NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Citi Education Series
on Family Economic Security

Planning for the Future: What Working Women Need to Know About Pensions and Savings

September 16, 2010

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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
- Union
- Interested Individual
- Other

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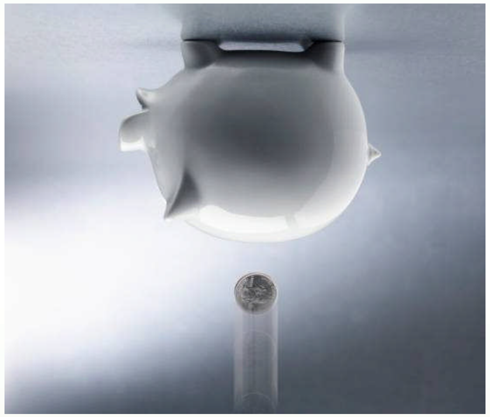
Poll question

- How are you currently saving for retirement?
  - I'm participating in my employer's pension plan or 401k (or 403b or SEP or SIMPLE).
  - My employer has a retirement plan and I'm going to enroll …. soon.
  - I have one or more IRAs but no employer plan.
  - I'm putting money away in a savings account and will use some of those savings for retirement.
  - I haven't started saving … YET.

Basic retiree needs



Income

Medical coverage and prescription drugs

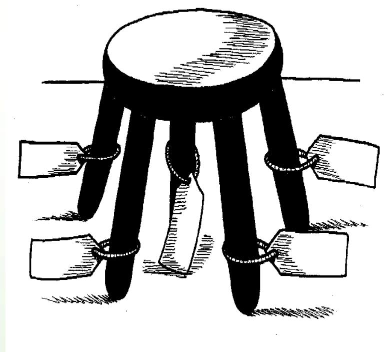
Long-term care coverage

Traditional sources of retirement income

The ~~3~~ 5-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 5 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 78 cents for every $1 earned by a man

So 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 some 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

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Rebecca Davis, Pension Rights Center

- Rebecca Davis is Legislative Counsel with 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
  - 401(k) plans
- Individual Savings
  - Individual Retirement Accounts (IRAs)

Defined Benefit Pensions (DB)

- Traditional pension plans and cash balance plans
- Pays a specific monthly benefit for life.
- Benefit based on a formula taking into account years of service and salary.
- No investment risk to workers and workers don't have to make investment decisions

Individual Account Plans

- Called a Defined Contribution (DC) plan
- 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 DC plans include 401(k)s, Employee Stock Ownership Plans (ESOPs), 403(b) Plans and Simplified Employee Pensions (SEP)

Differences Between Plan Types

- Funding
- Payout
- Investment Risk
- Insurance
- Spousal Protections

Individual Retirement Account (IRA)

- Account set up by an individual with a financial service provider.
- Maximum contribution limit for 2010 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

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.

How do you get started?

- 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.

Annual Funding Notices

- Notifies workers about a defined benefit plan's funding status.
- Contains the plan's actual funded percentage, and other information about assets and liabilities.
- Provided to workers no later than 120 after the end of a plan year. (i.e. April 30)
- If the plan is significantly underfunded, the notice may also include new restrictions and reductions in benefits

While Working

- What if I need the money?
  - Generally you cannot take money out of a DB plan while working.
  - In DC 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

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 former employer and let them know how to contact you
- 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.

Defined Benefit 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.

Helpful Links

- Pension Rights Center Fact sheets: http://www.pensionrights.org/pubs/facts.html

- U.S. Department of Labor, Employee Benefits Security Administration: 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

Kathy Stokes, Women's Institute for a Secure Retirement

- Kathy Stokes is a communication consultant and a collegial 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.

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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 between now and retirement?

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How far off is retirement?

SHORT	MEDIUM	LONG
- 3 years	3 – 10 years	10+ years
•Safety and liquidity •Can sell with little/no loss	•Modest growth •Move to liquid as goal nears	•You can afford more risk
•CDs •Treasury Bills •Money Market funds	•Stocks •Bonds •CDs •Treasury Bills	• Subtract your age from 100 for stock target Example: Age 45 = 55% in stocks

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#2. How much will you need?

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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	$34,000/year

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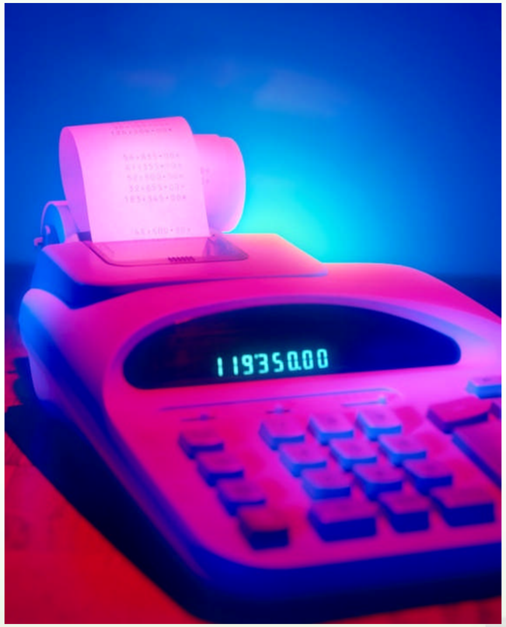
How many years will you need it?

- Consider family history, your health, and life expectancy tables
- Add 10 years to hedge against longevity risk:
  - Inflation
  - Outliving savings
  - Death of a spouse
  - Unexpected healthcare needs
  - Loss of ability to live independently
  - Poverty

Do the math



www.aarp.org/money

search on "retirement calculator"

#3. Investment risk: How much can you stomach?

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Investment risk

- The appropriate level of risk for you 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 sleeping on 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!

Current market

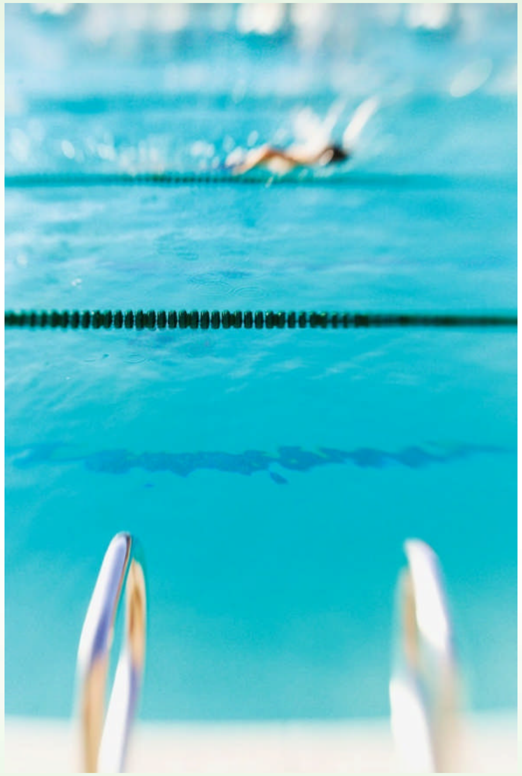
- Recession has hit hard
- Those with long time horizons can make up losses
- To protect against “systemic risk” like a recession:
  - Maintain a long-term outlook
  - Include stock funds that tend not to fall (like utilities)
  - Include investments not related to the stock market

When stocks fall

- When prices get low enough, investors want back in
- When investors buy, stock prices rise and you profit
  - Which attracts more investors
- The timing of ups and downs is unpredictable
  - A rebound could come in a few months or years

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

- Passively managed = 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
  - – Think about how it would affect the diversification of your portfolio

Additional resources

- For more information on investing wisely, go to:
  - www.finra.org/investors
  - www.sec.gov/investor
  - www.choosetosave.org

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MANAGING WHAT YOU HAVE IN RETIREMENT

Big decisions:
How to make the money last

Tricky decisions, based on individual choices

Lock in a regular monthly payment for life

-or-

Take a lump sum and manage it on your own

-or-

A combination of these two methods

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Ways to take money from an IRA

- Leave the money until you need it and then take systematic withdrawals
- Buy an annuity with all or part of the money
- Cash out some or all of the IRA and manage it yourself
- General rule is you can take 3-4 % a year depending when you start distributions

Immediate annuities

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

How immediate annuities 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 of immediate annuities

- Life
- Joint and survivor
- Life with payments guaranteed

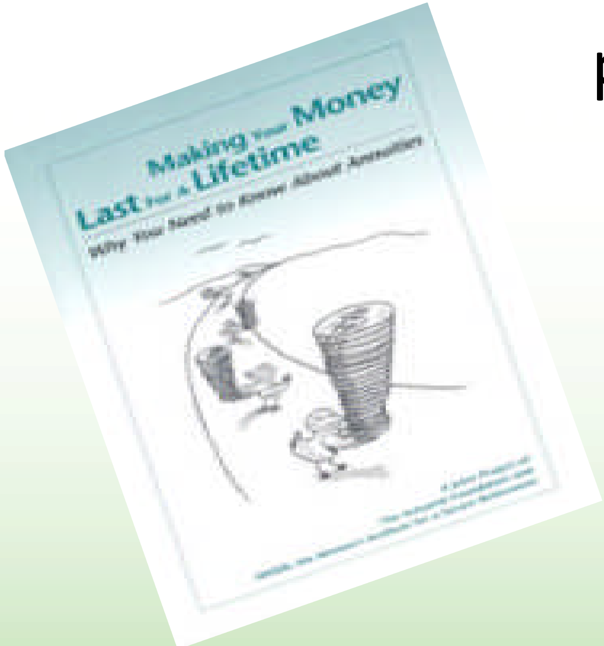
Buying immediate annuities

- Some planners suggest purchasing annuities between the ages of 70 – 80
- Others suggest buying multiple annuities
  - Purchase them at different times to allow you to minimize inflation risk

Tips on shopping for annuities

- ✓ Use a strong insurer
- ✓ Find good rates
    - Annuities.com
    - ImmediateAnnuities.com
- ✓ Check with your State Guaranty Association to see what they will guarantee

Learn more about annuities



These and other free publications available at www.wiserwomen.org

INCREASE CASH FLOW IN RETIREMENT

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 66)
2. At my full retirement age
3. Sometime after full retirement age (age 70 or earlier)
4. Don't know

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Option 2: Increase Social Security Benefits

- May was born in 1950 (now 60)
- She currently earns $50,000/year

May's retirement age	May's monthly Social Security benefit
62 (early retirement)	$1,093
66 (normal retirement)	$1,711
70 (latest --benefits increase dramatically)	$2,696

Option 3: Reverse your mortgage

- 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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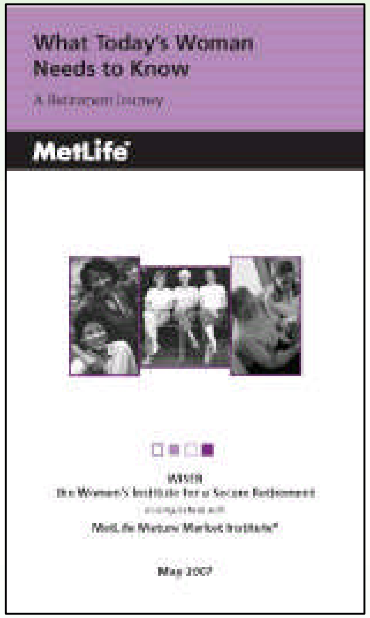

FINANCIAL TO-DOS FOR THE DECADES

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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

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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

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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

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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.

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To Learn More About Retirement

Download materials from our webinar, Planning for the Future: What Women Need to Know About Social Security

by visiting

http://www.nwlc.org/educationseries

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Poll questions

We hope this webinar has been useful for you. Please let us know what you thought:

- Was the presentation too long? (yes/no)
- Did the presentation give you enough detail? (yes/no)
- Do you know where to go for more information? (yes/no)
- On a scale of 1 to 5, with 1 being the least helpful and 5 being the most helpful, how helpful was this webinar to you? (1,2,3,4,5)