

# **The Ugly, Bad and Good of Retirement Investing!**

## **I. Set Financial Goals**

- A. Goals that matter
- B. Include wife and kids
- C. Start now by putting time on your side
- D. Be careful when buying something that may take away from goals
- E. Be prepared for change -- reexamine every few years

## **II. Having a Plan**

- A. Identify how you spend your money
- B. Things to be careful of with plan
  - 1. Spending beyond your limits
  - 2. Cash leakage -- ATMs
  - 3. Luxuries dressed as necessities
  - 4. Watch out for spending creep
- C. Things to do with budget
  - 1. Pay yourself first -- 10%
  - 2. Use software like Quicken or Microsoft Money
  - 3. Relax -- Don't go overboard by being overzealous
  - 4. Tithing or contributions to a worthy cause

## **III. Manage Debt and Cutting Costs**

- A. Refinance your mortgage
- B. Cut taxes -- itemize
- C. Raise insurance deductibles
- D. Latte & martini factor
- E. Brown bag it
- F. Golf -- sports package -- symphony, etc.
- G. Buy used cars -- no leases
- H. Shop Wal-Mart
- I. Pay cash for vacations
- J. House too large for budget
- K. Sell it -- VOIP
- L. Pay off credit cards every month -- have only 1-2 per household

- M. Rent movies instead of going to the movies
- N. Cut eating out
- O. Appeal your home assessment
- P. Pay off highest rate debt first
- Q. Cable TV
- R. Shopping ??? Buy, Buy, Buy, Why???
- S. Use coupons

#### **IV. Good Debt vs. Bad Debt**

- A. Good debt is anything you need but can't afford to pay for up front without wiping out cash reserves
- B. Bad debt -- things you don't need and can't afford. Worst form of debt is credit card debt because of high interest. The average American has \$9,200 in credit card debt.
- C. Things to watch out for with credit cards
  - 1. Paying only minimum each month
  - 2. Taking out a loan to pay credit card and then running up debt again
  - 3. Never use home equity or retirement money to get a loan

#### **V. 403b Suggestions**

- Rule 1 - Start early
- Rule 2 - Invest with quality company
- Rule 3 - Know about fees and surrender charges
- Rule 4 - Diversify investments
- Rule 5 - Increase 403b contributions annually
- Rule 6 - Work or ask for better investment choices
- Rule 7 - Take a long-term view -- don't obsess daily
- Rule 8 - Be sure entire financial house is in order
- Rule 9 - Learn -- educate yourself
- Rule 10 - Share your knowledge with colleagues

## **VI. How to Start a 403b**

A. Ask district for list of participating investment companies or vendor list. Watch for performance and cost. Example : start with \$10,000, after 30 yrs. if mutual fund expenses are 1.96%, then you will have \$32,000. 1.26% = \$40,000.

.41%=\$51,000

1. Fidelity
2. T. Rowe Price
3. TIAA-CREF
4. Vanguard
5. USAA

B. After selecting vendor, decide how to allocate your money

C. Next, determine how much to contribute monthly. Most require \$50.00 per month.

D. Last, fill out a salary reduction agreement. The amount reduced goes to your 403b investment. Known as elective deferrals and are excluded from your income. You now have started retirement savings and reduced your taxable income.

E. For 2005, you can contribute up to \$14,000 (\$15,000 in 2006). For 50 years or older, you can contribute an additional \$4,000. Check to see if your employer matches your contribution.

What investment options are available?

1. Annuity and variable annuity are contracts with insurance companies (expensive)
- \*\*\*2. Custodial account with mutual funds 403(b)(7) -- No agent/cheap/do it yourself
3. Retirement income for churches

When can 403b money be accessed?

1. 59 1/2 years of age
2. Separates from service in the year turning 55 must retire
3. Disabled
4. Loan
5. Financial hardship
6. Die

How will distributions be taxed?

1. As ordinary income
2. Must take withdrawals at 70 1/2 years of age
3. You can contribute to other retirement plans, also Roth IRA, etc.

## **VII. No Load : Mutual Fund Advantages**

- A. Easy diversification, access to professional money managers, low costs
- B. Stock funds - for growth over at least five years
- C. Bond funds - If need a more conservative investment and income
- D. Money market - will not lose principal and need money short term. Don't use until retired.

Asset allocation (one way)

Your Attitude	Bond Allocation (%)	Stock Allocation (%)
Play safe	Your age	100 minus age
Middle	age minus 10	110 minus age
Aggressive	age minus 20	120 minus age

## **VIII. Where to put your money and continued No Load Advantages**

- A. A mutual fund pools money from many shareholders
- B. \$3,000 may buy 100 shares of a Fortune 500 Co. No diversification - lots of risk.
- C. \$3,000 in Mutual Fund you get exposure to hundreds of stocks
- D. Costs are less because the costs are spread over a large pool of assets
- E. Average expense ratio for Mutual Funds - 1.35% of \$1,000 invested. Lipper Inc. Vanguard average expense ratio is 0.23% or \$2.30 per \$1,000.

## IX. Funds to Use

### A. Vanguard Star -- balanced Fund (good starter Fund)

minimum \$1,000

60% stocks/40% bonds

Fund of Funds

Cost \$4.40 per year

1-800-662-7447

### B. Target Retirement Funds (highly recommended if you don't have time or know a lot about investing)

Stocks	Bonds	Retirement Date
90%	10%	2045
80%	20%	2035
60%	40%	2025
50%	50%	2015

Cost of Investing	Try These	Stock % vs.	Fixed Income %
.59% - .89%	T. Rowe Price 2035	93	7
.69% - .96%	Fidelity Freedom 2035	85	15
.21% - .23%	Vanguard 2035	80	20

### C. Life Strategy Funds

1. Growth 80%-20%
2. Moderate Growth 70%-30%
3. Conservative Growth 50%-50%
4. Income 20%-80%

### D. 457 Deferred Compensation Plan

[www.educatorsmoney.com](http://www.educatorsmoney.com)

866-278-6910

### E. Try Shelby Jacob's No-Load Fund Investor Newsletter

1-800-706-6364

\$139.00 per year

F. Hire a Fee only Financial Planner

1. if you're too busy
2. if you keep putting it off
3. if you lack knowledge
4. need a second opinion

G. Do it yourself

1. go to school (Rice continuing studies)
2. read books
3. browse the internet
4. go to investment seminars and conventions

H. Web sites – 403bwise

Best of the Web's New Weekly E-Letter

Financial Engines [www.financialengines.com](http://www.financialengines.com)

Kiplinger's Personal Finance

[www.kiplinger.com/planning/retirement/401k/](http://www.kiplinger.com/planning/retirement/401k/)

MSN Money : Retirement and Wills

[www.moneycentral.msn.com/retire/home.asp](http://www.moneycentral.msn.com/retire/home.asp)

Morningstar.com [www.morningstar.com/Cover/Retirement.html](http://www.morningstar.com/Cover/Retirement.html)

Motley Fool [www.fool.com/retirement](http://www.fool.com/retirement)

SmartMoney.com [www.smartmoney.com/retirement](http://www.smartmoney.com/retirement)

401k Help Center 401khelpcenter.com 401k.com

[www.401k.com](http://www.401k.com)

Quicken.com [www.quicken.com](http://www.quicken.com)

T. Rowe Price [www.troweprice.com](http://www.troweprice.com)

**X. Why not annuities in 403b**

A. Exceptionally high fees – up to 8 times more expensive than mutual funds

B. tricky insurance component – two things must happen

1. you must die
2. market crash

Buy term life insurance instead

C. surrender charges lasting 10 years

Why are annuities used in 403b

- A. pushed by commission based sales force
- B. lack of employee understanding
- C. lack of employer oversight and understanding

When do annuities make sense? Immediate annuities or annuitizing portions of retirement balances for steady stream of income. Check into Lifetime Income Plan.

## **XI. Some Things I've Learned**

- A. Start your 403b investing now. Don't wait – no excuse!!
- B. Don't waste money on annuities in 403b. Keep insurance and investing separate.
- C. Don't buy individual stocks – buy No-Load Mutual Funds
- D. Be careful who you trust with your investments
- E. Trust your own instincts even over the pros
- F. don't chase winners.
- G. Use Index Funds as core most of your 403b.
- H. Cost matters a lot.
- I. You don't have to know everything about investing to make smart decisions
- J. Don't buy hedge funds or options
- K. Use term life insurance for insurance needs. No whole or universal life.
- L. DCA works! Dollar cost averaging.
- M. Best investment tool is the power of compounding.
- N. Stay the course – You can't be a fair-weather friend.

## **Bibliography**

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**Mutual Funds for Dummies**, by Eric Tyson

**The Total Money Makeover : A Proven Plan for Financial Fitness**, by Dave Ramsey

**Morningstar Guide to Mutual Funds : 5-Star Strategies for**

**Success**, by Christine Benz, Peter Di Teresa and Russel Kinnel

**Start Late, Finish Rich : A No-Fail Plan for Achieving Financial**

**Freedom at Any Age**, by David Bach

