HOW TO GET RICH…SLOWLY PART II: RETIREMENT

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UCLA Family Medicine Educational Day

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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

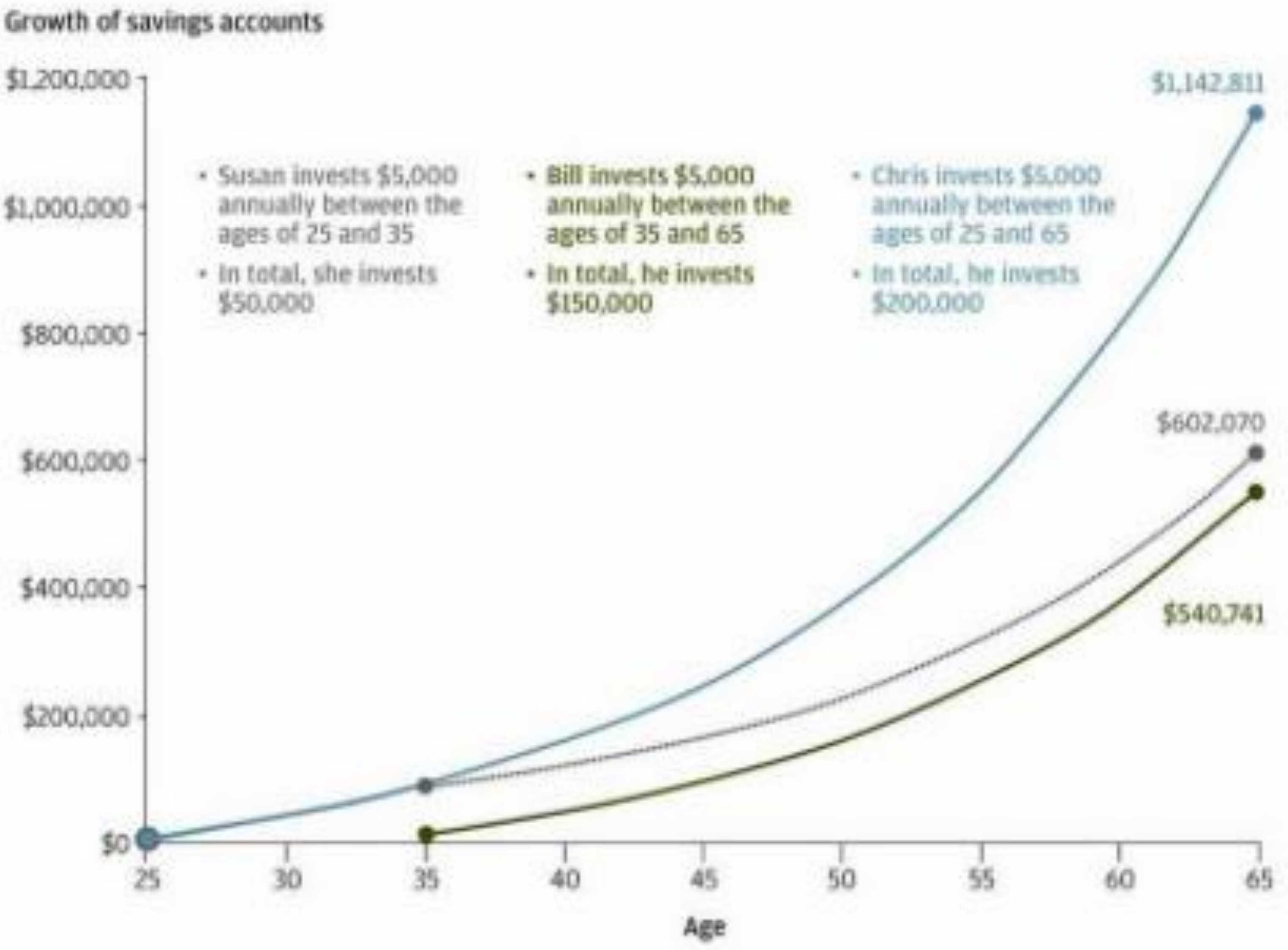
"At our current savings rate, we should be able to retire in three hundred and twenty-seven years."

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



Saving fundamentals: Harnessing the power of compounding can greatly impact the amount of savings over the long term.

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

HOW MUCH MONEY DO I NEED TO RETIRE?

- 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

Stocks

Bonds

Mutual Funds

Investments

DEFINITIONS

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

401(K)

- Most common type of retirement plan
- Described as "defined contribution plans"
- You decide on the amount of contributions
- No taxes!!!! Kinda…

401(K) THE GOOD

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

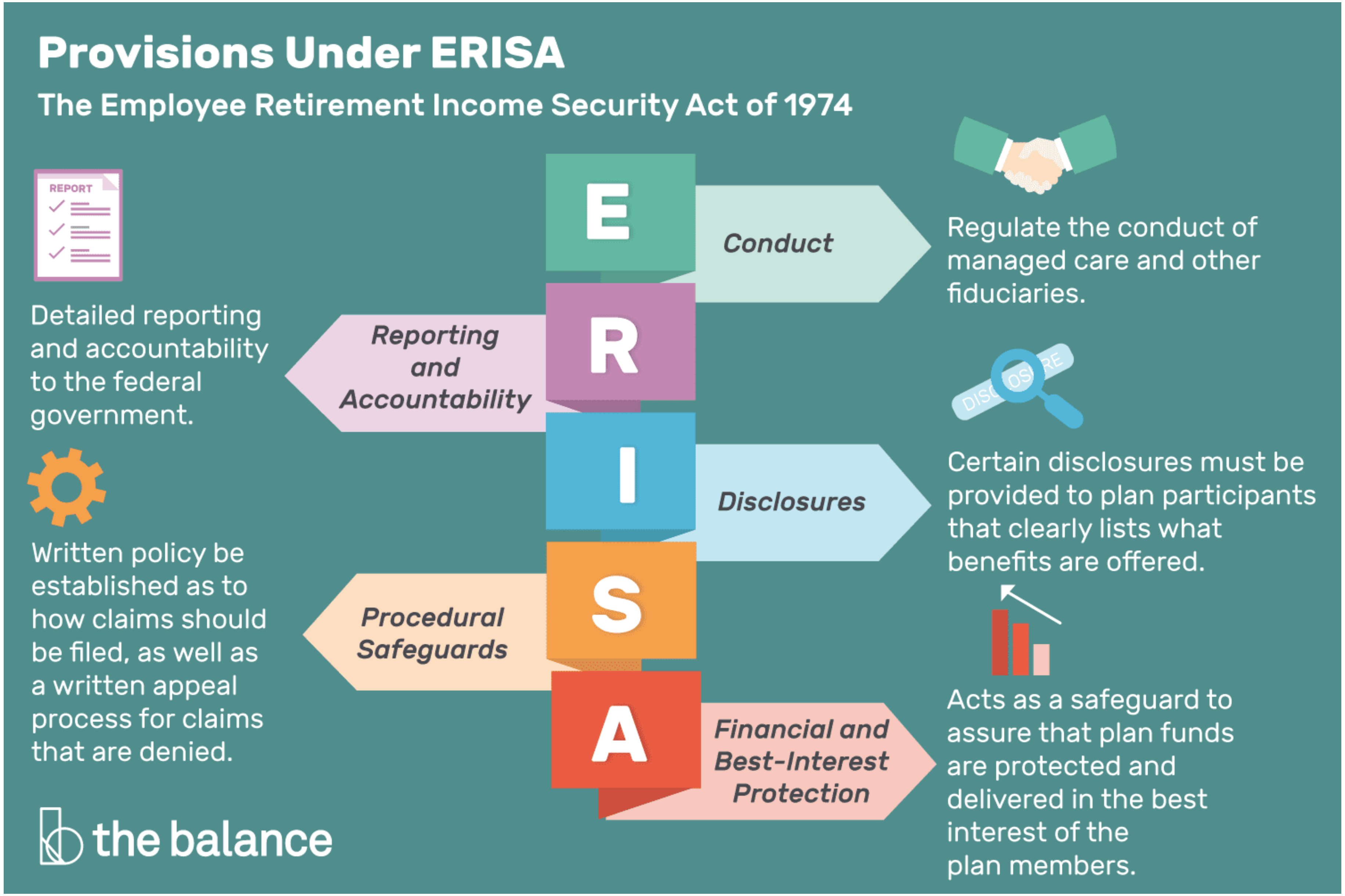
403(B) PROS AND CONS

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
REPORT
Detailed reporting and accountability to the federal government.
Written policy be established as to how claims should be filed, as well as a written appeal process for claims that are denied.
E
R
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A
Conduct
Reporting and Accountability
Disclosures
Procedural Safeguards
Financial and Best-Interest Protection
Regulate the conduct of managed care and other fiduciaries.
Certain disclosures must be provided to plan participants that clearly lists what benefits are offered.
Acts as a safeguard to assure that plan funds are protected and delivered in the best interest of the plan members.
the balance

Provided by: Wellspring Insurance Agency, Inc

Federal Continuation Health Coverage Laws

PROVISION	REQUIREMENTS
Covered Employers	COBRA applies to group health plans maintained by: • Private-sector employers with **20 or more employees;** • Employee organizations; and • State or local governments.
Qualified Beneficiaries (Employee / Dependents)	A qualified beneficiary is generally an employee, spouse or dependent child covered by a group health plan on the day before a qualifying event. 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. Agents, independent contractors and directors who participate in the group health plan may also be qualified beneficiaries.

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)

ROLLOVER RETIREMENT

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…

COMBOS AND CATCH UPS

You can combine a 457 account with either a 401(k) or 403(b)

Catch Up Contributions for those age 50 and up

BANKRUPTCY OOPSIES

- 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

TRADITIONAL IRA: THE BAD

- 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)

TRADITIONAL IRA: THE TERRIBLE

- 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

ROTH IRA: THE REALLY GOOD

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

ROTH IRA: THE BAD

- 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.

BUT WAIT…THERE'S A SECRET BACKDOOR!

- 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!

Form **8606**

Department of the Treasury
Internal Revenue Service (99)

Nondeductible IRAs

▶ Go to *www.irs.gov/Form8606* for instructions and the latest information.

▶ Attach to 2017 Form 1040, 2017 Form 1040A, or 2017 Form 1040NR.

OMB No. 1545-0074

2017
Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file 2017 Form 8606. See instructions.
Billy Bob Smith

Your social security number
555-55-5555

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home)
123 Main Street

Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions).
Anytown, NY 55555

If this is an amended return, check here ▶ ☐

Foreign country name | Foreign province/state/county | Foreign postal code

Part I **Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs**

Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2017.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2017 **and** you made nondeductible contributions to a traditional IRA in 2017 or an earlier year. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified disaster distribution (see 2017 Forms 8915A and 8915B)), qualified charitable distribution, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2017 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2017 or an earlier year.

1	Enter your nondeductible contributions to traditional IRAs for 2017, including those made for 2017 from January 1, 2018, through April 17, 2018. See instructions	1	5500
2	Enter your total basis in traditional IRAs. See instructions	2	0
3	Add lines 1 and 2	3	5500
	In 2017, did you take a distribution from traditional, SEP, or SIMPLE IRAs, or make a Roth IRA conversion? **No** → Enter the amount from line 3 on line 14. Do not complete the rest of Part I. **Yes** → Go to line 4.		
4	Enter those contributions included on line 1 that were made from January 1, 2018, through April 17, 2018	4	0
5	Subtract line 4 from line 3	5	5500
6	Enter the value of **all** your traditional, SEP, and SIMPLE IRAs as of December 31, 2017, plus any outstanding rollovers. Subtract any repayments of qualified disaster distributions (see 2017 Forms 8915A and 8915B). If the result is zero or less, enter -0-. See instructions	6	0
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2017. **Do not** include rollovers (other than repayments of qualified disaster distributions (see 2017 Forms 8915A and 8915B)), qualified charitable distributions, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see instructions)	7	0
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2017. **Do not** include amounts converted that you later recharacterized (see instructions). Also enter this amount on line 16	8	5500
9	Add lines 6, 7, and 8	9	5500
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	10	× 1 .
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17	11	5500
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA	12	0
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13	5500
14	Subtract line 13 from line 3. This is **your total basis in traditional IRAs for 2017 and earlier years**	14	0
15a	Subtract line 12 from line 7	15a	0
b	Enter the amount on line 15a attributable to qualified disaster distributions from 2017 Forms 8915A and 8915B (see instructions). Also, enter this amount on 2017 Form 8915A, line 22, **or** 2017 Form 8915B, line 13, as applicable	15b	0
c	**Taxable amount.** Subtract line 15b from line 15a. If more than zero, also include this amount on 2017 Form 1040, line 15b; 2017 Form 1040A, line 11b; or 2017 Form 1040NR, line 16b	15c	0

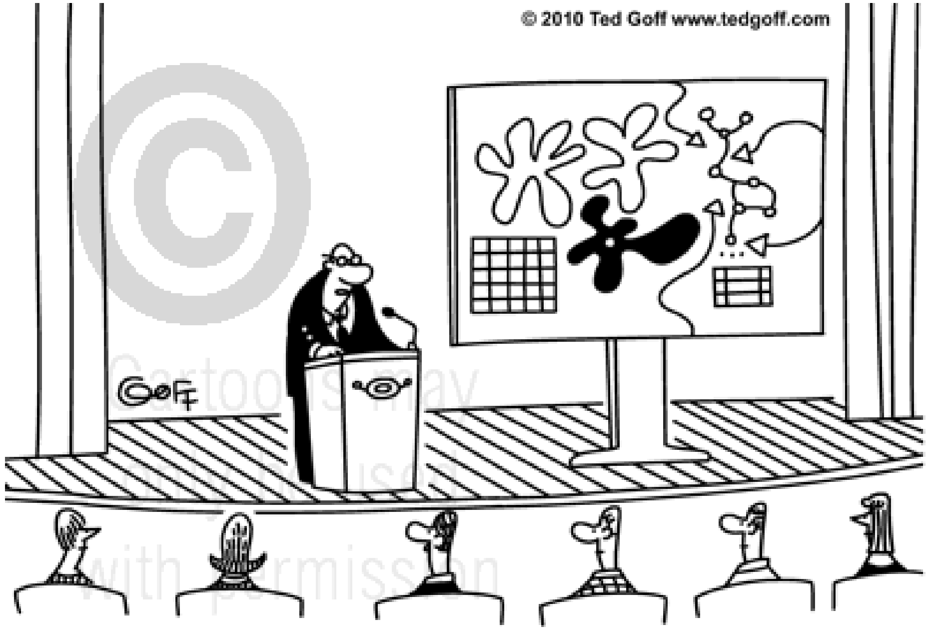
Note: You may be subject to an additional 10% tax on the amount on line 15c if you were under age 59½ at the time of the distribution. See instructions.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63966F Form **8606** (2017)

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

QUESTIONS?



“And now that I’ve wasted an hour of your time, are there any questions about how I can waste a few more minutes?”