

# Putting a Comprehensive Retirement Plan in Place

The Laddering Strategy Again  
Mutual Funds & Their Costs  
Annuities: Features & Costs  
A Word About Social Security

# Mutual Funds Basics

- Advantages Offered by Mutual Funds
- Instant Diversification
- Professional Management
- Each Fund Must State Investment Objective
  - Aggressive Growth
  - Growth and Income
  - S&P 500 Index
  - Sector Funds

# Mutual Fund Expenses

- Sales Charges:
  - Front Load – Class A Shares
  - Deferred Load – Class B Shares
  - Deferred Load – Class C Shares
  - Advisor Funds – Class Y Shares
- Management (12b-1) Fees
- Annual Expense Ratio
- Turnover and Trading costs

# Example: Growth Fund of America Class A Share

- Front Load = 5.75%
- Back Load = 0.0%
- 12b-1 Expense = .25%
- Expense Ratio = 0.68%
- Annual Turnover Ratio = 20%
- Total Fund Expenses including Trading Costs = .94%

# Example: Growth Fund of America Class B Share

- Front Load = 0.0%
- Back Load = 5.0%
- 12b-1 Fee = 1.0%
- Annual Expense Ratio = 1.43%
- Turnover Rate = 20%
- Total Fund Expenses Including Trading Costs = 1.72%

# Conclusions on Fund Expenses

- Expenses of Mutual Funds Vary Greatly
- Sales Charges are only part of the story
- Let's take a "Low Cost" Fund Example
  - TIAA-CREF Growth Equity Fund
  - No Front or Back Loads
  - No 12b-1 Fee
  - Annual Expense Ratio .45%
  - Turnover = 78%
  - Annual fund expense including Trading Costs = 1.42%
- Average Mutual Fund Expense for the Industry is 1.84%
- Vanguard leads the way in low-cost mutual fund offerings
- Mutual Funds are generally more expensive to hold than many investors realize.

# How About Annuities?

- Designed in 1950's as Retirement Supplements
- Tax-Deferred Growth
- Fixed Annuities: Fixed-Income Underlying Investments
- Variable Annuities: Mutual Funds are Underlying Investments
- Death Benefit is Guaranteed
- Many Riders Available
  - GMIB, GMWB, Portfolio Optimization, Automatic Annual Rebalancing
- Annuitization is Possible but not Required
  - Annuitization is a Distribution Option

# Annuitization Options: Traditional TIAA

- Difference Between “Annuity” and “Annuitization”
  - Market risk is shifted from the annuitant to annuity company
- Single Life Annuity
- Joint Life Annuity
- Joint Life: 100% to Survivor
- Joint Life: 66% to Survivor
- Joint Life: 50% to Survivor
- Graded Interest – 2.5% Guaranteed
- Interest Only: Available for ages between 55 and 69 ½.
- Single or Joint Life with Period Certain
- Period Certain Annuity

# Cost of Annuities

- No Front Loads are Assessed
- Deferred Surrender Charges can be Incurred
  - Annual Surrender-Free Withdrawal Privileges
- M&E Expenses
- Individual Subaccount Fund Expenses
- Management Expenses 12(b)-1
- Cost of Guaranteed Income or Withdrawal Riders
- Interestingly, Disclosure of Turnover and Trading Costs is Required by NASD for Variable Annuities
- The Sum of these equal the Total Annuity Expense Ratio

# An Annuity Cost Example

- 54 Mutual Fund Options
  - Across Many Mutual Fund Families
- 1.10 M&E Charge
- .25% to .90% Individual Fund Expense
- Guaranteed Minimum Income Benefit – GMIB
  - 5% per year return to upside cap - .36% per year cost
- Guaranteed Minimum Withdrawal Benefit
  - 6% per year lifetime withdrawal – regardless of market performance – .31% per year cost
- As an Average the Total Annuity Expense Ratio generally ranges between 1.8% to 3.0%
- Annuities generally have higher costs than Mutual Funds

# Summary of Fixed and Variable Annuities

- Fixed Annuities invest in Fixed Income assets
- Variable annuities generally invest in Equity assets
- Investments referred to as Subaccounts
- Issued by Insurance Companies
- Embedded Death Benefit Options
- Provides for Annuitization – but not required
- Maintains complete investment flexibility
- Riders provide for management of market and longevity risk.
  - Income Guarantees
  - Withdrawal Guarantees

# A Word About Social Security

- Was Established in 1935
- Benefits Through Social Security
  - Retirement Income
  - Survivors Income
  - Disability Income
  - Medicare
- Financed through tax on Employers and Employees

# Social Security Taxes

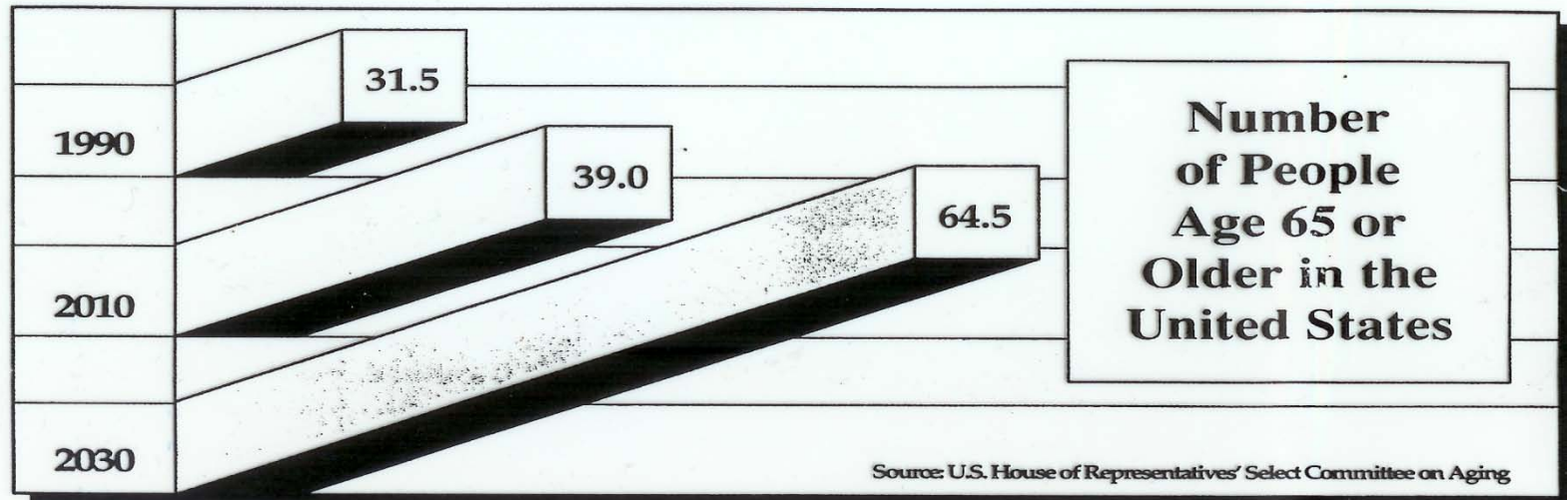
- Initially: 1% of first \$3,000 earnings = \$30
- For Calendar Year 2008:
  - Employee: 6.2% of earnings up to \$102,000
  - Employer: 6.2% of earnings up to \$102,000
  - Employer & Employee: 1.45% Medicare for all earnings – no cap.
- Effective tax rate has now become at least 14.3% - At times the largest tax for many middle-class Americans

# Some Interesting Social Security Demographics

Section 1

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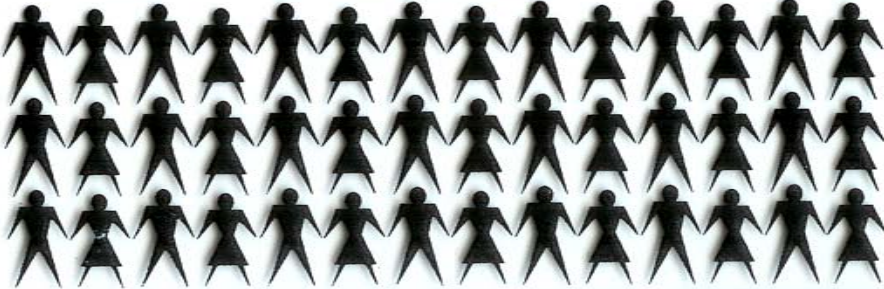





Number of People Age 65 or Older  
in the United States (in millions)



Spring 2009 Semester  
Session #4

# Even More Interesting Social Security Demographics

Will the Social Security System Be Able to Support This Growing Group of Senior Citizens?

| Ratio of Workers to Retirees |   |          |   |
|------------------------------|---|----------|---|
| Year                         | Workers   |          | Retirees  |
| 1945                         |    | 42 to 1  |    |
| 1984                         |  | 3.3 to 1 |  |
| 2020                         |  | 2.4 to 1 |  |

# When Should I Take Social Security Retirement Payments?

- You can begin receiving benefits at age 62 or higher.
- The Concept of “Full Social Security Retirement Age”
  - Varies between 65 and 67 depending on the year you were born
- The “Earnings Test” applied to beginning benefits earlier than Full Social Security Retirement Age

## Next Week: For the Younger Group

- Get the “magic of time” to work for you.
- Supplementary Savings Opportunities.
- Periodic Rebalancing along the way.
- Providing for economic security in the event that you die.
- Insuring for the “golden years” in the event that you don’t.

## Next Week: For the “About to Pull the Trigger” Group

- Review of retirement-income strategies
- Possible Investments within each Ladder
- Value of Supplemental Savings
- Value of Wills and Trusts
  - Basics of Estate Planning
- Response to your emailed questions
- What to look for in a Financial Advisor