OUTLINE

- Why is retirement important?
- How much money do I need to retire?
- Definitions
- Types of retirement accounts
  - Employer-offered 401(k) or 403(b)
  - 457 Account
  - Roth IRA
  - Traditional IRA

“At our current savings rate, we should be able to retire in three hundred and twenty-seven years.”
WHY IS SAVING FOR RETIREMENT IMPORTANT?

1. Retirement is the best time to check off your bucket list.
2. You can’t work forever.
3. Your future may have more financial obstacles that you want to be prepared for.
4. It’s a way to tax shelter your income.
5. Time = Money

“I finally put something aside for my retirement. I put aside my plans to retire.”
Saving fundamentals:
Harnessing the power of compounding can greatly impact the amount of savings over the long term.

- Susan invests $5,000 annually between the ages of 25 and 35.
- In total, she invests $50,000.
- Bill invests $5,000 annually between the ages of 35 and 65.
- In total, he invests $150,000.
- Chris invests $5,000 annually between the ages of 25 and 65.
- In total, he invests $200,000.

Growth of savings accounts:

- Age 25: $0
- Age 35: $50,000 (Susan), $5,000 (Bill), $5,000 (Chris)
- Age 65: $540,741 (Susan), $602,070 (Bill), $1,142,811 (Chris)
HOW MUCH MONEY DO I NEED TO RETIRE?

- It depends on…
  - Current lifestyle and spending
  - Anticipated lifestyle and spending in retirement
  - Anticipated length of retirement
  - Time to retirement
  - Risk tolerance
  - Ability or willingness earn income in the future
  - Access to passive income streams (pensions, social security)
HOW MUCH MONEY DO I NEED TO RETIRE?

- The 4% Rule
  - Trinity Study
  - A $1 million portfolio = yearly income of $40,000 (pre-tax)
  - Amount you need in savings = 25 x estimated annual living expenses
Points to Remember

- Try to save 20% of your yearly income for retirement
- Expect your money to grow at a rate of 3-7% a year after taxes, expenses and inflation
- Usually a typical physician can comfortably retire on 30-50% of his/her pre-retirement income
DEFINITIONS

Retirement Accounts

IRA
401(k)
Roth IRA

Investments

Stocks
Bonds
Mutual Funds
Tax-deferred Accounts

- You contribute pre-tax money which grows in a tax-protected manner
- When you withdraw money in retirement, you owe taxes on the withdrawal at your ordinary income tax rate

Tax-free Accounts

- You contribute post-tax money, which grows in a tax-protected manner
- When you withdraw money in retirement, it is tax-free
EMPLOYER-OFFERED 401(K) OR 403(B) ACCOUNTS
Most common type of retirement plan
- Described as “defined contribution plans”
- You decide on the amount of contributions
- No taxes!!!! Kinda…
The Good:

- No tax now means more money later!
- You can contribute 3x as much as a Roth IRA
- Employer Match
- Lower Taxable Income
- Max Contribution of $19,500 a year (as of 2020)
401(K) THE BAD

- You do have to pay taxes later
- Withdrawing money before 59 ½ results in penalties
- Forced withdrawals at age of 70 ½
- Uncertain future tax rates
403(b)

Defined Contribution Plan

Shares many similarities with 401(k)

More common than you would think
Pros
- Retired by 55, start getting paid!
- Lower Taxable Income
- Max Contribution of $19,500 a year (as of 2020)

Cons
- Potential for low default savings level
- Many 403(b) don’t have ERISA protection
Provisions Under ERISA

The Employee Retirement Income Security Act of 1974

- **Detailed reporting and accountability** to the federal government.
  - Written policy to establish how claims should be filed, as well as a written appeal process for claims that are denied.

- **Regulate the conduct of managed care and other fiduciaries.**
  - Certain disclosures must be provided to plan participants that clearly list what benefits are offered.

- **Act as a safeguard to assure that plan funds are protected and delivered in the best interest of the plan members.**

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the balance
### Federal Continuation Health Coverage Laws

<table>
<thead>
<tr>
<th>PROVISION</th>
<th>REQUIREMENTS</th>
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<tbody>
<tr>
<td><strong>Covered Employers</strong></td>
<td>COBRA applies to group health plans maintained by:</td>
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<td>- Private-sector employers with <strong>20 or more employees</strong>;</td>
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<td>- Employee organizations; and</td>
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<td></td>
<td>- State or local governments.</td>
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<tr>
<td><strong>Qualified Beneficiaries</strong></td>
<td>A qualified beneficiary is generally an employee, spouse or dependent child covered by a group health plan on the day before a qualifying event.</td>
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<tr>
<td>(Employee / Dependents)</td>
<td>In certain cases, a retired employee, the retired employee’s spouse and the retired employee’s dependent children may be qualified beneficiaries. In addition, any child born to or placed for adoption with a covered employee during the period of COBRA coverage is considered a qualified beneficiary.</td>
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<td>Agents, independent contractors and directors who participate in the group health plan may also be qualified beneficiaries.</td>
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TIPS FOR 401(K) AND 403(B)

1. Maximize Your Match
2. Diversify and Watch Expenses
3. Avoid Loans
4. Check Out Your Company’s SPD
457 ACCOUNTS
457 PLAN

- A type of... you guessed it, defined contribution retirement plan!
- Offered to employees of state and municipal governments
- Can take money out at any age penalty free!
- Difference between governmental and non-governmental plans
- Max Contribution of $19,500 a year (as of 2020)
You can rollover your 401(k) to an IRA

You can rollover your 401(k) or 403(b) to a new 401(k) or 403(b)

457 Rollovers are a bit trickier…
You can combine a 457 account with either a 401(k) or 403(b)

Catch Up Contributions for those age 50 and up
So your employer has declared bankruptcy and is going out of business....

What does this mean for your retirement plan?
TRADITIONAL IRA ACCOUNTS
TRADITIONAL IRA: THE GOOD

- Separate from your employer-sponsored retirement plans
- Max Contribution of $6,000 a year, or $7,000 a year after age 50 (as of 2020)
- If your spouse doesn’t work, you can contribute another $6,000 a year in a Spousal IRA
- You can choose and manage your own investments
You do have to pay taxes later—uncertain future tax rates

Withdrawing money before age 59 ½ results in penalties

Forced withdrawals (required minimum distribution) at age of 70 ½

You cannot pull out loans like with a 401(k)
If you are covered by an employer’s retirement plan, such as a 401(k), you can only deduct contributions if your income is under:

- $66,000 (single)
- $110,000 (married)
ROTH IRA ACCOUNTS
Roth IRA: The Good

- Separate from your employer-sponsored retirement plans
- Max Contribution of $6,000 a year, or $7,000 a year after age 50 (as of 2020)
- If your spouse doesn’t work, you can contribute another $6,000 a year in a Spousal Roth IRA
- You can choose and manage your own investments
You contribute with after-tax money, and then it is never taxed again.

There are no required minimum distributions at 70 yo unlike a 401(k).

If you leave your Roth IRA to your heirs, they will get it tax-free.
There is a contribution income limit that you probably won't meet once you are an attending.

- $122,000 (single)
- $193,000 (married)
But wait...there's a secret backdoor!

- Step 1: You need to own a traditional IRA and a Roth IRA account. It’s easier if they are at the same fund company.
- Step 2: Make a $6,000 ($7,000 if over 50 yo) non-deductible contribution into your traditional IRA.
- Step 3: A business day later in the same calendar year, transfer the $6,000 from your traditional IRA to your Roth IRA. Make sure there is no money left in the traditional IRA account by December 31, otherwise it will be taxed.
- Step 4: Fill out IRS Form 8606 correctly when you file taxes. You need a separate one for each spouse, even if you are filing jointly.
- Step 5: Repeat every year!
- Step 6: Withdraw your money at retirement tax-free!
OTHER TYPE OF RETIREMENT ACCOUNTS

- Individual (Solo) 401(k)
- Profit-Sharing Plan
- SEP-IRA
- SIMPLE IRA
- Defined Benefit Plan
- Variable Annuity
- Whole Life Insurance
- Variable Life Insurance
“And now that I’ve wasted an hour of your time, are there any questions about how I can waste a few more minutes?”