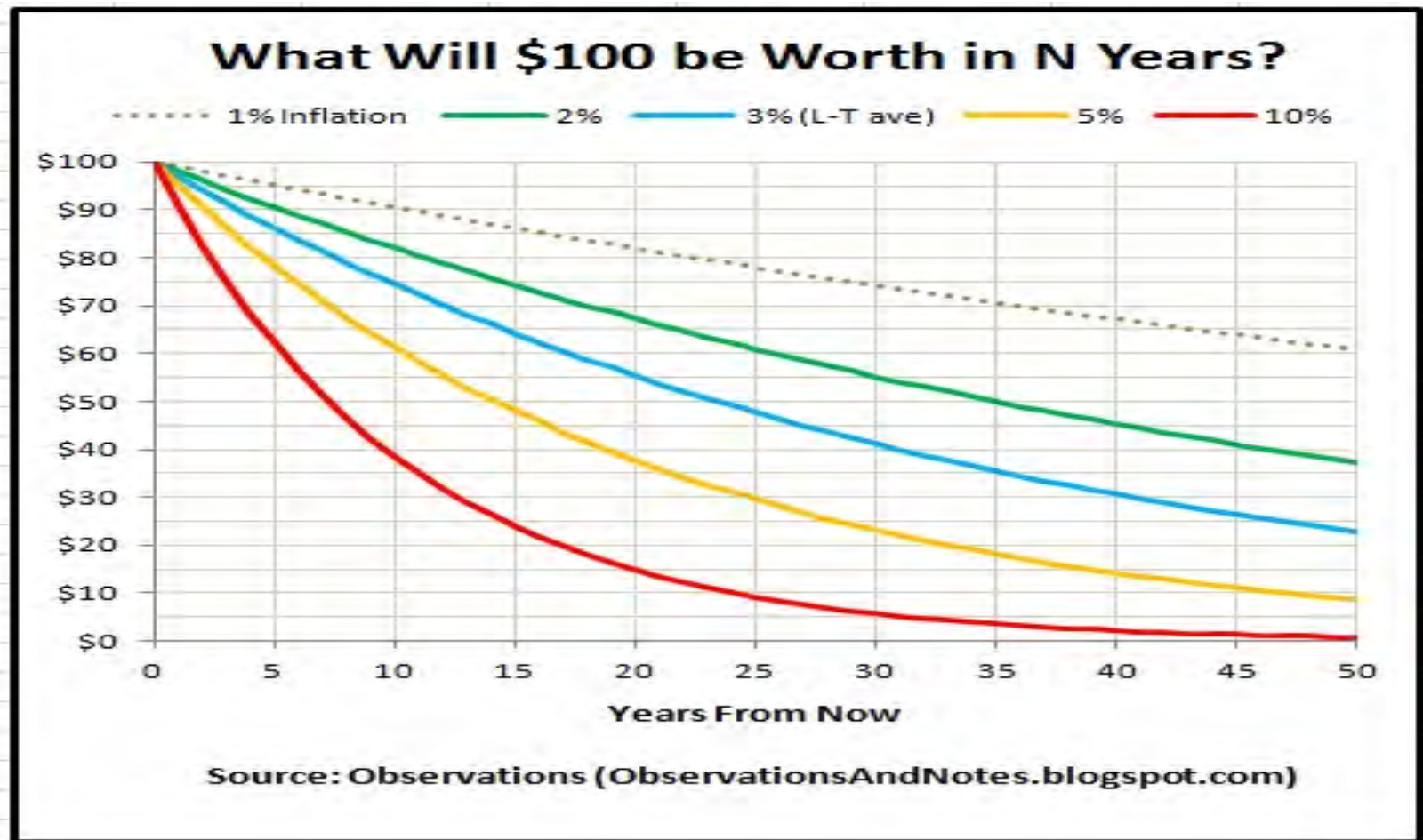
Financials	Work	Retirement
Income	\$100,000	\$60,000
- TSA Contribution	- \$10,000	N/A
- SS Tax	- \$7,650	N/A
- Federal Tax	- \$15,000	- \$8,316
- NYS Tax	- \$5,000	\$0
Subtotal	\$61,550	\$51,684
SS Benefit	N/A	\$19,200
- Fed tax on SS	N/A	- \$4,080
Bottom Line	\$62,350	\$66,804



Future Value of \$100 With 3% Inflation (page 26)



Inflation - What is Your Guess?



Financial Planning Websites (page 23)



- ❖ **mymoney.gov**
- ❖ National Endowment for
Financial Education
nefe.org
- ❖ **choosetosave.org**



Working with Financial Planners (page 27)

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



Working with Financial Planners

(pages 27-28)

❖ How Financial Planners Charge:

- ❖ **Fee Only** - Fixed, flat, hourly, percentage or performance-based fees
- ❖ **Commission Only** - Commission on financial products that you purchase
- ❖ **Combination Fee/Commission** - Fees on hourly, project, or percentage basis PLUS commissions
- ❖ **Salary** - Salary and bonuses paid by financial services firm



Tips on Choosing a Financial Planner

(page 28)

- ❖ Know what you want
- ❖ Be prepared
- ❖ Talk to others
- ❖ Look for competence
- ❖ Interview more than one
- ❖ Check background
- ❖ Know what to expect
- ❖ Get it in writing
- ❖ Review regularly

