The Metro

KANSAS CITY AREA TRANSPORTATION AUTHORITY

"Catching the Bus to Retirement"

Developing Your Retirement Plan:

Income and Distribution Planning

Clifford W. Shinski
Benefit Trust Company

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FROM WORK TO RETIREMENT

- **LONGIVITY RISKS**
  - Life Expectancy has increased –
  - Retirement assets must last longer – 20+ years?
- **INVESTMENT RISKS – (IN ACCOUNTS THAT YOU MANAGE)**
  - **Asset allocation** is the most important issue (*produces 90% of the return*)
    - Asset allocation is the amount invested in stocks, bonds, or cash
    - Don't be too conservative or too aggressive
- **SPENDING HABITS *****
  - **Avoid the "*urge to splurge*"**
    - *Manufacturers/Merchants* – lots of "stuff" to sell
    - *Creditors* – provide easy credit to buy the "stuff"
    - *Media/Advertisers* – help the other two sell to you

FROM WORK TO RETIREMENT

- **FINANCIAL TRANSITION**
  - Wages from your job have provided the primary source or “stream” of income during your working years
  - That stream of income must be replaced when you retire
  - Where will it come from?
  - Will it be a trickle, a stream, or a river?

INCOME STREAMS

- **SOURCES OF <u>YOUR</u> INCOME STREAM**
  - KCATA Retirement Plan
  - KCATA 457 Plan (If you are a participant)
  - Other sources may include:
    - Social Security
    - A prior employers qualified retirement plan
    - One or more IRAs – Traditional, Rollover, or Roth
    - Non tax deferred savings/other investments
    - Your Home Equity
    - Cash Value of Insurance
    - A part time job or new career

INCOME STREAMS

- <u>**SOCIAL SECURITY BENEFITS**</u>
  - ***Understand how Social Security works!!!! – Contact Them!***
  - Each worker receives a report each year from the Social Security Administration showing the estimated benefit at retirement
  - The amount you will receive depends on several factors:
    - 35 Years of highest earnings – May include years with zero comp
    - *The age you apply for benefits*
    - Benefits are indexed to inflation – They increase periodically
  - Taxability: Some portion of your benefit may be taxable
    - For many beneficiaries – benefits remain totally tax free
    - For some beneficiaries – a portion of social security benefits may be taxed depending upon your adjusted gross income. The amount included for federal income tax calculations may be up to 85% of the benefit received - Worksheet is with federal tax forms

INCOME STREAMS

- <u>SOCIAL SECURITY BENEFITS</u>
  - **Your Benefit will be reduced for *early retirement!***
    - Example: For someone born in 1943 – Normal retirement age is 66
      - **If that person retired at age 62 and began receiving benefits, their full benefit is reduced by 25% (A $1,000 benefit becomes $750)**

  If you do not start your benefits until after your normal retirement age, your benefit will be increased by 8% each year
    - Born in 1943 – Receive 108% of full benefit if you delay starting benefits until age 67 – 116% at age 68
  - Limitation on earnings – If you exceed the earnings test in a year ($12,480 earned income for 2006) your benefit will be reduced $1 for every $2 you earn above the income limit

INCOME STREAMS

- **RETIREMENT PLANS**
  - **Withdrawal Options-**
  - Apply to the Pension Committee for befits at least 60 days prior to the month your benefit is to start
  - When your retire you must choose the form of the option that you will receive. Making the right choice for *your* circumstances is very important for your financial future
    - **You will have two general forms of payment to chose from:**
      - **A Lump Sum Distribution or**
      - **A form of Annuity Payment**

INCOME STREAMS

- **RETIREMENT PLANS** **Example**
  - **KCATA Union Employees -- Withdrawal Options**
    - **Optional Forms Payable at Retirement Commencement Date:**

	Payable to Participant	Payable to Surviving Spouse
LUMP SUM	$132,000	
LIFE ONLY	$1,236	$0
TEN-YEAR CERTAIN-AND-LIFE	$1,210	$1,210
50% JOINT & SURVIVOR WITH POP- UP	$1,170	$585
75% JOINT & SURVIVOR WITH POP- UP	$1,140	$855
100% JOINT & SURVIVOR WITH POP- UP	$1,110	$1,110

INCOME STREAMS

- **RETIREMENT PLANS**
  - **<u>Lump Sum Option</u>**
    - **A Lump Sum is a single payment from the plan to you**
    - **Lump Sum taxation--**
      - **If you have the payment made to you the entire amount will all be taxable to you as ordinary income in the year it is paid**
      - **If you elect a lump sum payment and have it paid directly to an Individual Retirement Account (IRA) the transfer is not taxable to you until you withdraw part or all of if from the IRA**
        - **Note: Some participants may have made <u>after tax contributions</u> will not be taxed when distributed**
  - **Beware of the *"LUMP SUM ILLUSION"***

INCOME STREAMS

- **RETIREMENT PLANS**
  - **Annuity Payment Options – Three Basic Forms**
    - You will have several choices as to how the payments are made:
      - Life Only – Payments **stop** upon your death
      - Ten-Year Certain-and-life: – Payments for your life, but continue for at least 10 years from the beginning date, even if you die. (you must name a beneficiary)
      - 50% Joint & Survivor with “pop-up”: – You receive a smaller monthly amount, and your beneficiary (normally your spouse) will receive one half of the amount you receive for his or her life after your death

INCOME STREAMS

- **RETIREMENT PLANS**
  - **Annuity Payment Options**
    - You will have several choices as to how the payments are made:
      - 75% Joint & Survivor with pop-up: – Works the same as the 50% J & S except your spouse will receive 75% of the amount you receive for his or her life after your death
      - 100% Joint & Survivor with pop-up: – Same as above, except that your spouse received the same amount that you are receiving after your death

INCOME STREAMS

- **RETIREMENT PLANS**
  - Annuity Payment Options
    - **What is a "Pop Up Option"**
      - **The "Pop Up Option" applies only to the Union Employees Pension Plan**
      - **If the beneficiary you have named dies before you do, your monthly benefit will "Pop Up" to the benefit you would have received if you had elected the "Life Only" distribution option for the remainder of your life**

INCOME STREAMS

- **RETIREMENT PLANS**
  - Annotation-free: **Annuity Payment Options** — **Example**
    - **"Pop Up Option" Example**
      - Joe retires at age 65. The monthly annuity amounts he can receive are:

	Joe	Spouse
Life Only	**$1,765**	**N/A**
Ten Year Certain and Life	**$1,683**	**$1,683**
50% Joint & Survivor with Pop Up	**$1,464**	**$732**

      - Joe elects the 50% Joint & Survivor Option
        - Joe's spouse dies unexpectedly 4 years after his benefits begin
      - Joe's benefit will be increased to **$1,765 monthly** for the remainder of his life

INCOME STREAMS

- **RETIREMENT PLANS** [Example]

  - KCATA Union Employees -- Withdrawal Options
    - **Optional Forms Payable at Retirement Commencement Date:**

	Payable to Participant	Payable to Surviving Spouse
LUMP SUM	$132,000	
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Do these choices make more sense now?

INCOME STREAMS

- **457 (b) Deferred Compensation Plan**
  - The amount you will receive depends upon how much you contribute and how much it earns
  - Flexible withdrawal options at retirement
    - Monthly, quarterly, annually - over your determined life expectancy
    - A specified amount monthly or annually until the account is exhausted
    - Rollover to an IRA
    - A lump sum payment
    - Purchase of a lifetime annuity
  - The amount you withdraw each year will be taxable to you as income for that year
  - If you die after benefits payments have commenced, the balance of your account must be distributed at least as rapidly as under the method in effect at your death

INCOME STREAMS

- **Individual Retirement Accounts**
  - The amount you will receive depends upon how much you contribute and how much it earns
    - You can Rollover a lump sum payment from a qualified retirement plan to an IRA
  - Flexible withdrawal options at retirement
    - You select the amount that you want to receive - Monthly, quarterly, annually until the account is exhausted
    - You can take additional withdrawals as needed
  - The amount you withdraw each year will be taxable to you as income for that year
  - At your death your beneficiary will receive the balance of your account. *Beginning January 1, 2007 your beneficiary may rollover the account balance into their own IRA without paying <u>current</u> taxes (the law change benefits non spouse beneficiaries)*

INCOME STREAMS

- **Other Sources of Retirement Income**
  - Investments outside of qualified retirement plans
    - **Use these <u>first</u> so that tax deferred investments will continue to accumulate tax deferred**
  - Prior employers qualified retirement plans
    - You may want to roll over to an IRA to establish a reserve for emergency expenses
  - Your home equity
    - Reverse mortgages may provide a source of funding to remain in your home instead of more expensive assisted living
  - Cash value of insurance policies
  - A part time job – *Hopefully <u>only because you want to!</u>*

Resources and Reference Materials

- **"This is not Your Parents Retirement" – Patrick P. Astre**
- **"Retire Worry Free" – Editors of Kiplinger's Personal Finance**
- **"Bulletproof Your Financial Future" – Bruce Lafavi**
- **Kiplinger's Retirement Planning (Fall 2006 $5.95 about anywhere)**

- **Internet Tools**
  - **Retirement Calculators, Asset Allocation Tools, & Information**
    - **benefittrust.com (Retirement calculators and articles)**
    - **moneycentral.msn.com/retire/home.asp**
    - **ebri.org (Employee Benefit Research Institute)**
    - **360financialliteracy.org (financial topics/retirement planning) AICPA**
    - **Ssa.gov (Social Security Administration)**

Note: There are many more sites with retirement information and calculators than can be listed here – search at your leisure for additional information

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Thank you for your time and interest in this presentation.

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