Planning for Retirement
Sponsored by The Department of Fire and Police Pensions
City of Los Angeles

Pre-retirement Concerns
Pre-retirement concerns

- Goals
- Lifeline perspective
- Cash flow
- Debt management
- College savings
- Life insurance
- Disability insurance
- Estate planning
Goals

• I want to...
  – Have enough assets at the time of my death to provide my family with $_______ a year in today’s dollars
  – Pay for at least _______ % of my children’s college education
  – Retire at age _______ with $_______ a year in retirement income
  – Protect my lifestyle in case I’m disabled
  – Ensure that my spouse/partner receives most/all my property at my death
  – Ensure that my children are taken care of when my spouse/partner and I die
  – Ensure that my estate is not drained by needless expenses and taxes
  – Provide that _______ has the power to manage my affairs if I’m incapacitated
Goals

• Therefore I should…
  – Have adequate life insurance to supplement the survivor’s pension
  – Use tax-effective savings vehicles for college costs
  – Save for retirement to supplement the City pension
  – Have adequate disability insurance coverage
  – Prepare a will and review all beneficiary designations
  – Designate secondary beneficiaries in will and savings accounts
  – Establish a tax-effective trust
  – Create a durable or springing power of attorney document
### Lifeline perspective

<table>
<thead>
<tr>
<th>Need for investment strategy</th>
<th>Revised investment strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some health care concerns and elder care</td>
<td>Major health care concerns and long-term care</td>
</tr>
<tr>
<td>Early death</td>
<td>Plan distribution taxes</td>
</tr>
<tr>
<td>Long-term disability</td>
<td>Provision for survivors</td>
</tr>
<tr>
<td></td>
<td>Protection against inflation</td>
</tr>
<tr>
<td></td>
<td>Planning for leisure time</td>
</tr>
<tr>
<td></td>
<td>Estate planning</td>
</tr>
</tbody>
</table>

**Income**

**, Expenses**

<table>
<thead>
<tr>
<th>20</th>
<th>35</th>
<th>45</th>
<th>60</th>
<th>65</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home purchase</td>
<td>College</td>
<td>Retirement</td>
<td>Death</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Cash flow

- Determine your cash flow
  - Record your income
  - Estimate your taxes
  - Track your expenses
  - Summarize
  - Project
**Cash flow**

Where are you on the “cash flow spectrum”?

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worrying constantly about money</td>
<td>Spending almost all of your income</td>
<td>Living within your means</td>
<td>Saving more than 10% of your income</td>
</tr>
<tr>
<td>Living from paycheck to paycheck</td>
<td>Having no emergency fund</td>
<td>Long-term savings plan in place</td>
<td>Spending at a level consistent with your retirement and college funding goals</td>
</tr>
</tbody>
</table>
Debt management

Where are you on the “debt management spectrum”?

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying a credit card balance</td>
<td>Carrying some credit card debt</td>
<td>Carrying no credit card debt</td>
<td>Carrying no credit card debt or car loans</td>
</tr>
<tr>
<td>Having a negative cash flow</td>
<td>Having car loans</td>
<td>Having car loans</td>
<td>Prefunding major expense items</td>
</tr>
</tbody>
</table>
College savings

Where are you when it comes to prefunding college expenses?

Level 1
- No funds earmarked
- Too far in the future to be concerned

Level 2
- Small amount saved
- No regular savings

Level 3
- Regular savings
- Well-thought-out investment plan

Level 4
- Current savings that cover at least 50% of cost
- Tax-advantaged savings plans
College savings

- Qualified Tuition Programs ("529" plans)
  - An account is established for a designated beneficiary
  - Contributions are not tax-deductible
  - Investment earnings are tax-free
  - Until 2010, withdrawals for qualifying expenses are tax-free; from 2010 on, withdrawals are taxed at the beneficiary’s tax rate
  - Money can be used for tuition, room & board, books, and supplies
  - Withdrawals can be used for undergraduate and graduate school tuition at public and private institutions, and in-state and out-of-state schools
  - Member chooses investment options
  - Each state sets its own contribution limit
  - Some states offer tax breaks also
  - Penalties apply if withdrawals are not used for qualifying expenses
College savings

- Coverdell Education Savings Accounts ("530" plans), formerly called education IRAs
  - Contributions for a designated beneficiary are not tax-deductible
  - Investment earnings and most withdrawals are tax-free
  - Money can be used for education from kindergarten through graduate school
  - Contributions are limited to $2,000 per year (phased out if income is above certain thresholds)
    - Joint filers: $190,000 to $220,000
    - Single filers: $95,000 to $110,000
  - The amount contributed to the account can reduce the amount of financial aid the student receives
Life insurance

Where are you when it comes to providing for your dependents?

**Level 1**
- Not enough life insurance to support dependents
- No disability insurance

**Level 2**
- Less life insurance than is needed
- Limited disability insurance

**Level 3**
- Enough life insurance and disability insurance

**Level 4**
- Enough life, health, disability, homeowners, and auto insurance
Life insurance

• LAFPP survivor benefit
  – Service connected: eligible from date of membership
  – Non-service connected: eligible after 5 years of service
• Social Security surviving spouse benefit
• Deferred Compensation Plan beneficiary designation
• Individual life insurance policies
  – Whole life
  – Term
  – Universal
Life insurance

• Individual life insurance policies
  – Term: life insurance that is in effect for a specified period of time
  – Permanent: life insurance that is intended to remain in effect for your lifetime and also has a cash value
    • Traditional whole life: you pay a fixed premium every year and earn interest on the cash value
    • Universal life: you have flexibility in increasing or decreasing the death benefit and earn a competitive interest rate on the cash value
Disability insurance

- LAFPP disability benefit
  - Service connected: from date of hire
  - Non-service connected: after 5 years of service
- Social Security disability benefit
- Individual long-term disability policy
Estate planning

Where are you when it comes to developing an estate plan?

Level 1
- No will or power of attorney

Level 2
- Simple will
- Will may be outdated

Level 3
- Will reviewed and updated

Level 4
- Up-to-date will, durable power of attorney, and estate plan in place
Estate planning

• Passing property at death – wills
  – Assets are distributed as desired
  – Personal representative can be named
    (executor/executrix/co-executors)
  – Potential guardians for children can be named
  – Cost and time of probate can be minimized
  – Trust can be established to protect and manage assets
    (testamentary trust)
Estate planning

- Passing property at death – by contract
  - Life insurance policies
  - Annuities
  - Individual retirement accounts (IRAs)
  - Employee benefit plans
Estate planning

• Passing property at death – by title
  – Joint tenancy
  – Joint tenancy with right of survivorship
  – Community property
Estate planning

- Joint tenancy – can will it to anyone
- Joint tenancy with right of survivorship – your interest allocated to other owners in proportion to their interest
- Community property – can will it to anyone
Estate planning

- How ownership affects “profit” on sale of home after one spouse dies
  - Cost of home: $100,000
  - Sale price: $800,000
  - If Joint Tenancy:
    - Cost basis marked up to $450,000
    - Profit equals $350,000
  - If Community Property:
    - Cost basis marked up to $800,000
    - Profit equals “0”
Estate planning

- Life planning
  - Powers of attorney
    - General – allows someone to do on your behalf anything you could do
    - Springing – allows someone to do on your behalf anything you could do only when you can no longer do it
    - Durable – combines general and springing
    - Specific – allows someone to do on your behalf only what is specified in the power of attorney document
  - Health care proxy
  - Living will