RETIREMENT PLANNING
Making the Right Decisions

William H. Wilson, CPA, CFA
University of Texas at Arlington
bwilson@uta.edu

Types of Retirement Plans

- 1. Defined Benefit Plans- Traditional Pensions
- 2. Defined Contribution Plans- IRC Section 401(k) Plans
- 3. Individual Plans:
  - – Traditional IRA (Pre-Tax)
  - – Roth IRA (After Tax)

Defined Benefit Plan Example

- Texas Teacher Retirement System (TRS)
  - – Assets= $124 billion
  - – Benefit Formula: 2.3% of salary per year of service

Teacher who starts at age 25 at $50,000 and income grows at 2%.

Salary after 35 years= $100,000

Benefit- $100,000 X 2.3% X 35= $80,500/year

How Common are Defined Benefit Pension Plans?

Not very. The percentage of workers in the private sector whose only retirement account is a defined benefit pension plan is now 10%, down from 60% in the early 1980s. About 30% of companies offer a combination of both types.

Meanwhile, the few employers that still offer traditional pensions - typically industries with a strong union presence, such as the airline and auto sectors - are working overtime to cut deals to either reduce or eliminate their plans.

Defined Contribution Plans

- 401(k) and 403(b)
- Plan is defined by the contribution that is made
- Often includes an employer match
- No promised benefit at retirement
- Short vesting period

Defined Contribution Plan Example

- Justin Lieber graduates college at age 25 and goes to work for Big Four LLP at $60,000
- Justin wants to retire at age 60 with retirement income of $75,000 per year (today's dollars)
- If inflation rate = 2.54%, Justin will need $180,438 per year
- What will he need to accumulate in assets?

Defined Contribution Plan Example

- Assume a withdrawal rate of 4%
- Assets needed in 35 years: $180,438/4%=
  - $4,510,950

Accumulation Phase

- Relevant Variables
  - Rate of Return
  - Amount invested
  - Time Period

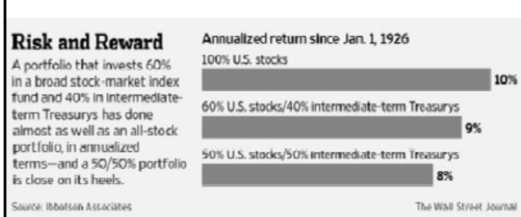
Risk Tolerance

- There is a direct relationship between risk and reward

Rate of Return

Asset Class	Expected Return %	Standard Deviation	Yield %	Cash	US Stocks	Non-US Stocks	Bonds
Inflation Rate:	2.54						
Cash	2.49	3.43	2.49	1.0000	0.0302	-0.0228	0.1221
US Stocks	11.01	20.51	1.88	0.0302	1.0000	0.7490	0.1960
Non-US Stocks	11.68	23.45	2.78	-0.0228	0.7490	1.0000	0.1530
Bonds	4.45	6.59	4.45	0.1221	0.1960	0.1530	1.0000

Managing Risk

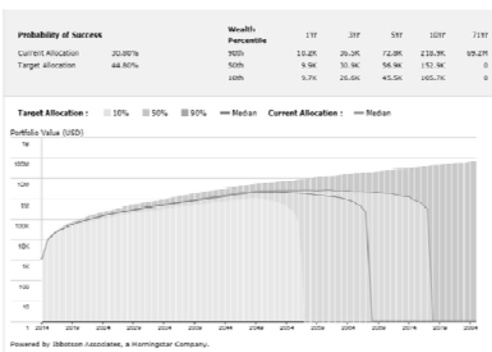


Justin's Weighted Average Return

Asset Class	Expected Return	Weight	Wtd Avg Return
U. S. Stocks	11.01%	68.00%	7.49%
Non-U. S. Stocks	11.68%	17.00%	1.99%
Bonds	4.45%	15.00%	0.67%
			10.14%

Amount To Invest Annually

- What amount will Justin need to invest each year to accumulate $4.5 million in 35 years if his compounded annual ROR= 10.14%?



Common Mistakes

- 1. Failure to Plan/Procrastination
- 2. Improper asset allocation
- 3. Ignoring Expenses
- 4. Selling when you should be buying
- 5. Buying when you should be selling
- 6. Drawing on retirement assets early
- 7. Not saving enough

A Tale of Two Graduates Age 25

- Amy
- Starts investing $5000/ year at age 25 @8%
- Stops at age 35

- Ryan
- Starts investing $5000/year at age 35
- Never Stops

Tax Considerations in Retirement Planning

To Roth or Not to Roth?

- Many 401K Plans allow participants to choose between Pre-Tax and After Tax
- Benefit of having a pool of after tax dollars available to control taxes in retirement
- Compare current marginal tax bracket to projected marginal tax bracket in retirement
  - Effect on the taxation of social security
  - Effect on Medicare premiums
  - Reduction in itemized deductions for “high income taxpayers”
  - AMT
  - Additional Medicare tax on “high income taxpayers”
  - What might Congress do in the future?

Roth IRA

- A gift from Congress- Always do it when eligible!
- Must choose between Roth and Traditional IRA- Single limit applies to both
- Contributions are made with after-tax dollars
- No immediate tax benefit
- Qualified distributions in retirement are tax free
- Large potential benefit to young professionals early in their career

2014 IRA Income Limits

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single or head of household	$60,000 or less	a full deduction up to the amount of your contribution limit.
	more than $60,000 but less than $70,000	a partial deduction.
	$70,000 or more	no deduction.
married filing jointly or qualifying widow(er)	$96,000 or less	a full deduction up to the amount of your contribution limit.
	more than $96,000 but less than $116,000	a partial deduction.
	$116,000 or more	no deduction.
married filing separately	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.
If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.		

2014 Roth IRA Limits

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
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	more than $60,000 but less than $70,000	a partial deduction.
	$70,000 or more	no deduction.
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	more than $96,000 but less than $116,000	a partial deduction
	$116,000 or more	no deduction.
married filing separately	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.
If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.		

“Back Door Roth IRA”

- For those who want to do a Roth IRA but cannot due exceeding the income limits
- Contribute $6500 to a non-deductible Traditional IRA
- Convert to a Roth IRA
- What could possibly go wrong?

Leading Into Retirement

- If someone retires before age 70 ½:
- Consider converting some pre-tax retirement assets to a Roth IRA
- Will the taxes be lower now or later?
  – Marginal income tax bracket
  – Taxation of Social Security
  – Medicare premiums (great opportunity for clients not yet on Medicare)
  – AMT
  – Reduced Itemized deductions
  – Medicare surtax

Why Invest Globally?

- Greater risk
  – Currency Risk
  – Political Instability
  – Economic Risk
  – Regulatory/Financial Reporting Standards

Why Invest Globally?

- What percent of the world's publicly traded companies are based outside of the United States?
  – A. 0-25%
  – B. 26-50%
  – C. 51-75%
  – D. 76-100%

Why Invest Globally?

- What percent of the global GDP comes from countries outside the United States?
  – A. 0-25%
  – B. 26-50%
  – C. 51-75%
  – D. 76-100%

Why Invest Globally?

- Over the past 30 years, the United States has been the top-performing equity market what percent of the time?
  – A. 0-25%
  – B. 26-50%
  – C. 51-75%
  – D. 76-100%

Global Diversification 2000-2008

- A period that included two major market declines
- Wilshire 5000 Index= -0.4% annually
- Globally diversified portfolio:
  – Wilshire 5000 80%
  – MSCI World Ex USA 20%
  – = +0.2% annually

  Source: Morningstar

Japan Nikkei Average
1989 to March 2009

- Decline of 82% (excluding dividends)
- U. S. DJIA Rose 152%
- Conclusion: The real risk is having a long term secular downtrend in your home market. Global diversification helps to mitigate this.