# Planning for Retirement

## Start Planning for Retirement NOW!

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 teach30 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 not eligible for any social security benefit. 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.
- Efforts to move from a defined benefit retirement plan to a defined contribution plan increases the level of risk to your retirement investments

## A Simple Recipe for a Richer Retirement

*This article is for informational purposes only and does not constitute the provision of investment advice. Furthermore, the information contained herein does not constitute an offer to buy or sell, or a solicitation of an offer to buy or sell, any security. Persons quoted herein are not affiliated with or paid by the National Education Association or NEA Member Benefits, and this article, including its statements, does not necessarily reflect a position, policy or recommendation of the National Education Association or NEA Member Benefits.*

*FOR MORE INFORMATION ON PLANNING FOR RETIREMENT, CLICK HERE.*

Are you taking enough risk in your 403(b)? Use these experts tips to select the balance of growth and security that's right for you.

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 Dublin, 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.