

Chapter 11

Building a Secure Retirement

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<http://www.nr.cc.va/fin107>

What does it mean to be vested?

To be vested means you
have worked long enough
at a job to qualify for
pension benefits

How long does it take to be vested?

Some plans require three years of service before full vesting takes place



Can vesting take place in stages?

Yes!



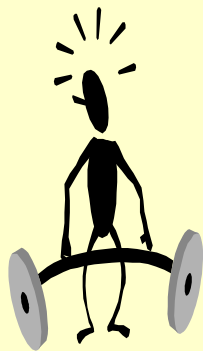
For example, you can become 20% vested after one year and every year after until fully vested

What does it mean to be partially vested?

For example, if you are 40% vested, you will receive 40% of the benefits



What is the maximum time allowed to be vested?



7 years

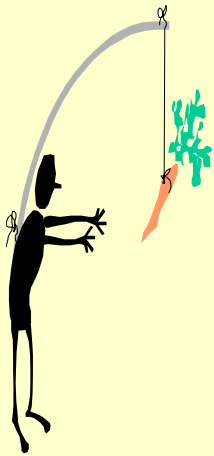


What happens if my company took money out of my retirement fund and then went out of business?

You will receive partial or no benefits regardless of being fully vested

What is a defined benefit pension plan?

Bases benefits on
income and
years of service



What is a defined contribution pension plan?

Benefits are determined by your contribution and to the success of investments in the plan

**My retirement benefits
are less than I expected,
what can I do?**

National Center for
Retirement Benefits

(800) 666-1000

<http://www2.ncrb.com/ncrb>

Will the NCRB cost me money?

50% of any additional
benefits they can
win for you



Where else can I receive help?

American Association
of Retired Persons

(800) 424-3410

<http://www.aarp.org>

Where else can I get help?

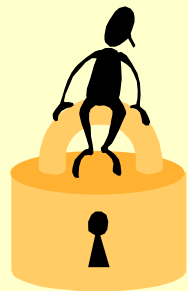
Pension Rights Center

(202) 296-3776

<http://www.spry.org>

Will the PRC cost me money?

Typically you will be
charged expenses



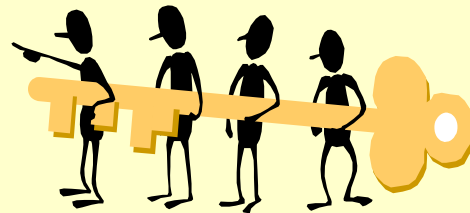
and 1/3 of the money
they secure for you

How much money will I need to retire?

Depends on your
indebtedness, health,
property taxes,
mortgage or rent, cost
of living, and inflation

How sound is social security?

At the turn of the century there are only 3 payers per retiree



How much do I pay in SS taxes?

On your W-2 look for
FICA which stands
for Federal Insurance
Contribution Act

What percent do I pay into SS?

7.65% for wage

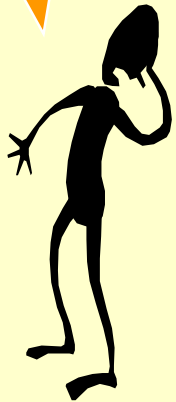
earners and **15.3%**



for the self employed

Does everyone benefit from SS?

No!



You must earn a minimum of 40 credits to qualify for SS benefits

How do I receive credits?

With every \$570 earned
you will receive one
credit with a maximum
of 4 credits per year

**As a retired person
my spouse died, how
much SS do I receive?**

The larger of your
benefits or your spouses

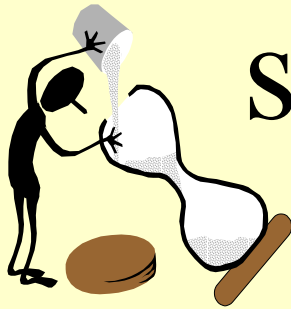
What happens if I divorce and remarry?

Providing the first marriage lasted at least 10 years, the same rule applies



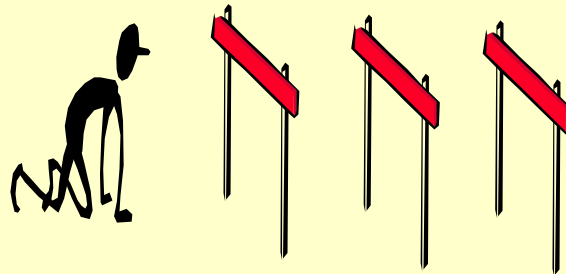
I am disabled, when do I qualify for benefits?

Your benefits can
start at the age of 50



At what age can I start receiving benefits?

62



What happens if I retire before age 65?

Your benefits are reduced five-ninths of one percent for each month you are retired before age 65, up to a maximum of 20 percent

Where do I get information about my SS benefits?

(800) 772-1213

<http://www.ssa.gov/SSAHome.html>

How do I compute my own SS benefit?

<http://www.ssa.gov/OACT/ANYPIA/anypia.html>

How much do I receive with a defined benefit plan?

Typical formula

yrs x ave. salary x % = benefit

What is a funded pension plan?

Employer makes



annual payments to a trustee and the trustee invests the funds

What is an unfunded pension plan?

Retirement expenses

are taken from
current earnings



**What is an example
of an unfunded
pension plan?**

Social Security



What is a defined contribution plan?

You are required to contribute a certain percentage of your pay into it

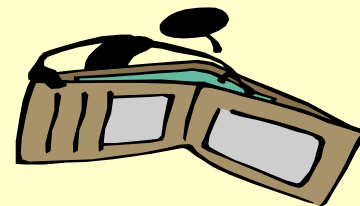
What is a contributory pension plan?

You are allowed to make supplemental contributions



What is a non-contributory pension plan?

The employer makes all
of the contributions



What are the most popular forms of defined contribution plans?

401(k) and 403(b)



What is the difference between the two plans?

401(k) is for the private sector and **403(b)** is for the public sector

What is a portable pension plan?

A plan that allows you to take your vested pension accounts with you whenever you change jobs

What happens if take control of the money when I change jobs?

Your previous employer is required to take 20% out and pay it to the federal government

**Will I have to pay the
10% penalty?**

Yes!



If you are under the
age of $59\frac{1}{2}$

Can I get my money back?

Yes



If you deposit the full amount in another plan within 6 months

How can I avoid paying taxes and penalties?

When you leave a job rollover the money into another plan without taking possession of it

What is a stock ownership plan?

The corporation invests retirement funds into the stock of the company

What is a profit sharing plan?

Basis the level of
contributions on the
profits of the company



**Are there tax
deferred plans for
individuals?**

Yes!



**Individual
Retirement Accounts
(IRAs)**

What is an IRA?

A long-term investment account you establish with a financial institution that permits tax-free accumulation of its assets

Can anyone contribute to an IRA?

Not if your income is
more than a certain
amount and you are
covered by an employer
pension plan

**If I do not qualify, should
I still join an IRA?**

Yes!



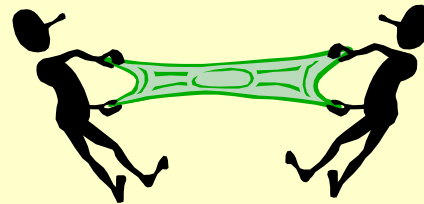
Your money can
still compound tax free

Is there a limit to my contribution?

Not if you pay taxes on
the money before you
put it into an IRA

Are there income limitations?

Not if you pay taxes on the money before you join



Who can act as a trustee for an IRA?

- Bank
- Credit Union
- Insurance company
- Brokerage house
- Mutual fund

**Is there an age when I
have to start withdrawing
my IRA money?**

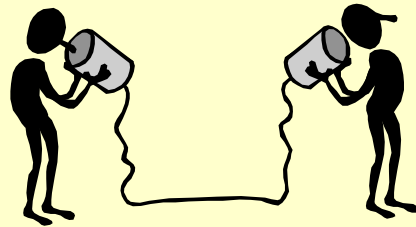
At $70\frac{1}{2}$ you must
begin withdrawing a
specified minimum
amount each year

Is there more than money that can go into an IRA?

Almost anything except
art, antiques, stamps
and other collectibles

Are all advertised IRAs legitimate?

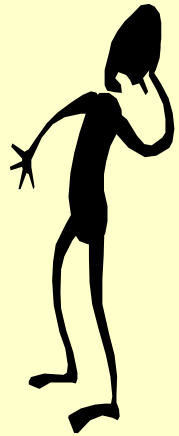
You can lose all of your
money with a phony IRA



Can a self employed person contribute to an IRA?

No

But he/she can contribute to a SEP/IRA or a Keogh Plan



If I do not have any employees can I invest in a SEP/IRA or a Keogh Plan?

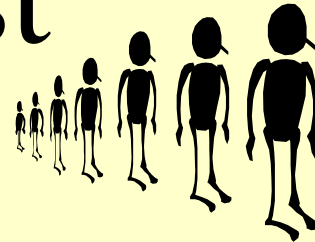


YES



What's the story if I have employees?

Then you must
enroll your
employees as well



**If I have a full time job
and a part time
business, can I invest in
a SEP or Keogh?**

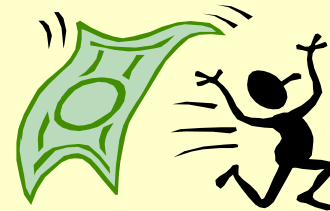
You have the same
opportunity as any full
time business owner

Who is the trustee of a SEP/IRA or Keogh Plan?

Either yourself or the
same as with an IRA

Are these plans similar to IRAs?

Many of the rules and
restrictions are the same



Can an annuity be used as a personal pension plan?

A Tax-sheltered Annuity is an investment on which you receive fixed payments for a lifetime or specified years

How do I pay into an annuity?

Either as one lump
sum or monthly



What is the advantage to an annuity?

If you live a long time and receive payments for life, you get back a lot more than you put in

What is the disadvantage to an annuity?

You can die shortly after you begin to withdraw and your heirs do not get benefit from your savings

What is a straight life annuity?

You receive set payments
monthly for life




What is a variable annuity?

You are paid in
accordance to how well
your investments do

What is a single life annuity?

Annuities that only

 pay one individual

What is a joint survivor annuity?

An annuity that will
continue to pay after
the death of one of
the recipients

How are annuities like savings bonds?

You must pay taxes on the income when you make it but do not have to pay taxes on the return

What should I look out for in an annuity?

- Back-end loads
- Front-end loads
- Early withdrawal penalties
- Fees and commissions



Are annuities protected by the government?

If the company goes
out of business or
becomes insolvent,
you lose your money

How can I research an annuity company?

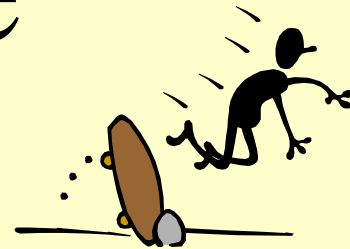
- Weiss Research, Inc.
- Standard & Poors
- Moody's Investors Service
- A.M. Best Company

What is a reverse mortgage?

Allows you to use the
equity in your home as
collateral for a loan

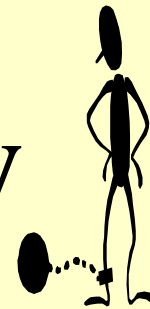
When must the loan be repaid?

When you voluntarily move out or die



Do I pay interest on the money I receive?

A reverse mortgage is a loan so you must pay interest on the money



Does a reverse mortgage effect my social security?

No because it is a loan and not income



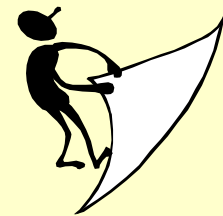
**Do I have to continue
paying insurance and
house taxes?**



Yes



**What are my
three options?**



- The modified tenure option combines a monthly payment with a line of credit
- A line of credit provides a maximum amount of cash
- The tenure option gives you equal monthly payments if the house is your principle residence

Who qualifies for a reverse mortgage?

- You and spouse must be 62 years or older
- House must be paid for or nearly so

**Where can I find
more information on
reverse mortgages?**



AARP

www.aarp.org/money/reverse_mortgage_fact_sheet.html

Household Senior Services

1-800-414-3837

Fannie Mae

1-800-732-6643

www.fanniemae.com

What is the National Association of Personal Financial Advisors?

NAPFA is the largest professional association of comprehensive, FEE-ONLY® financial planners in the U.S.

Where can I contact NAPFA?

(1-888) FEE-ONLY

e-mail: info@napfa.org

www.napfa.org

Where else can I find help ?

Institute of Personal
Financial Advisors

1-800 282-7526

www.neam.com/education.htm

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