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Citi Education Series  
*on Family Economic Security*



## **Planning for Your Financial Future, Part I: What Women Need to Know about Pensions and Retirement Savings**

Amy Matsui, National Women's Law Center

Rebecca Davis, Pension Rights Center

Kathy Stokes, Women's Institute for a Secure Retirement (WISER)

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# Speakers for this Session



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# Poll question

Please tell us a little bit about yourself. Pick the answer that best describes you:

- Direct service provider (private or nonprofit)
- Advocate (state or federal)
- Government agency (federal, state or local)
- Employer or Union
- Interested Individual / Other



# Poll question

How are you currently saving for retirement?

- Employer pension plan or 401k (or 403b or SEP or SIMPLE).
- I will enroll in my employer's retirement plan.... soon.
- I have one or more IRAs but no employer plan.
- I will use money in my savings account for retirement.
- I haven't started saving ... YET.





# Poll Question

What is your biggest barrier to planning and saving for retirement?

- Not enough money to spare for savings
- Don't understand what to do
- No time to focus on it
- What's the point? I'll never retire
- Need to deal with other kinds of debt first



# Basic retiree needs



Income



Medical coverage and  
prescription drugs



Long-term care  
coverage



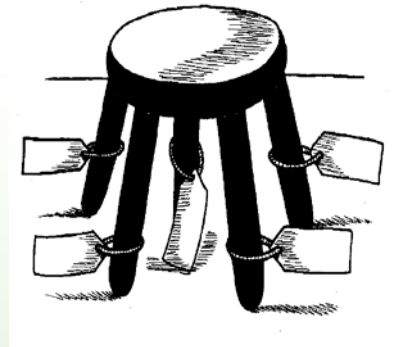
# Traditional sources of retirement income

5

## The ~~8~~-legged stool

- Social Security
- Pensions
- Savings/investments
- Earnings from work
- SSI (Supplemental Security Income)

The original 3





## Why women need more retirement income

- Live longer
  - More likely to have chronic illness and need long-term institutional care
  - More likely to be single and not remarry
- 1 out of 6 women living alone who are 65+ live below the poverty level*



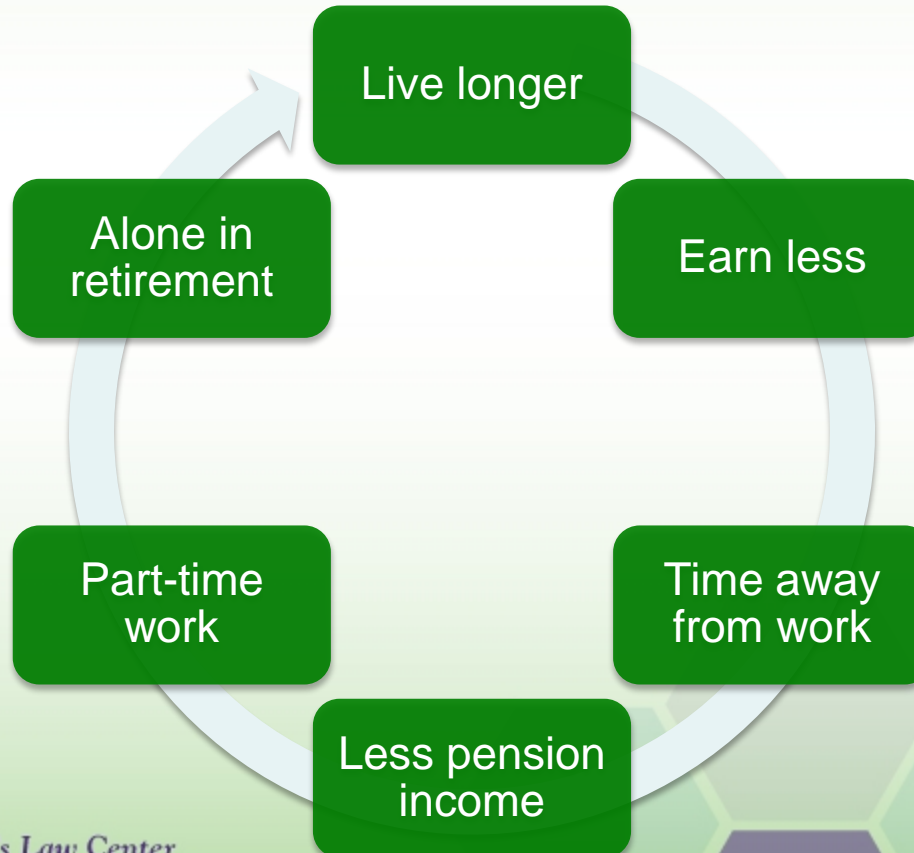


## Why women have less retirement income

- Majority of minimum wage earners
- 2x as likely to work part-time, with fewer or no benefits
- Primary family caregivers
- Hard to save when we earn **77** cents for every \$1 earned by a man



# Issues unique to women





Wherever you are in your working  
career....

You need to start planning for your  
future retirement.



# Planning for the Future

Today, we're going to give you information you need to make sure your retirement savings will get you through retirement.

- Basics of employer-based retirement savings plans and private retirement savings accounts
- General tips and strategies for preparing for retirement





# Rebecca Davis, Pension Rights Center



- Rebecca Davis is the Legal Director at the Pension Rights Center. She primarily provides technical assistance to attorneys at the U.S. Administration on Aging's Pension Counseling and Information Projects as well as providing direct assistance to individuals with pension matters. Rebecca also coordinates the Center's Women's Pension Project and participates in the Women's Pension Coalition, both of which are dedicated to advancing the pension and retirement savings interests of women both as homemakers and as workers.
- She is a graduate of the University of Colorado and the Catholic University of America School of Law.



# Retirement Savings Vehicles

- Employer provided
  - Traditional pensions (Defined benefit plans)
  - Individual account plans (401(k) plans)
- Individual savings
  - Individual Retirement Accounts (IRAs)



# Traditional Pensions

- Pays a specific monthly benefit for life.
- Benefit based on a formula.
  - Compensation based
  - Non-compensation based
  - Cash balance
- No investment risk to workers and workers don't have to make investment decisions



# Individual Account Plans

- Employees contribute their own money to an individual account; there is often an employer match
- Benefits are the accumulation of employee and employer contributions plus or minus:
  - gains, losses, earnings and expenses.
- Types of plans include 401(k)s, Employee Stock Ownership Plans (ESOPs), 403(b)s and Simplified Employee Pensions (SEP)





# Individual Retirement Account (IRA)

- Account set up by an individual with a financial service provider.
- Maximum contribution limit for 2012 is the lesser of:
  - \$5,000 plus a \$1,000 catch-up if over age 50
  - 100 percent of income.



# Traditional IRA

- Contributions are pre-tax dollars
- Assets grow tax free.
- Taxed on withdrawals only.
- There is a penalty for taking the money out before age 59½.
- Must begin taking money out by age 70½.
- Ability to deduct contributions depends on income and whether you and/or your spouse has an employer sponsored retirement plan.



# Roth IRA

- Contributions are after-tax dollars
- Withdrawals are not taxed
- You may make a withdrawal after having the account for at least 5 years and after age 59½
- No requirement to begin taking withdrawals
- Ability to contribute depends on income



# Additional information on IRAs

- Fact sheets on IRAs
  - Pension Rights Center:
    - <http://www.pensionrights.org/factsheet-topic-areas/individual-retirement-accounts>
  - IRS:
    - <http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-IRAs>





# Saver's Tax Credit

- Tax credit up to \$1,000 for making contributions to 401(k)s, IRAs, or other retirement savings accounts.
- Rewards low- and moderate-income workers who save for retirement.
- Depending on how much you make, the credit is 10 to 50 percent of each \$1 contributed.



# Getting started in employer sponsored plans

- Is your job covered by the plan?
- Are you eligible to participate in the plan?
  - The plan may have age and years of service requirements
  - 21 years of age
  - 1 year of service
- Automatic Enrollment
  - Employees are notified that they may opt out



# What are the rules?

- Summary Plan Description (SPD)
  - Booklet providing a clear explanation of the rules of the plan.
  - Provided to employees when they enroll in the plan.
  - The SPD explains eligibility requirements, how the benefit is earned and paid, and how to file a claim for benefits.



# Benefit statements

- Total benefits earned
- Vested accrued benefit, or the earliest date the benefit will be non-forfeitable
- An explanation if Social Security or other payments will be subtracted when the benefits are calculated.
- Remember, this is only an estimate.



# Benefit statements

- Must be provided upon written request
- 401(k) plans must provide benefit statements quarterly
- Defined benefit plans must provide benefit statement either,
  - Every three years, or
  - Notify all participants annually that a statement will be provided upon request.





# Other notices and disclosures

- Plans provide various notices and disclosures in addition to the SPD and benefit statements such as,
  - Fees paid in 401(k) plans
  - Notice of right to divest 401(k) account of employer stock
  - Annual funding notice
  - Funding based benefit restrictions
  - Right to a pre-retirement survivor annuity
- The Labor Department has a listing of most disclosures here: <http://www.dol.gov/ebsa/pdf/rdguide.pdf>



# While Working

- What if I need the money?
  - Generally you cannot take money out of a traditional plan while working.
  - In individual account plans a loan may be available or a hardship distribution in certain circumstances.
    - Check with your plan to determine available options
    - Pre-retirement withdrawals subject you to tax penalties, and taxation on withdrawn amounts.



# Hardship distributions

- If you can demonstrate a severe financial hardship you may be able to take a distribution without tax consequences.
  - College tuition for you or your dependents
  - A down payment on a primary residence
  - Non-reimbursed medical expenses
  - Preventing eviction or foreclosure from your home
- These are non-retirement purposes so please think long and hard before taking an early distribution.



# Leaving your job

- Vesting
  - A vested benefit is a benefit that cannot be forfeited even if you permanently stop working.
  - Returning to work after taking time off
    - Breaks in service can lead to forfeiture of benefits.
- Keep track of your plan
  - <http://www.pensionrights.org/publications/fact-sheet/tips-keeping-track-your-pension>
- IRA rollovers



# Individual account vesting

- Workers are always 100% vested in their own contributions
- Workers are either,
  - 100% vested in employer contributions after 3 years (cliff vesting), or
  - Partially vested after two years and becoming fully vested after six years (graded vesting)
    - After two years, 20% vested, three years, 40% vested and so on until fully vested.





# Traditional plan vesting

- Traditional plans
  - Workers are 100% vested after five years, or
  - Partially vested after three years and becoming fully vested after seven years.
    - After three years, 20% vested, four years, 40% vested and so on until fully vested.
- Cash balance plan benefits are 100% vested after three years



# Spousal issues

- Marriage and Divorce
  - Pensions are one of the biggest assets in a marriage.
  - Legal representation will ensure the pension is properly valued and divided through a Qualified Domestic Relations Order (QDRO).
- Pre-retirement survivor protection
- Loans
  - Only with spousal consent.



# For more information

- Pension Rights Center fact sheets:  
<http://www.pensionrights.org/get-facts>
- U.S. Department of Labor, Employee Benefits Security Administration: [www.dol.gov/ebsa](http://www.dol.gov/ebsa)
  - What you should know about your retirement plan:  
<http://www.dol.gov/ebsa/publications/wyskapr.html>
  - The division of pensions through Qualified Domestic Relations Orders (QDROs):  
<http://www.dol.gov/ebsa/publications/qdros.html>



# If you need help

- The U.S. Administration on Aging funds six pension counseling projects providing free legal assistance to individuals in need of help with pension problems.
  - For more about the program and contact information for the projects:
    - <http://www.pensionrights.org/counseling-projects>
- PensionHelp America is an interactive website connecting individuals with pension resources and service providers.
  - <http://www.pensionhelp.net/>





# Kathy Stokes, Women's Institute for a Secure Retirement



Kathy Stokes is a communication consultant and a nonresident senior fellow with WISER. She has a deep background in retirement income security issues. Kathy's work with WISER supports the organization's two-fold mission: to improve opportunities for women to secure retirement income, and to educate policymakers and the public about the inequities that disadvantage women in retirement.

She holds a bachelor's degree in Rhetoric and Communication from the University of Pittsburgh and a master's degree in American Government from the Johns Hopkins University.



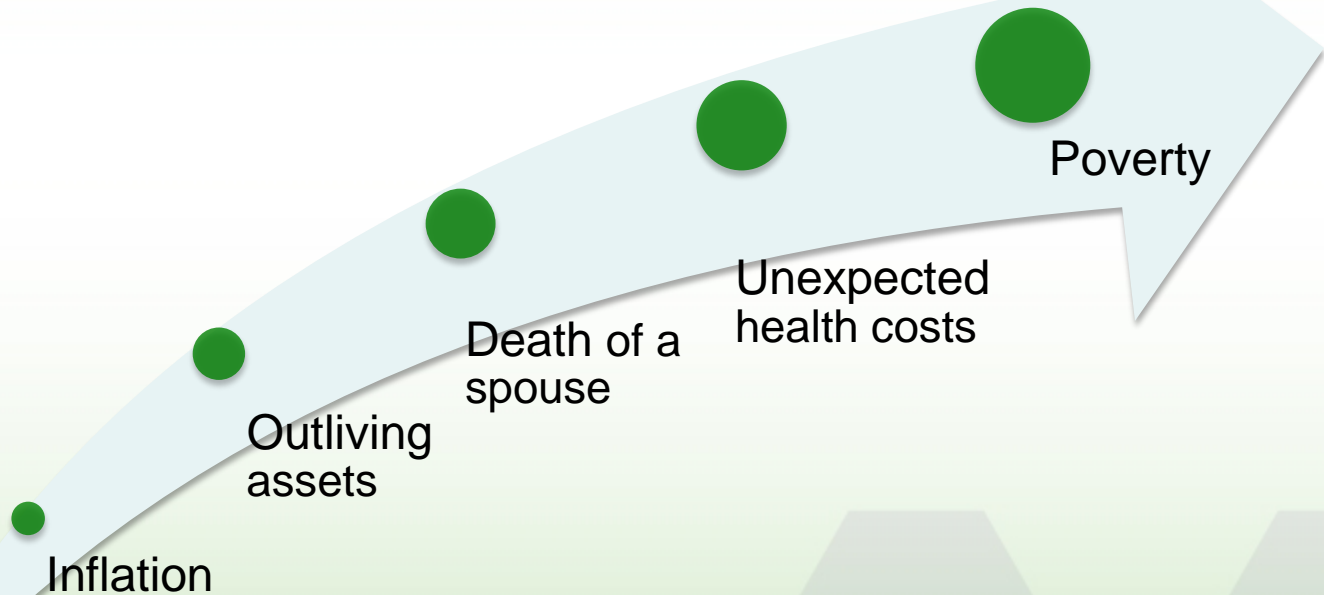


# What I'll cover

- Must-knows for a successful retirement
- Managing money in retirement
- Ways to increase income in retirement
- Financial to-dos for the decades



# Financial risks of longevity





# **MUST-KNOWS FOR A SUCCESSFUL RETIREMENT PLAN**

1. How long you have
2. How much you will need
3. Your comfort with investment risk



# #1. How long you have: your “time horizon”

- Short: 3 years or less
- Medium: 3-10 years
- Long: More than 10 years



# Types of investing based on your time horizon

SHORT	MEDIUM	LONG
<ul style="list-style-type: none"> <li>• Safety and liquidity</li> <li>• Can sell with little or no loss</li> </ul>	<ul style="list-style-type: none"> <li>• Modest growth</li> <li>• Move to liquid as goal nears</li> </ul>	<ul style="list-style-type: none"> <li>• You can afford more risk</li> </ul>
<ul style="list-style-type: none"> <li>• CDs</li> <li>• Treasury bills</li> <li>• Money market funds</li> </ul>	<ul style="list-style-type: none"> <li>• Stocks</li> <li>• Bonds</li> <li>• CDs</li> <li>• Treasury bills</li> </ul>	<ul style="list-style-type: none"> <li>• Subtract your age from 100 for stock target</li> </ul> <p>Example: Age 45 = 55% in stocks</p>





# How much will you need?

- 100% of pre-retirement income
- Social Security statement estimate
- Pension? Contact employer

Pre-retirement income	\$50,000/year
— Social Security	— \$16,000/year
— Pension	— \$0
What your savings needs to produce	<u>\$34,000/year</u>

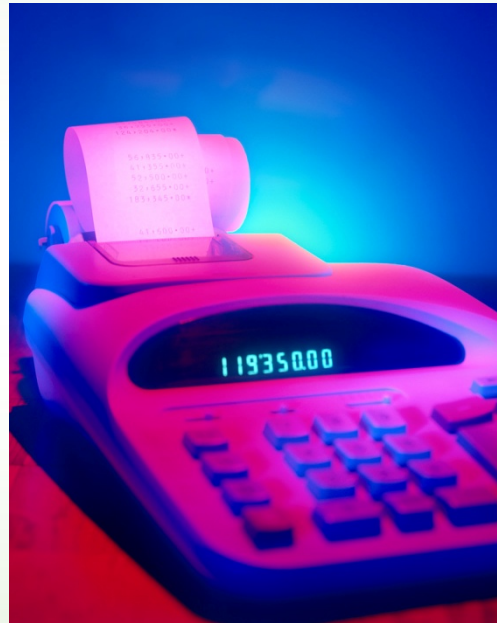


# How long will you need it?

- Consider family history, your health, and life expectancy tables
- Women who reach 65 live 20 more years on average
- Hedge against longevity risk



# Do the math



[www.aarp.org/money](http://www.aarp.org/money)  
search on “retirement calculator”



## #3: How much risk can you take?

- Depends on:
  - Your age
  - Your investment goal
  - Whether you can sleep at night



## Polling Question:

How do you feel about financial risk?

1. You are comfortable with taking some risk
2. You are comfortable taking significant risk
3. Your comfort comes from the mattress that holds your savings





# Why some risk is good for you

- For your money to make money over time, you need to take at least some risk
- If you don't, you may never meet your long-term financial goals
- Risk is something you can manage!



# How to spread risk

- Asset allocation
  - Spread your money across asset classes
    - Stocks, bonds, cash
- Diversification
  - Spread your money across multiple investments
    - Mutual funds vs. single stocks



# Mutual funds

You and other investors buy shares of an investment fund that contains many securities



# Pros and cons of mutual funds

- Advantages
  - Diversification
  - They are easy to track
- Disadvantages
  - There are thousands of them!
  - Select carefully because they still carry risk
  - Expenses aren't easy to see



# Mutual fund expenses

- Load – sales commission
- 12b-1 fee – marketing/commission fee
- Operating expenses





# Index funds

- Less expensive to investors
- Tracks a benchmark, like S&P 500
- Rise and fall with the market
- Generally beat actively managed funds



# Research before you invest

- Ask for a prospectus
  - Review fund's investment goals and risks
  - Look at the fund's track record
  - Compare fees and expense
    - Free calculator at [www.sec.gov/investor/tools.shtml](http://www.sec.gov/investor/tools.shtml)
  - Think about how it would affect your diversification



# Additional resources

- For more information on investing wisely, go to:
  - [www.finra.org/investors](http://www.finra.org/investors)
  - [www.sec.gov/investor](http://www.sec.gov/investor)
  - [www.wiserwomen.org](http://www.wiserwomen.org)



# Managing money in retirement: can you make it last?

- Withdraw systematically
- Rollover to an IRA and manage it yourself
- Consider immediate annuities



# Systematic withdrawals

- Keep it in the employer plan
- “4% rule”
  - 4% a year from tax-advantaged plan may last 30 years
  - Good rule to start with in planning, but recognize it may change





# Rollover and manage

- Rollover to an IRA – do not take the money and then put in an IRA
- Manage investment on your own or with help from an advisor
- Beware of distribution rules



# Consider immediate annuities

- A way to protect against outliving your money
- Guaranteed income for life
- Purchased with a lump sum of money



## How they work

- Buy from an insurance company
- Benefit amount depends on:
  - How much money you have to purchase one
  - Age, gender
  - Income option you select
  - Interest rates at the time of purchase



# Types

- Life
- Joint and survivor
- Life with payments guaranteed



# Buying immediate annuities

- Consider using a portion of your nest egg to purchase one
- Some planners suggest buying between the ages of 70 – 80
- Others suggest buying multiple annuities
  - Purchase them at different times to allow you to minimize inflation risk





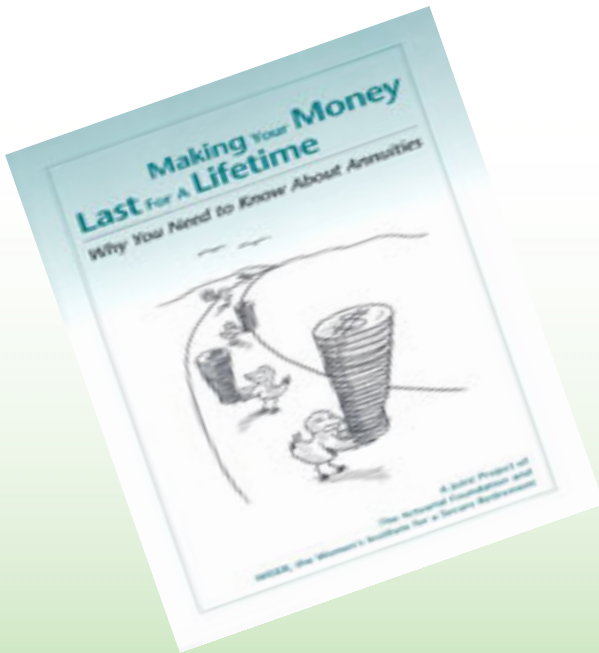
# Shopping tips

- Use a strong insurer
  - Ratings agencies (AM Best, S&P, Moodys)
  - NAIC ([www.naic.org/cis](http://www.naic.org/cis))
- Find good rates
  - [Annuities.com](http://Annuities.com)
  - [ImmediateAnnuities.com](http://ImmediateAnnuities.com)
- Check with your State Guaranty Association to see what they will protect



# Learn more about annuities

These and other free  
publications available at  
[www.wiserwomen.org](http://www.wiserwomen.org)





# How to increase income in retirement

- Spend less time there
- Delay Social Security benefits
- Last resort: reverse mortgage



# Option 1: Spend less time there

- Retire later
  - More time to earn income
  - More time to sock away money
  - Less time to support yourself financially
  - Higher Social Security benefits (to age 70)
- Consider part-time options in retirement



## Polling Question

# When do you plan to start collecting Social Security benefits?

1. As early as I can (age 62)
2. At my full retirement age
3. Sometime after full retirement age (age 70 or earlier)
4. Don't know





# Option 2: Increase Social Security Benefits

Retirement age	Monthly benefit
62 (early retirement)	\$ 758
66 (normal retirement)	\$1,000
70 (latest --benefits increase dramatically)	\$1,320



# Option 3: Reverse your mortgage

- Be wary!
- Borrow against home's equity
- Financial institution pays you to stay
- Don't pay it back as long as you're in the home
- Eligibility
  - At least age 62
  - Own your home (or have small mortgage)
  - Live in it as your primary residence

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# FINANCIAL TO-DOS FOR THE DECADES



# 20s and 30s

## 20s

- ✓ Check out job benefits
- ✓ Get into habit of saving
- ✓ Start retirement saving
- ✓ Strive for a debt-free life

## 30s

- ✓ Keep saving, focus more on investing
- ✓ Keep debt in control
- ✓ Do an insurance checkup



# 40s and 50s

## 40s

- ✓ Set a specific retirement savings goal
- ✓ Look at how you are investing 401(k) and IRA assets
- ✓ Ask for professional help
- ✓ Do an insurance checkup

## 50s

- ✓ Revisit your retirement savings goal
- ✓ Take advantage of higher contribution limits
- ✓ Look at how you are investing 401(k) and IRA assets
- ✓ Do an insurance checkup





# 60s and 70s

## 60s

- ✓ Consider your retirement spending strategy
- ✓ Compare pension payout options
- ✓ Consider your health
- ✓ Consider options if you can't afford to retire

## 70s

- ✓ Start withdrawals from traditional IRAs by age 70 ½
- ✓ Start Social Security benefits at 70 if you delayed them



# Get help if you need it

- Don't be afraid to ask for help!
- Find free tax or financial advice
- You can find information and links to other resources at [www.wiserwomen.org](http://www.wiserwomen.org)



# For a copy of today's materials...

Stay tuned! We will send you an email next week with a link to this power point and a voice recording of today's presentation.



## To Learn More....

Register for **Planning for Your Financial Future, Part II: What Women Need to Know about Social Security.**

1:00 p.m. Eastern on Thursday, September 20, 2012

To register go to [www.nwlc.org/retirementwebinar](http://www.nwlc.org/retirementwebinar)



# Poll question:

Please let us know what you thought about this webinar.  
Choose all that apply.

- The presentation was the right length
- The presentation gave enough details
- I know where to go get more information
- This webinar was helpful in planning for retirement