
# Don't Gamble Away Your Future: Retirement Planning is a Marathon, not a Sprint!

Okay, you are 22, just out-of-college and you have just signed your contract. So why do you need to begin thinking about retirement now. It just makes good sense and here's why:

- The earlier you start investing for retirement, the greater your retirement income from your investments.
- Your retirement pension through the **Teacher Retirement System (TRS)** is limited to a percent based on your years of service multiplied by 2.3. So, if you teach 30 years, your estimated pension will be approximately 69% of your income averaged across the five years of your highest salary.
- As a teacher in Texas, you do not pay into Social Security; therefore, you are either (1) not eligible for any social security benefit or (2) any benefit you are eligible for will be reduced once you retire because of your teacher pension. On top of that, any social security survivor benefit you may be eligible to receive will be reduced once you retire and start drawing your teacher pension.
- Legislative efforts to move from a defined benefit retirement plan to a defined contribution plan, if successful, will increase the level of risk to your retirement investments.

As an educator, you face unique retirement planning challenges. Now is the time to learn what you need to do to make it to the finish line. **NEA Member Benefits (NEA MB)** has created a series of informational pieces, including videos, on retirement and retirement planning. It also provides an overview of how inflation impacts your retirement and how to factor it into your retirement planning.

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*For more information on retirement and retirement planning, please click **here**.*

## A Simple Recipe for a Richer Retirement

Planning for retirement can feel as complicated as trying to solve a Rubik's Cube. At a minimum, experts advise that teachers contribute no less than the amount needed to qualify for a full employer match in their retirement savings plan. Beyond that, there's the ever-perplexing question: What exactly should I put my money into, anyway?

The smartest thing you can do is to come up with a retirement allocation "game plan"—a simple yet comprehensive blueprint to get the most out of your investments throughout your career.

"There is no hard-and-fast formula to ensure success with 100-percent certainty," says Adam Koos, a Columbus, Ohio-based certified financial planner and a senior financial adviser at **Libertas Wealth Management Group Inc**.

"Each individual has their own tolerance for risk, for example," Koos says. "However, most investors low-ball the risk they really want to take on. They like the idea of being conservative, but they still want to make lots of money off of it. Go figure!"

Therefore, it's important to maintain both patience and realistic expectations. You're looking for results that will accumulate over decades, through both bull and bear markets. If you get squeamish during dips, step away from your computer: You actually haven't realized a loss on that mutual fund or stock unless you hit the "sell" button.

Here are some general guidelines used by some experts for allocating investments for retirement, based on your current age:

**IF YOU ARE IN YOUR 20s OR 30s.**

First, make sure you have an emergency stash before you fixate on retirement. Save enough in a savings account or other "safer" vehicle (such as a CD or money market account) that you could live off of that money for three months if there are two working parties in your household, or six months if you're single.

When you're ready to start allocating funds to a retirement account, set up your retirement-portfolio mix by putting aside no more than 10 percent in a fixed income/bond fund, such as Treasury inflation-protected securities, which basically rise as inflation rises. Another good choice is a floating rate fund, which will rise as interest rates do.

"At this young age, with so many years to go, I'd split the remaining at 50 percent in domestic stocks and/or stock funds and 40 percent in international ones," Koos says. "Divide these investments evenly among large-, mid- and small-cap companies."

If you're staring at your 403(b) fund choices and having trouble deciphering what the names mean, relax! Online resources can help.

"Sites like **Morningstar.com** are great for teachers to use," Koos says. "Type in the symbol or name of a fund in your 403(b) plan to see how the fund is allocated: international companies or domestic, small-cap or medium-cap or large-cap, etc. Then, you can find its associated costs, along with other valuable, decision-influencing details."

Index funds are another good choice. These are great for people who may not have the time or expertise to explore the nuances of the many fund choices available in their retirement plan.

Index funds keep it simple by performing similarly to a broad collection of stocks, such as those represented by the S&P 500. In general, your investments will rise and fall as the market does, and they don't usually come with hefty management fees.

"Most managed funds underperform index funds anyway," Koos says. "That means these index funds offer you the same opportunity for growth at less cost."

**IF YOU ARE IN YOUR 40s.**

This is where you need to think about how much longer you'll be in the classroom. If you're pretty sure you're in it for the long haul, you probably don't need to make many adjustments to your allocation, aside from some minor tweaks to reduce the risk exposure to stocks/stock funds. You have time to ride out bumpy markets and reap the rewards of keeping your money invested.

But if you think you'll walk away from the teaching life in your 50s—whether it's early retirement or a switch to a different career—you'll want to reduce your investment risk.

"Knock down the stock allocation to 70 percent, with 40 percent of this in domestic stock and 30 percent in international," Koos says. "The remaining 30 percent should stay within the fixed income/bond funds you had before."

**IF YOU ARE IN YOUR 50s OR NEARING RETIREMENT.**

If you haven't already, consider seeking out the services of a certified financial planner (CFP) or other investment adviser. Engaging such professionals may be warranted as you enter your post-employment financial life and begin to count on your retirement savings to support yourself.

"Without a written financial plan, you're just guessing and hoping," Koos says. "You might think you're being safe by going ultra-conservative, for example, and then still run out of money in retirement because you didn't earn enough interest on your holdings."

Koos recommends sticking close to the 70/30 stock/"safe" plan, with some incremental risk reduction as you get closer to retirement age. "Don't fixate on your retirement age," he says. "Your time window doesn't end when that day comes. It extends for as long as you live. You have to plan for possibly lasting until 90 years old or beyond. Staying close to the same plan as a 40-year-old still applies because you'll need to keep earning decent interest on growth investments."

We consulted with a few other CFPs, who also agreed with Koos' 70/30 plan at this stage, as well as his reasoning behind it. But, for sure, it's not for everyone. Again, it comes down to your risk-tolerance profile.

"If you score on the very cautious side of an online questionnaire, then you may be better off with a 60/40 or even more conservative 50/50 split," says Chace Cannon, investment adviser with Salt Lake City-based **Cannon Capital Management Inc.** "You don't want to stay up all night worrying about your retirement savings. But I wouldn't go much more cautious here because you still have to accumulate money."

Cannon and other experts recommend the same, even if you're "one foot out the classroom door." Ultimately, you have to figure out what you think you'll require in your retirement and stick with a revenue-producing plan until you hit it.

"Once you do, you can stash your savings away into really secure CDs, money markets or similar options," says Cannon, noting that a 25/75 ratio of stock-to-safe investments would make for a sound, conservative strategy at this point.

Whichever route you take, when you approach the retirement date, you must come up with a plan for actually enjoying all that you've saved. "Once you get within five years of retirement, it makes sense to think about how you'll withdraw," says Robert Schmansky, CFP, founder of Bloomfield Hills, Mich.-based **Clear Financial Advisors**.

"A sensible way to do this is to slowly convert your mutual funds into CDs and individual bonds in amounts that equal what you will need to withdraw," Schmansky says. "These will enable you to ladder withdrawals, by taking them out every time each one matures. Thus, you basically create your own annuity stream. The rest of your portfolio can then remain invested in stock-based growth."

For more on preparing for retirement based on your life stage, visit the **NEA Member Benefits Retirement Planning Center**. You'll also find a retirement income calculator, tips on how to plan your saving strategy, information on investment mistakes you need to avoid and the monthly **Kiplinger Retirement Report** newsletter, which is free for **NEA members**.

# TRS Glossary

**Accumulated Contributions**
The total amount of member contributions, voluntary payments for purchase of special service credit (not including fees), and all interest attributable to an individual member. This includes TRS retirement plan contributions deducted from the member's compensation, other amounts that must be placed in the member's individual account such as payment for special service credit, and interest credited to the account.

**Active Contributing Member**
A member who is currently working for a TRS-covered employer and is contributing to the TRS retirement plan.

**Active Non-Contributing Member**
A member who fits into one of the two following categories: (1) has at least five years of service credit and is not currently employed in a TRS-covered position, or (2) has less than five years of service credit, is not currently employed in a TRS-covered position, and has been absent from TRS service for less than five years.

**Benefits**
A distribution by TRS in accordance with the plan requirements. The types of benefits payable are service retirement benefits (including Deferred Retirement Option Plan (Drop) and Partial Lump-Sum Option (PLSO) payments), optional annuity payments continuing to a beneficiary, disability retirement benefits, death and survivor benefits, and a return of accumulated contributions.

**Creditable Compensation**
Salary and wages paid or payable to a member for service rendered during a school year and creditable for TRS purposes.

**Employer Pension and Health Benefit Surcharges**
A required amount paid monthly by employers to the pension fund (pension surcharge) for each retiree working in a TRS-covered position and reported to TRS. Also, the employer must pay a health benefit surcharge for each retiree enrolled in TRS-Care and working in a TRS-covered position. Under state law, the surcharges are not required for a retiree who (1) retired before September 1, 2005, (2) works only as a substitute (serves on a temporary basis in the place of a current employee), or (3) works in a position that does not meet TRS membership eligibility requirements for active members.

**Inactive Member**
A person who has less than five years of service credit and ceased employment more than five years ago in a TRS-covered position.

**Member**
A person regularly employed at least half time in an eligible position in public education in Texas expected to last for a period of 4½ months or more and who is paid at a rate comparable to that of other persons employed in similar positions. Does not include a retiree or a person who is participating in the Optional Retirement Program (ORP) instead of TRS.

**Public School**
An educational institution or organization in Texas that is entitled by law to be supported in whole or in part by state, county, school district, or other municipal corporation funds. Also, this term is commonly used to distinguish elementary and secondary educational organizations from higher education institutions. The term may also mean any employer whose employees are eligible for TRS membership. The context of the term and definitions in state law may determine whether it is used in its broadest meaning or its narrower meaning.

**Retirement**
Terminating service with a TRS-covered employer with a retirement benefit granted under law, following application for retirement.

**Retirement Date**
The earliest effective date of retirement may either be the last day of the month in which the application is received or the last day of either of the two previous months, provided the employee

has terminated employment.

**Retirement Plan**
The TRS defined benefit retirement plan established by state law and administered under those laws and the rules of the TRS Board of Trustees. The plan provides service and disability retirement benefits and death and survivor benefits funded by the TRS pension trust fund. The retirement plan does not include group health benefit plans such as TRS-Care or TRS-ActiveCare.

**School Year**
For members, a 12-month period beginning approximately September 1 and ending approximately August 31 of the next calendar year or, for a member whose employment contract or oral or written work agreement begins after June 30 and continues after August 31 of the same calendar year, a period not to include more than 12 months beginning on the date the contract or work agreement begins. For retirees, the school year begins September 1 and ends August 31 of the next calendar year.

**Service**
The time a person is an employee in a position eligible for TRS membership. The amount of service required to establish a year of membership service credit is established by TRS rules.

**Service Credit**
The amount of membership or special service credited to a member in the retirement system. It is used to determine eligibility for, and calculation of, TRS benefits. Service credit in TRS is expressed in whole years.

**Substitute**
A person who serves on a temporary basis in the place of a current employee and whose pay does not exceed the rate of pay for substitutes established by the employer. Does not include service in a vacant position.

# Retirement Planning Glossary

**0-9**

**403(b) Plan**
A voluntary retirement plan available to certain employees of public schools and other tax-exempt organizations. Used by educators to supplement their state pension benefits, 403(b) plan benefits are based on how much money an individual contributes through payroll deductions and any investment gains (or losses). Named after the section of the IRS code that governs it.

**A-E**

**Annuity**
A contract sold by an insurance company which provides regular payments (usually monthly) to an individual (the annuitant). Often used for retirement income, payments can be fixed or variable and continue for life or a specified period of time.

**Asset Allocation**
The process of allocating (dividing) assets (invested money) among a mix of asset classes, such as stocks, bonds and cash. Asset allocation is an important way to manage risk because asset classes tend to perform differently from one another at any point in time.

**Asset Class**
A term that describes a particular category or type of investment, such as stocks, bonds, real estate, precious metals, etc. Each major asset class has many sub-asset classes. For instance, large cap stocks, small cap stocks, government bonds, corporate bonds and many more.

**Average Annual Return**
A percentage figure used to report the average historical return of an investment, such as a mutual fund, over a period of time, such as one year, three years, five years or longer.

**Basis Point**
One-hundredth of one percent, or 0.01%. For example, 40 basis points equal 0.40%. This measure is often used to express investment expenses and yields on bond investments, among others.

**Bond**
A debt instrument issued by a company or government agency for the purpose of raising money from the investors who buy the bond. Basically, bond buyers are lending money to the bond issuer. In exchange, the issuer promises to repay the loan on a specific date and make interest payments periodically until that date.

**Capital Gain**
The increase in value of an investment, such as stock or real estate, in excess of what an investor paid for the asset. A capital gain is not realized until the investor sells the investment and takes the profits. A capital gain may be short-term (one year or less) or long-term (more than one year). See capital loss.

**Capital Loss**
The decrease in value of an investment, such as stock or real estate, below the original purchase price. A capital loss is not realized until the investor sells the investment. A capital loss may be short-term (one year or less) or long-term (more than one year). See capital gain.

**Catch-Up Contributions**
A provision in qualified retirement plans that allows a person age 50 or older to make pre-tax contributions over and above the regular annual IRS dollar limit. In 2014, the regular limit is $17,500 and the catch-up limit is $5,500. If you have 15 or more years of service with your current employer, you may be able to make additional catch-up contributions, subject to IRS limits.

**Compounding**
The process whereby investment earnings—such as bond or bank savings account interest payments or dividend payments from a stock—are reinvested in the investment account so that the earnings then have the potential to generate additional earnings.

**Defined Benefit Plan**
A type of retirement plan that pays a certain, or defined, amount of income at retirement based on a specific formula. State pension plans for educators are defined benefit plans with benefits generally pegged to the number of years you've worked and your highest average salary.

**Diversification**
The process of spreading money among different investments within various asset classes in an effort to manage risk. A stock mutual fund may invest in a single asset class, such as U.S. large cap stocks, but will be diversified because it invests in the stocks of many different large cap companies.

**Dividend**
A distribution from an investment fund or company paid to its shareholders, typically from profits. The dividend amount is usually expressed as a dollar amount each share receives.

## F-J

**Fee Compensation**
A compensation arrangement whereby the financial representative is paid on an hourly rate or as a percentage of the overall assets under management.

**Fiduciary**
Any person who has legal authority or control over the financial assets of another person and who is obligated to act in that person's best interest.

**Fixed Annuity**
An insurance product that pays a fixed dollar amount, usually monthly, for a certain period of time.

**Hardship Withdrawal**
A provision that allows you to take a withdrawal from a qualified retirement plan before age 59-1/2 for certain IRS-defined financial hardships, providing you have no other readily available resources to meet the financial need.

**Investment Risk**
The risk that an investment may lose value and be worth less than the purchase price when it comes time to sell. Generally, as investment risk goes up, potential investment returns also go up, and vice versa.

## K-O

**Life Annuity**
An insurance product that makes regular payments to the annuitant until his or her death, at which point all payments stop. You cannot name a joint annuitant or beneficiary on a life annuity.

**Market Capitalization**
Often shortened to simply "cap," as in, large cap stocks, it's a measure of the total market value of a company. It's calculated by multiplying a company's total number of outstanding shares by the share price. If a company has 1,000,000 shares in the market, with a share price of $10 a share, the company's market capitalization is $10,000,000. Market cap is used to categorize stocks as large, mid and small.

**Market Risk**
The risk that investors might lose some of their principal due to downturns in a volatile market. Stock prices can rise or fall sharply which means stocks have high market risk.

**Mutual Fund**
An investment company registered with the Securities and Exchange Commission that pools money from individual investors and invests in a portfolio of securities with a specific investment objective. There are thousands of different mutual funds that invest in certain asset classes and that have specific investment philosophies, objectives and fee structures.

## P-T

**Portfolio**
A mix of investments, such as stocks, bonds and cash, held by an individual in an investment account or retirement plan, for a specific investment goal, such as retirement income.

**Pre-Tax Contributions**
Sometimes called before-tax contributions, these are contributions made to a qualified retirement plan, such as a 403(b) plan, which reduce taxable income on a dollar-for-dollar basis and subsequently lower current income taxes. When pre-tax contributions and any investment earnings on the contributions are withdrawn, the money will be taxed as regular income.

**Rollover IRA**
An individual retirement account into which an investor directly transfers a distribution from a qualified retirement plan, such as a 403(b) plan, to maintain tax-deferred growth potential.

**Roth 403(b)**
A separate account within a 403(b) Plan that provides a way to accumulate money that can be withdrawn tax-free in retirement. Roth 403(b) contributions are made on an after-tax basis.

**Sales Commission (Broker/Agent)**
A percentage payment a broker/agent receives for selling a particular investment or insurance product to an investor.

**Security**
A stock, bond or other type of investment.

**Surrender Charge**
Any payment required for terminating an investment or insurance contract prior to a scheduled maturity date.

**Target Date Fund**
A single fund choice offered through many qualified retirement plans that is a fully diversified portfolio with an asset allocation appropriate for the investment time horizon indicated by the year in the fund's name. For example, a target date 2045 fund would have an asset allocation appropriate for an investor who plans on starting withdrawals in the year 2045. Target date funds gradually change their asset allocation, becoming more conservatively invested (meaning fewer stocks and more bonds and cash), as the target date nears.

**Tax-Deductible**
An expense that can be deducted from your adjusted gross income to reduce the amount of income subject to tax. Pre-tax contributions to a 403(b) are tax-deductible and will reduce taxable income on a dollar-for-dollar basis.

**Tax-Deferred Account**
An investment where taxes owed on earnings are postponed (deferred) until withdrawal from the account. A traditional IRA and a 403(b) plan are examples of tax-deferred accounts.

**Tax-Deferred Compounding**
A process where any taxes that would be owed on investment earnings are postponed (deferred) until withdrawal, allowing the investment earnings to be reinvested (compounded) to help the investment grow further.

**Tax-Sheltered Annuities (TSAs)**
Insurance products sold by agents through 403(b) plans primarily to educators.

**Total Return**
The actual rate of return of an investment, including interest, capital gains, dividends and distributions, over a specific period of time.

## U-Z

**Variable Annuity**
An insurance product that invests in a portfolio of securities (stocks, bonds and cash) and which pays a guaranteed minimum monthly benefit payment with additional income that can vary depending on the performance of investment portfolio.

**Vesting**
The process of gaining ownership of pension or retirement benefits over a stated period of time. You are immediately vested in all contributions to a 403(b) plan (your own and any employer contributions). State pension plans require that you work for a certain number of years before you vest in pension benefits. This varies by state.