



Financial planning for university leaders nearing retirement.

As university administrators and faculty transition from saving for retirement to using those assets to support their retirement, smart financial planning will ease the tensions associated with this dramatic life change.

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A significant percentage of university executives and senior faculty members are set to retire within the next 10 years. For many of these individuals, deciding when to retire can be difficult. Doing so often requires a mix of emotions associated with leaving colleagues and a chosen profession. For this reason, many often immerse themselves in their work to the very end—paying little attention to their retirement planning needs.

Ignoring the details of one's retirement can be especially problematic for college and university executives and senior faculty members because of the unique complexities associated with their situation. Most have been employed over the course of their careers in senior-level positions at more than one institution; they typically have accumulated assets within qualified and nonqualified retirement plans with both their current and former institutions; and some have participated on outside boards. These individuals, their accountants, and financial planners often need time to fully understand the differences in plan rules and to evaluate the array of possible retirement income strategies and the resulting income tax implications.

This article suggests a process for executives and senior faculty members to follow as they move toward retirement, exploring various options and their associated risks and rewards, and outlining major decisions an individual will likely need to make including:

- Determining your retirement income needs

- Determining your retirement income strategy

- Implementing your retirement income strategy

- Evaluating your insurance coverage

- Considering what happens upon your incapacity or death

- Monitoring your progress



Key Issues to Consider as You Approach Retirement

Consideration 1 - Determine your retirement income needs

The timing of your retirement will determine available payout options and will impact the amount of income you can afford during your retirement years. Determining a retirement date that is right for you also entails grappling with a series of financial considerations and issues such as personal health, longer life expectancies, asset accumulations, inflation, and other income sources.

An appropriate first step is to perform a retirement needs analysis. This will help you evaluate any gap between your various guaranteed income sources and your desired level of expenses. Use the chart below to calculate a quick snapshot of your retirement needs. (For a more thorough assessment of your year-to-year retirement income needs, consider working with a financial professional who can

prepare a financial assessment and cash-flow analysis projecting such amounts through your life expectancy.)

A retirement income needs analysis allows you to track your annual savings rate and to determine whether you can live within your means to and through your retirement years. For many individuals, the most complicated part of the retirement needs analysis is projecting monthly income in retirement. Determining when and how to take Social Security income and retirement plan or IRA distributions can be complicated by numerous options. For instance, Americans are living longer today than a generation ago. For individuals turning age 65 today, there is an 82% probability that they will reach age 80, and a 30% probability they will reach age 95. That means you may need to rely on your retirement income strategy to provide for you and your loved ones for 30 years or more in retirement.

Retirement Needs: A Quick Calculation	2011	2012	2013
Projected Monthly Income:			
Social Security			
Pension Income / Annuity Income			
Retirement Plan and IRA Distributions			
Interest and Dividend Payouts			
Rental Income			
Other: Royalties, Consulting Fees			
Projected Fixed Expenses:			
Food			
Mortgage, Housing, Other Installments			
Utilities, Gas, Transportation			
Insurance			
Healthcare			
Taxes			
Other			
Projected Discretionary Expenses:			
Dining Out, Entertainment			
Travel, Recreation			
Gifting, Charity			
Other			
Projected Monthly – Surplus or Gap:			

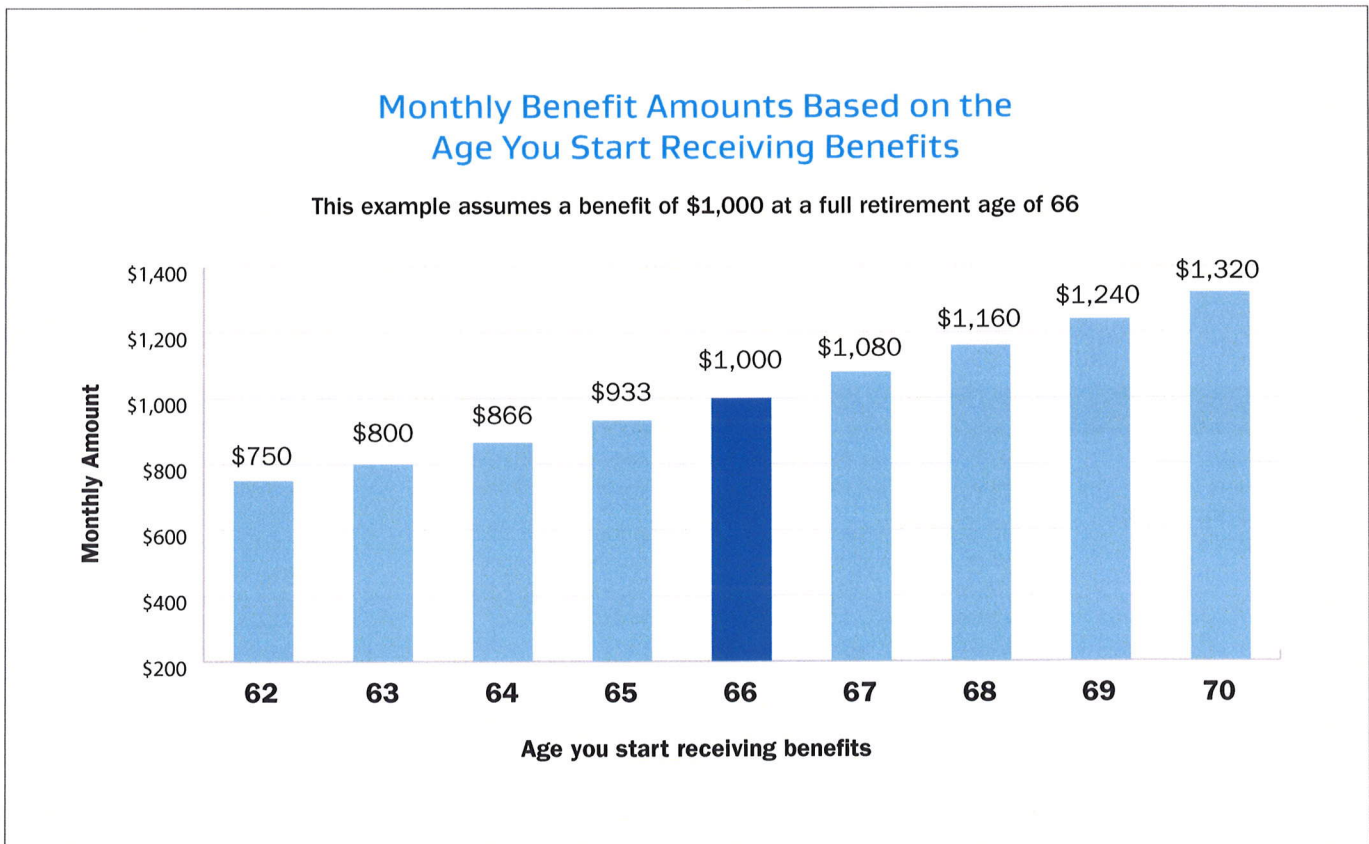
The Social Security decision

Social Security serves to protect against four key risks: longevity, inflation, investment, and survivorship risks. In other words, it plays an important role in providing a baseline guaranteed cash-flow stream to help cover recurring (i.e., fixed) expenses while reducing or eliminating certain risks. The decision to apply for Social Security retirement benefits early or to postpone benefits is often made without careful analysis of important factors that could significantly impact your ability to sustain adequate cash flow throughout retirement.

While an analysis of all factors that could influence an individual's decision is beyond the scope of this article, let's consider some general guidelines. A full retired-worker benefit is available at the worker's full retirement age. This is age 66 if you were born between 1943 and 1954. If you elect to take the benefit after your full retirement age, your monthly benefit is increased by about 8% per year through age 70. If you elect to take the benefit prior to your full retirement age, your monthly benefit is reduced by a similar amount each year down to your earliest starting date. (See chart below.)

For most people, it probably does not make sense to receive benefits prior to the full retirement age if continuing to work because \$1 is deducted from your benefits for each \$2 earned above \$14,160. Surprisingly, about half of Social Security recipients elect to receive benefits between ages 62 and 66. Some who begin receiving their benefit early do so not because they need the additional support, but because they believe they can take the early benefit, invest it, and come out ahead over the long term. This strategy might work if you anticipate equity markets to be bullish, but it can be a costly decision if you live well beyond your life expectancy or if equity markets remain flat or decline.

Other strategies financial planners use to increase your benefit payments often involve the coordination and timing of worker benefits, spousal benefits, and survivor benefits. It's a good idea to work with a financial advisor to assess the strategies applicable to your situation or to assess how long you would have to live to break even, assuming you elect a delayed benefit payment.



For more information, go to www.socialsecurity.gov.

Understanding qualified plan and IRA rules and payout options.

With the mobility of many in higher education, many executives and senior faculty members have retirement plan accumulations in both the current employer's plans and in their previous employers' plans. The rules that pertain to each plan type can vary. As you approach retirement, a primary planning goal should be to better understand your specific plan rules, and in particular, your payout options under each plan at retirement. Affected plans include your IRA, 401(a), 401(k), 403(b), and 457(b) plans (traditional and Roth).

With the exception of Roth IRAs, all these plans are typically income tax-deferred retirement accounts funded with pretax dollars. Funds in traditional accounts will compound tax deferred until distribution. Distributions are typically taxed as ordinary income, and withdrawals made before age 59½ are generally subject to an additional 10% penalty tax.

Once you retire, these plan types typically offer one or more of the following distribution options:

- Income only for ages 55 to 69½.
- Fixed-period payout over a term of years.
- Lump-sum benefit.
- One-life annuity option.
- Two-life annuity option.
- Minimum distribution option.

Your response to a series of questions can help you assess your options and their impact.

1) Should I annuitize my non-Roth accounts?

Most university executives can annuitize a portion (or even all) of their existing employer plan accumulations. The annuity can provide tax-deferred accumulation and can guarantee a lifetime stream of income for as long as you live. This payout option is offered through most university plans at a low cost and is free of expenses such as sales loads and surrender charges. As such, a common strategy is to annuitize enough plan assets to ensure that you meet your family's fixed expenses on a regular basis.

There are two different types of annuities. A fixed annuity guarantees safety of principal and a specified interest rate. As a result, the annuity account balance never declines, even during periods of extreme market volatility and negative returns for other types of investments as long as the insurance company is solvent. A variable annuity bases its income on the performance of various investment sub-accounts and the amount of the payout typically resets monthly or annually. As a result, you receive income for life from a variable annuity, but the amount of such income can vary significantly over time. If a variable annuity is invested in both stocks and bonds, you can potentially realize higher long-term returns than if you had invested in a fixed annuity, though there is also greater downside risk. For this reason, the variable annuity is often used to help mitigate inflation risk.¹

Because annuitization is an irrevocable decision, it may be prudent to make a partial election over a period of years since it provides the flexibility to preserve a portion of the account for future needs or to use a combination of income options to meet other retirement needs.

	Under 59½	59½ - 70½	Over 70½
Traditional IRA, and qualified plans (e.g., 401(a), 401(k), 403(b) and 457(b))	<p>For traditional IRAs, the withdrawal is voluntary.</p> <p>For other non-Roth accounts, withdrawals are subject to plan rules until you separate from service.</p> <p>Potential 10% penalty and income tax.</p> <p>(Exceptions to the 10% penalty may apply if you have a disability, have medical expenses, have qualified higher education expenses, or are a first-time home buyer.)</p>	<p>For traditional IRAs, the withdrawal is voluntary.</p> <p>For other non-Roth accounts, withdrawals are subject to plan rules until you separate from service.</p> <p>No penalty, but subject to income tax.</p>	<p>Withdrawing the required minimum distribution amount is mandatory unless you continue to work beyond age 70½ and elect to consolidate all of your qualified plan and IRA assets into the current employer's 401(a), 401(k), 403(b), or 457(b) plan.</p> <p>No penalty, but subject to income tax.</p>

¹ Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability. Payments under variable annuities will rise or fall based on investment performance.

Many annuities also offer an option called a “guaranteed period” during which payments will continue to a designated beneficiary if your death occurs during the time period (e.g., 10-, 15-, or 20-year period). Selecting a guaranteed period is an effective way to remove the risk of losing all your money to the insurance company due to an early death. While selecting a guaranteed period will reduce the amount of your payments, the overall cost may not necessarily reduce your payments by a large margin.

2) From a cash-flow perspective, what is the best strategy for withdrawing remaining non-Roth plan accumulations?

While you need to decide how and when to receive payouts from your traditional and Roth retirement plans and IRAs, this is not an all-or-nothing decision. It is possible to make partial elections or even to make different elections on a plan-by-plan basis. For instance, between ages 59½ and 70½, you have the discretion to withdraw traditional IRA plan accumulations at any time without penalty and typically also have discretion to withdraw a portion or all of non-Roth employer plan accumulations, although it depends on the plan’s rules if you have not yet separated from service. Each discretionary withdrawal is considered ordinary income subject to ordinary income tax, unless the income is a return of after-tax amounts.

By way of example, a strategy that sometimes makes sense from an income-tax planning perspective is to take periodic withdrawals from qualified plans and traditional IRAs to supplement income while under age 70. In this way, you can allow your Social Security benefits to continue to grow through delayed retirement credits. Studies suggest that delaying Social Security benefits and having a larger share of annual cash-flow needs met through retirement plan distributions can sometimes result in a lower effective tax rate on overall income due to the formula used for calculating the tax on Social Security benefits.

Once you attain age 70½, the plan distribution rules are different between qualified plans (e.g., 401(a), 401(k), 403(b), and 457(b) plans) and traditional IRAs. For traditional IRAs, you must begin withdrawing a minimum amount on at least an annual basis, usually by April 1 following the calendar year when you reach age 70½. For traditional qualified plans, you can typically postpone the start of the required minimum distribution payouts beyond age 70½ to April 1 following the year when you actually retire (assuming you do not have a 5% or greater interest in the plan sponsor). For this reason, when the minimum distribution amounts are not needed for retirement income, some individuals approaching age 70½ who plan to work beyond this age will discuss with their financial advisor whether it’s possible to consolidate prior employer plans and IRA assets into the current employer plan to postpone the required

minimum distribution amounts. If you have pre-1987 accumulations inside your employer plans, these amounts are grandfathered for purposes of calculating the required minimum distribution amount. Even if you are retired, you are not required to begin distributions from grandfathered accumulations until you turn 75. (Note: IRS Publication 590 <http://www.irs.gov/publications/p590/index.html> includes tables to assist you in determining the required minimum distribution amounts.) You may want to consult a tax or financial advisor regarding your situation.

3) Are there benefits to qualified plan and IRA consolidation?

As you contemplate taking required minimum distributions, consider if consolidating plan assets into a single plan (or fewer plans) can help you efficiently monitor asset allocation and investment risks and returns during your retirement years. Consolidation can simplify recordkeeping and may even allow you to avoid duplicative expenses. Before consolidating, consider these factors:

- Generally, 403(b) grandfathered amounts lose their special status when rolled over from a 403(b) plan to another eligible retirement plan, unless the amounts are directly transferred to another 403(b) plan and properly tracked.
- Some state income tax laws provide tax relief for pension payments and minimum distribution amounts from an employer plan. If so, rolling outside IRA assets to the employer plan (if permitted) prior to retiring may help with state income tax liabilities.
- If you work beyond age 70½, consolidating in the current employer’s qualified plan (but not IRAs or plans in which you have 5% or greater interest in the plan sponsor) may enable you to further defer minimum distribution requirements on all accumulations you consolidate in that current employer plan until you retire.

In some instances, you may need to consult with an attorney or tax advisor before consolidating assets. For instance, when creditor protection is a concern, the rules may vary depending on whether the creditor is taking action through a federal bankruptcy proceeding or under state law in a non-bankruptcy proceeding. Likewise, transfers may be subject to differences in features, costs, and surrender charges, and indirect transfers may be subject to taxation and penalties.

4) Should you make a Roth conversion or a series of partial conversions?

Two significant income tax changes occurred during the past year. Individual income tax rates were frozen at their current 2010 level for the next two years (simply pushing out for a couple of years what many have contemplated would be

an effort in Congress to raise tax rates on individuals in the top brackets). Secondly, effective Jan. 1, 2010, the modified adjusted gross income limitation was removed, essentially enabling anyone to make a partial or complete Roth conversion in any tax year going forward.

For many, the Roth conversion option may be well worth considering if you believe your ordinary income tax rate will be higher in future years or if you believe your current rate is lower than what your beneficiary's rate will be in future years. One strategy involves partially converting a specific amount to bring your taxable income up to the top of your current tax bracket. This strategy ensures you receive maximum benefit from the current rate.

Alternatively, you could wait until early next year to make a larger Roth conversion, which enables you to re-characterize, or essentially undo, the converted amount through Oct. 15, 2013. If significant changes are coming for personal income tax rates, they could occur in late 2012 or in the first part of 2013—the exact period when you would have the option to recharacterize a Roth conversion done in early 2012. This strategy would allow you to see what results occur from the 2012 elections to have a better understanding of the actual tax legislation that will be in place for 2013 and beyond. If passage of a federal tax bill lowers ordinary income tax rates, you would still likely have several months to reverse (or recharacterize) the conversion you made in early 2012 to avoid paying tax at the higher rate. However, if rates rise as they are currently scheduled to do, then your conversion in early 2012 could be quite beneficial.

5) Should you take distributions from your Roth accounts?

Because assets in a Roth IRA, Roth 401(k), Roth 403(b), or Roth 457(b) have already been included in gross income, withdrawals from these accounts during your retirement years are always tax and penalty free. However, withdrawals of investment earnings and growth may be subject to a

penalty or tax if certain requirements are not met. Two different five-year rules must be considered.

The first five-year rule pertains to the converted amount, sometimes called the basis. The basis must remain inside the Roth account for at least five years if you are under age 59½. If you are over age 59½, the basis can be withdrawn at any time. The second five-year rule pertains to earnings on the converted amount and on the contributed amounts. The earnings must remain inside the Roth account until you attain age 59½. Additionally, you need to have owned at least one (any) Roth account for at least five years.

Consideration 2 - Determine your retirement income strategy

Once you determine that you can reasonably expect a retirement surplus or gap, you can begin to think about the implications. If in a surplus position, your retirement income decisions become less of a concern in terms of meeting your current lifestyle needs, and your focus may turn to investment planning considerations (e.g., investment strategies for your surplus, asset allocation implications from having more retirement income than you need, etc.). However, if you have an anticipated gap between your guaranteed retirement income sources and your desired fixed and discretionary expenses, you must determine how you will meet that gap. There are three common retirement income strategies individuals use to fill their retirement income gap:

- Systematic withdrawal income planning.** Using this strategy, also known as total return investing, you create one investment portfolio that includes qualified and non-qualified investments and is based on your risk tolerance. (This may exclude any amount you set aside as an emergency fund.) Each month you systematically withdraw a specific percentage of the portfolio or dollar amount, perhaps adjusting the amount annually for inflation. For

	Under 59½	59½ -70½	Over 70½
Roth Plans	Withdrawal is voluntary. No penalty and tax on withdrawal of regular annual contribution amounts. Potential 10% penalty and tax on withdrawal of basis (i.e., any amount initially converted to Roth) if five-year rule is not met. Potential 10% penalty and tax on earnings if five-year rule is not met.	Withdrawal is voluntary. No penalty and tax on withdrawal of regular annual contribution amounts. No penalty and tax on withdrawal of basis (i.e., any amount initially converted to Roth). Potential tax on earnings if the five-year rule is not met.	Withdrawal is voluntary, except the Roth 401(k), Roth 403(b), and Roth 457(b) have a mandatory required minimum distribution. No penalty and tax on withdrawal of regular annual contribution amounts. No penalty and tax on withdrawal of basis (i.e., any amount initially converted to Roth). Potential tax on earnings if the five-year rule is not met.

example, if you started with \$1 million in your investment portfolio and selected a withdrawal percentage of 4%, your first-year withdrawal would be \$40,000 taken in monthly or quarterly distributions. If inflation is 2%, your second-year withdrawal would be increased by \$800 to \$40,800. While retirees often like the simplicity of implementing this strategy, some don't feel completely secure with this approach and may find it difficult to maintain this strategy during market declines.

- **Guaranteed income floor planning.** With this strategy, also known as annuitizing to need, you determine your fixed and discretionary needs. You then annuitize enough of your retirement assets to create a lifetime income stream—along with Social Security and your other guaranteed income—to cover your fixed needs. Often individuals annuitize additional amounts over time to match increased expenses. Your discretionary needs are then met out of the portion of your assets that were not annuitized.
- **Bucket approach planning.** With this strategy, also known as the targeted investment pool approach, you create multiple portfolios (i.e., buckets) for specific purposes or goals. Each portfolio has an investment policy and time horizon that fits the particular need. Short-term buckets of investments, often used for the first five years of retirement, are invested for safety to produce income regardless of market environment. Long-term buckets of investments are typically designed as income (e.g., retirement goal) or growth (e.g., legacy goal). Short-term buckets are replenished from long-term buckets. Individuals can take comfort in having a short-term bucket that allows them time to avoid drawing down their growth-oriented buckets during significant market declines.

Consideration 3 – Implement your retirement income strategy

Deciding how best to distribute your assets requires analyzing your overall financial condition, your health, and your tolerance for risk. For instance, individuals with health concerns may feel much differently about annuitizing assets than those with family histories of longevity. Families with large income gaps as a percentage of their financial assets might need to consider an annuitization strategy to guarantee some lifetime income, while families with no or low income gaps may be more flexible in their planning. Your feelings about market exposure (risk tolerance) and your tax situation are also important factors in determining how best to distribute your assets. A number of quantitative and qualitative factors also influence the retirement income decision-making process. Your financial, tax, and legal advisors can help you identify gaps in your financial plan and equip you with the information needed to implement an appropriate plan for you and your family.

Consideration 4 – Evaluate your insurance coverage

As you approach retirement, the concern about how to best acquire and pay for medical insurance may be more prominent than evaluating your need for ongoing life insurance—yet, both are important considerations. Begin by understanding what options, if any, exist under your current medical insurance plan, and study the costs, timing, and coverage available through Medicare. For existing plans, it might be possible to achieve cost savings by increasing deductibles or by converting the coverage to another type. You might also need to consider the purchase of a supplemental policy for coverage until Medicare begins.

For life insurance, this is a good time to review how your policies may provide liquidity to your estate, provide for loved ones, or simply serve as a vehicle for tax-deferred build-up of the cash value. For starters, consider whether your group term life insurance policy is convertible to an individual term, whole life, or universal policy. If you own a universal policy, and have cash flow concerns, consider your options to reduce annual premiums to allow the built-up cash value to pay future premiums. Or, if you need more cash flow in the early retirement years, it may be possible to borrow against the policy for your short-term needs. As you prepare for the financial changes of retirement, it is a good time to work with your life insurance specialist to evaluate the health and strength of your existing policies and to explore how insurance fits into your longer-term plans.

Consideration 5 – Consider what happens upon your incapacity or death

A growing number of people now consider estate planning an essential part of their financial plans. While the legal and financial issues can be complex, the purpose of estate planning is simple: to help ensure that your assets are distributed according to your wishes at your death and to help preserve these assets by minimizing estate taxes and other expenses associated with inheritance. For many individuals, their qualified plans and IRAs—Roth and non-Roth—are likely their largest asset or perhaps their second-largest asset after their residence. It is important to remember that if you are incapacitated, whether temporarily or permanently, your loved ones and plan beneficiaries will not have an automatic right to information and access to these assets.

Several options are possible. If you choose to do nothing, your loved ones can petition the probate court upon your incapacity for authority to access the qualified plans and IRAs. Unfortunately the probate process, sometimes called a conservatorship, can be costly to administer. Another option is to work with an attorney to establish a durable power of attorney for financial matters and to specifically name another person to act as your agent if you are incapacitated. If you already have this document, consider reviewing it to determine whether it includes specific powers relating to qualified plans and IRAs. For example, can the agent make withdrawals, make other elections and Roth conversions, or even change the beneficiary designations on your behalf? As a stop-gap measure, many financial providers offer a document called a limited power of attorney that allows you to designate an agent to act on your behalf with respect to your qualified plans and IRAs.

It is easy to forget that the contractual provisions relating to the qualified plans and IRAs are as important a legal document as your will or trust. One final point to remember is that an improperly drafted or missing beneficiary designation form could cause your loved ones to pay more income tax or to pay more in administrative costs. Be sure to work with a qualified financial advisor and read the applicable sections of the plan document to make sure that your designation is written in a manner that is workable.

Consideration 6 – Monitor your progress

Changes in health or family situations, new hobbies or goals, market fluctuations, changes in the state of your residence, changes in tax laws, or changes in risk tolerance can all impact your retirement income plan. Because your financial situation and income needs will likely change over time as well, you may need to adjust your goals, reassess your risk tolerance, rebalance your assets, or implement a new income strategy. Be sure to review your plan regularly to determine any material changes in your situation and whether your plan is still on track to meet your retirement goals.

Your TIAA-CREF advisor can help you chart an appropriate retirement planning path. Speak with your advisor about creating retirement income strategies designed for your specific situation.

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