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The Pension Planner

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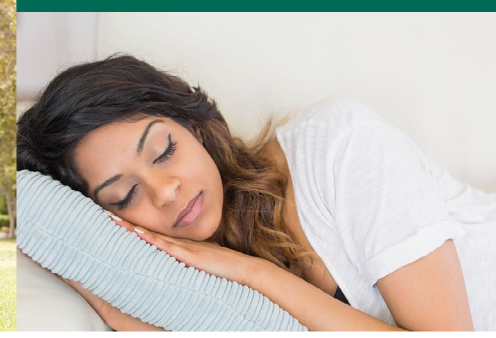

Spending down retirement accounts:

New ways to look at your withdrawals

People who have saved for retirement most of their working lives often have trouble reversing the habit. After years of curbing spending, how do you plan on extracting your savings to supplement your NYSNA pension and Social Security benefits?

The drawdown rate

For nearly 20 years, retirees have been advised to use the "4 percent drawdown rule," a standard developed by Bill Bengen, a certified financial planner whose research demonstrated that a 4 percent annual withdrawal rate was sustainable over the course of a retirement. That means you could withdraw 4 percent every year without running out of money before you die, assuming that your investments appreciated at least 4 percent a year.

However, Bengen's research was based on the worst-case scenario for an investor retiring in 1969. A lot has happened since then, leading many financial planners to advise clients to reduce their withdrawal rate to 3 percent, especially with interest rates currently so low. Of course, much depends on your own situation. Some advisors suggest only lowering your withdrawal rate in bad market years or to start at 4 percent and postpone inflation increases for several years.

In addition, if your portfolio contains very conservative investments, a low withdrawal rate makes the most sense. Likewise, a slightly more aggressive portfolio of 60 percent stocks and 40 percent bonds may be just fine with 4 percent withdrawals, although it's generally not advisable for people at retirement age to have more than 40 percent in equities.

Divide assets by time horizon

Remember when you or your parents would put money in an envelope to save toward a vacation or make weekly contributions to a Christmas club? That's the same theory at work in using a bucket strategy for withdrawing assets. In this case, your buckets/envelopes hold assets guided by the time in which you'll need them (your time horizon).

Most approaches to this method divide assets into three buckets, although some use as few as two or as many as four. In the three-bucket version, one bucket is used for short-term (12 to 24 months) expenses, a second bucket holds savings for expenses two to 10 years out, and the last is designed to hold investments more suited to expenses needed at least 10 years down the road.

Because the first bucket is for relatively immediate needs, its investments are put into conservative and liquid vehicles such as CDs, savings accounts, and money market funds.

The second, or intermediate, bucket is a bit more aggressive in order to create income that replenishes the first bucket. Municipal bonds, intermediate-term bonds, and value, dividend-paying stocks are typically used for this time horizon.

Finally, the bucket designated for the long-term is filled with investments that tend to grow over time. These are almost always dividend-paying stock funds, growth stock funds, and international stock funds. As the second bucket empties, you refill it with income from the sale of appreciated stocks in the third bucket.

Divide assets by needs and wants

Another way to segment your assets is to divide them by what you *need* first and then by what you *want*. The Confident Retirement® approach, pioneered by Ameriprise Financial, highlights four areas: Covering essentials, Ensuring lifestyle, Preparing for the unexpected, and Leaving a legacy.

"This approach works very well for our clients because it gives them peace of mind and the confidence they'll have all the income they'll need for their retirement," says Thomas F. Wayne, CFP, CRPC of Wayne Bazanos & Associates, Albany, NY.

"Essential expenses" are those you need and include mortgage or rent, home maintenance costs, groceries, medical costs (premiums and out-of-pocket), utilities, property taxes,

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Retirement accounts, cont.

transportation, and basic clothing. Similar to the bucket method described above, you would cover these necessary expenses with conservative investments such as annuities, U.S. Treasuries, bond ladders, CDs, savings accounts, and money market funds.

"Ensuring your lifestyle" covers expenses that may include travel, entertainment, and hobbies. The Confident Retirement approach recognizes that spending habits can change and inflation can affect your bottom line. Therefore, this area of your life demands some financial flexibility. You'll need to estimate these expenses and determine what assets are necessary to provide enough income to meet them.

A typical portfolio would cover three time periods: cash in CDs, savings accounts, and money market funds for three years' worth of expenses; income-producing securities such as bonds, bond funds, dividend income funds, and annuities for intermediate-term expenses; and growth funds for long-term expenses.

The third principle of the Confident Retirement approach, "Preparing for the unexpected," addresses preretirement disability, property loss, premature death, or the need for long-term care. Strategies for dealing with these unexpected expenses include purchasing a long-term care policy or life insurance policy.

Finally, the last principle deals with your desire to leave assets to a loved one. "Leaving a legacy" focuses on control of assets and appropriately using leverage to guard against the effect of taxes. Areas covered include titling assets, beneficiary designations, financial power of attorney, will, and trusts.

Regardless of which approach you decide to take for withdrawing your hard-earned assets, it would be a wise move to discuss it with a financial expert (see "Five retirement mistakes to avoid" below.) •

The Plan office will be closed on January 20 in honor of Martin Luther King Jr. Day and February 17 for President's Day.

Summary Material Modification

As reported in the fall issue of The Pension Planner, the Trustees made a change to the Preretirement Survivor Benefit, in that eligible unmarried participants may designate up to two beneficiaries, regardless of age, effective August 1, 2013.

Furthermore, due to the Supreme Court of the United States decision last summer finding the Defense of Marriage Act to be unconstitutional, the following language on pages 12 and 14 in the *2012 Summary Plan Description* **no longer applies**, effective Sept. 16, 2013:

Page 12:

(By federal law, same sex married couples are not eligible for this benefit form, but you may name a beneficiary as described in the "Unmarried participants" section above.)

Page 14:

(By federal law, same sex married participants are not eligible for this form of payment, but you may elect any other form of payment.)

2014 federal tax withholding notice

At the beginning of every year, retirees have the opportunity to change their federal withholding election with the Pension Plan based on new federal tax withholding tables published by the Internal Revenue Service. The Plan is required to update its pension payment system to reflect these new tax tables.

If you already have federal tax withheld from your Pension benefit, you may experience a change in the amount being withheld beginning February 1.

If you'd like to change your federal withholding tax election, you can download the 2014 form W-4P from the "Forms" page of our NYSNA Pension Plan Web site at **www.rnbenefits.org**. If you don't wish to change your federal withholding election, no action is required.

Because this decision is an important one, you may want to discuss it with a qualified tax advisor. If you have any questions or don't have access to the Internet, please call the Plan at **(877) RN BENEFITS** from anywhere in the United States or at **(518) 869-9501** from elsewhere in the world. •

YOUR MONEY

Five retirement mistakes to avoid

When you're young, you can afford to make a few financial mistakes. But once you're retired and living on a fixed income, it's hard or impossible to recover from them.

According to *The Wall Street Journal*, the following are five money mistakes made by retirees:

1 Underestimating how much money you'll need.

Besides your NYSNA Pension and Social Security benefits, do you have enough saved to withdraw additional funds without sacrificing your future?

2 Not paying for financial advice.

Commission-based advisors may not have your best interests at heart. Because they benefit from each investment you have, there's room for conflict of interest. They also may only steer you to products offered by their firm, which may not be best for you. Fee-only advisors, on the other hand, are more likely to suggest low-cost investments from a greater variety of providers.

3 Not understanding what you're investing in.

A good rule of thumb is, if you can't explain the investment to a friend, you shouldn't be in it.

4 Supporting your adult children.

Unless you're sure that you have enough financial security to last your lifetime, it's unwise to spend money you can't recoup on a child who has decades to acquire his or her own assets.

5 Overlooking the cost of elder care.

If your own parents are still alive, you may be called upon to help them out. And even if you don't have to pay for their care, you may wind up with significant travel expenses if they live far away. •

20 minutes for a better you

What can be accomplished in 20 minutes and is reported to increase alertness, productivity, creativity; improve memory; and reduce stress and your risk for heart disease? According to Sara Mednick, PhD, of the University of California, San Diego, it's a nap. A simple, lovely nap.

Before learning why a 20 minute nap is a good idea, it helps to understand the 4-stage sleep cycle.

Stage 1 is your introduction to sleep, a time when structured thinking yields to dreamlike imagery.

Once you've fallen asleep, *stage 2* begins. This is the sleep that restores alertness and reinforces motor learning.

Stage 3 slows down brain waves. It's in this stage where the body is repaired by human growth hormone, which is an antidote to the stress hormone, cortisol. Memory also is reinforced in stage 3.

Dreams occur in *stage 4*, or rapid eye movement sleep. Complex learning is reinforced in this stage.

Stage 1 only happens once, then we cycle through stages 2 to 4 several times per night. Each cycle lasts about 90 minutes in total, with stage 2 sleep accounting for nearly two-thirds of that time. The remaining time is spent in stages 3 and 4, which vary in each 90 minute cycle.

Napping for 20 minutes reduces sleepiness, improves alertness, improves concentration, and makes for a better mood.

Napping for 60 minutes (a stage 3 nap) discards useless information, improves memory, and repairs the body.

A long, 90 minute nap heightens creativity and improves complex memory and sensory processing.

You can nap for as long as any of the three stages require, but for most people, a 20 minute nap is all they need – and can grab. •

Ask the Pension Plan

What is covered employment?

Covered employment refers to specific bargaining unit jobs in a facility that participates in the Pension Plan and is determined by the individual facilities.

Each facility sets its own standards for part-time and full-time covered employees, based on the collective bargaining agreement it has established with the New York State Nurses Association. Check your collective bargaining agreement for a complete list of covered positions at your facility.

Can I borrow money from the NYSNA Pension Plan?

No, you can't borrow money from the Plan, because it's a defined benefit plan to which only your employer makes specific, monetary contributions. Because defined benefit plans must provide a predetermined benefit at retirement, you cannot manipulate your Plan by adding to, withdrawing from, rolling over, or conducting any other type of change.

This includes rolling over money from a previous employer's 401(k) or 403(b) into your Pension Plan. That's because 401(k)s and 403(b)s are defined contribution plans, to which an employee and/or employer makes specific monetary contributions. •

Social Security Q & A

Some facts about Social Security benefits are widely known. Here are some that may not be:

Does Social Security base my benefit on my highest five years of earnings?

No. Social Security uses an "average wage index" for all your working years up to two years before you're eligible for benefits (age 60 for early retirement eligibility at age 62). It then averages your income from your 35 highest earning years. If you've worked less than 35 years, zero-income years are included in that average.

Will my pension benefit cause my Social Security benefit to be reduced?

For NYSNA Pension Plan recipients, no. Pensions from federal, state, local, or foreign government systems in which you did not pay Social Security taxes are reduced by two-thirds of your government pension.

Will working after I file for Social Security benefits reduce my monthly benefit?

Only if you collect benefits early and your work income surpasses the Social Security earnings threshold, and only for the years preceding your full retirement age. (Once you reach your full retirement age, there is no offset.) The amount is determined by how far out in the future you would attain normal retirement age. For example, in 2013, people who would attain normal retirement age *after* 2013 could earn up to $15,120 before a reduction of $1.00 for every $2.00 in benefits would be enforced. For people attaining normal retirement age *in* 2013, the annual exempt amount is $40,080, and the reduction would be $1.00 for every $3.00 earned.

However, any benefits withheld while you continue to work aren't lost – they're deferred. Every dollar of earned income, up to any age, can result in increases in Social Security benefits. Social Security automatically will recalculate your primary insurance amount (which is the benefit you would receive at full retirement age) every year in which you work. As long as you keep working and paying Social Security taxes, you can potentially keep increasing your benefit. There is no *disincentive* in the Social Security system to keep working after you start benefits.

A great, more detailed explanation, with examples, is available on the SSA Web site in the publication "How Work Affects Your Benefits" (**www.socialsecurity.gov/pubs/EN-05-10069.pdf**).

Can debt collectors or creditors attach my Social Security benefits?

Unless the debt is for unpaid federal taxes or child support, the answer is "no." The trouble is, when banks get a court order to freeze an account, they comply, even if the account holds your Social Security deposit. Since this is illegal, you can notify the bank and insist those funds be released. (NOTE: Your NYSNA Pension benefit also is subject to a levy from the Internal Revenue Service for unpaid federal taxes only.) •

The PensionPlanner

The Pension Planner is published four times a year as a service to participants of the New York State Nurses Association Pension Plan. The information in this newsletter is not intended to be complete Plan information, and is not a substitute for the *Summary Plan Description*. Please address questions about this newsletter to the Communications Department.

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If you'll be changing your address, please notify us so you won't miss the next issue of *The Pension Planner.*

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Federal agencies launch valuable online retirement toolkit

A collaboration of the Department of Labor, Social Security Administration, and the Centers for Medicare and Medicaid Services resulted in a Web-based resource (www.dol.gov/ebsa/pdf/retirementtoolkit .pdf) that assists workers in identifying important factors in retirement planning.

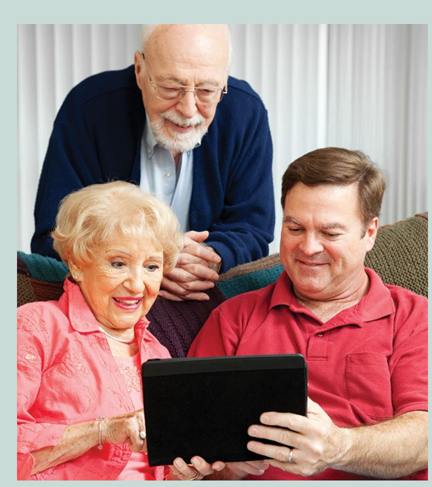
The toolkit includes a timeline illustrating when workers should make key retirement decisions, information about Social Security and Medicare plans, elder abuse and fraud protection, and provides guidance and publications about retirement planning, some of which are particularly geared towards women. In addition, many of the online publications are available in Spanish.

Pension Plan helps those in need during the holidays

In December, the staff of the Pension Plan office once again – for the 15th year – came together to provide a festive holiday for two local families in need. In addition to buying toys for the children, Plan employees also purchased clothing, provisions for a full holiday dinner, as well as groceries and gift cards. At the helm of these efforts was Pension Analyst Wanda Krisanda, who coordinated the collection, wrapping, and delivery of the gifts and food. •

Financial crimes against seniors

The top three financial exploitation problems of seniors identified by law enforcement, healthcare, social services, and financial planning experts are, in order: theft or diversion of funds or property by family members; theft or diversion of funds or property by caregivers; and financial scams orchestrated by strangers.



Signs that a senior could be at risk include:

- *Social isolation.* A lonely senior who is desperate for companionship is an easy target for a con artist.
- *A loss in the ability to care for one's self.* A swindler or family member can use that person's inability to perform daily activities as an opportunity to gain access to the senior's finances.
- *The loss of a spouse.* Scam artists search obituaries for vulnerable widows or widowers.
- *The senior gives money to an unemployed adult child.*
- *The senior complains that the child he gave power of attorney to won't reveal where his finances stand.* •