

Investing for Retirement...

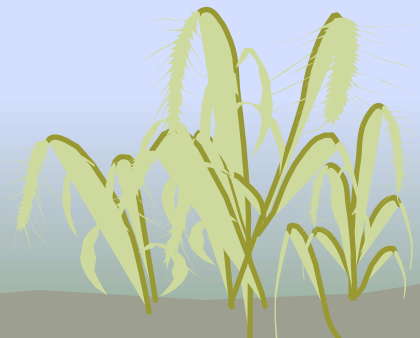
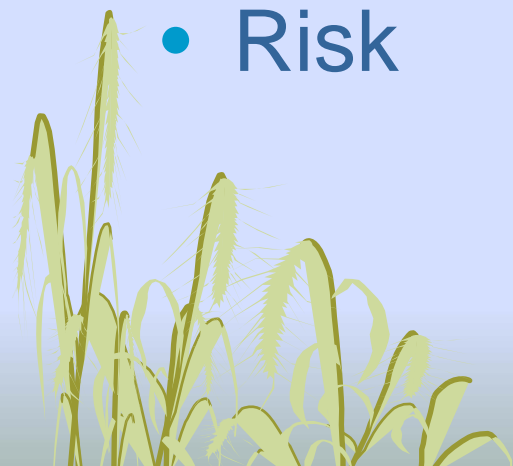
...Asset Allocation

...Rollovers

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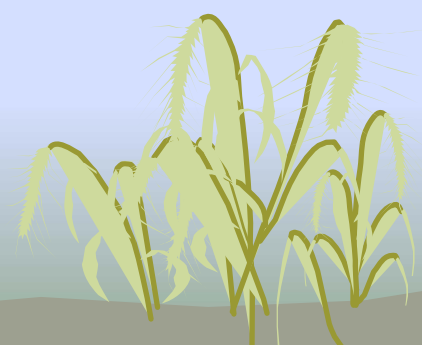
Understanding investing for retirement

- Asset Allocation
- Diversification
- Rebalance
- Time Horizon
- Risk



Asset Allocation

- ...involves dividing your investment portfolio among different asset categories (for example—stocks, bonds, and cash).
- ...best mix depends on:
 - Your time horizon
 - Your risk tolerance



Time Horizon

- ...the expected number of years you will be investing to achieve your particular financial goal.
- ...a longer time horizon is associated with more risk.
- ...a shorter time horizon is associated with less risk.

Risk... Tolerance for loss

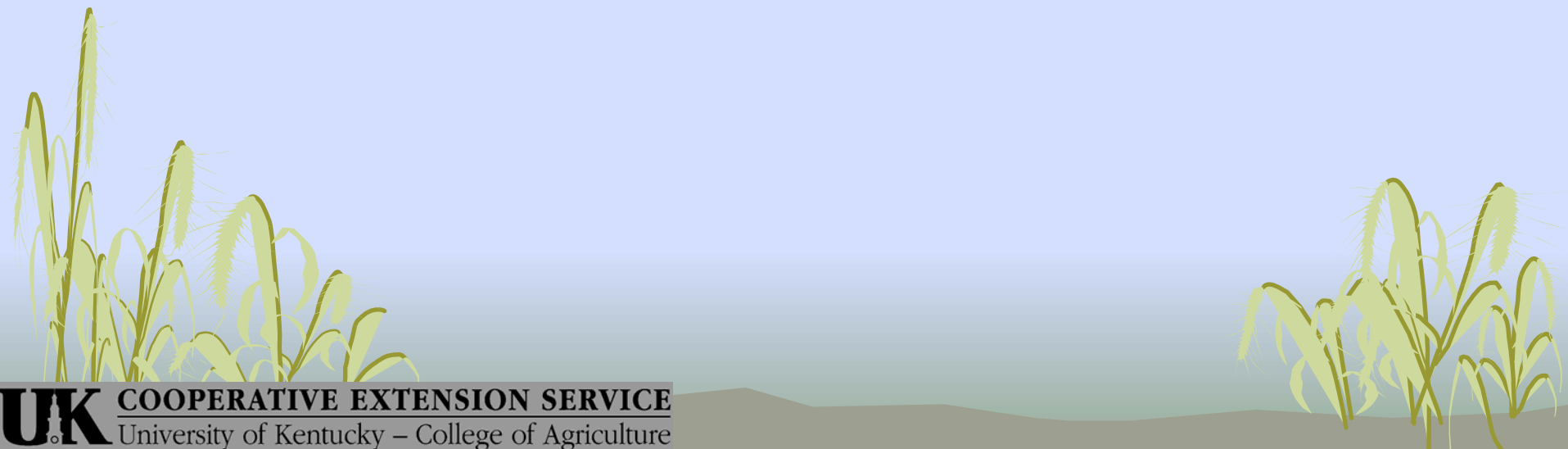
- ...Your willingness to lose some or all of your original investment
- ...potential for greater returns
- An aggressive investor...one with a high-risk tolerance, more likely to risk losing money in order to get better results.
- A conservative investor, low-risk tolerance, favors investments that will preserve original investment.

Risk and Investment Choices

- Stocks (equity) – historically the greatest risk
 - Variation among stock categories
- Bonds – less volatile
 - Variation of risk among types and grades of bonds
- Cash – safest investments

Other asset groups for investments

- Real estate
- Precious metals
- ...



Diversification

- ...the practice of spreading money among different investments to reduce risk.
- ...diversified between product levels and within asset categories.
- ...”don’t put all of your eggs in one basket.”

Rebalance

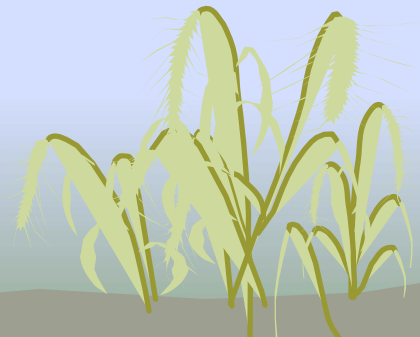
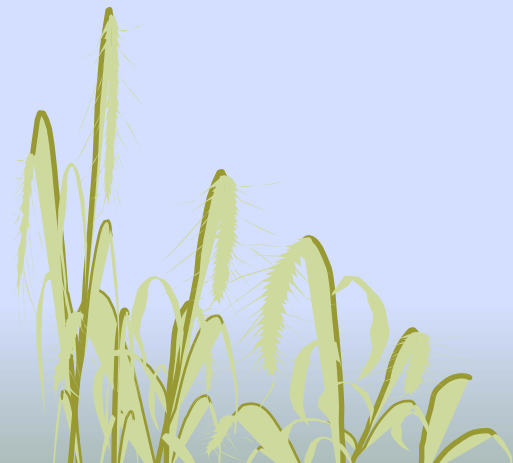
- ...bringing your portfolio back to your original asset allocation mix.
 - Some investments grow faster than others
 - Rebalancing ensures that your portfolio does not overemphasize one or more asset categories.

Rebalance

- Example...goal is 60% stocks;
 - Your account has grown and is now 80% stock investments.
 - Need to sell some stock or purchase investments from an under-weighted category.

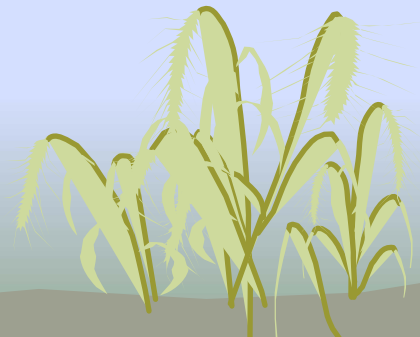
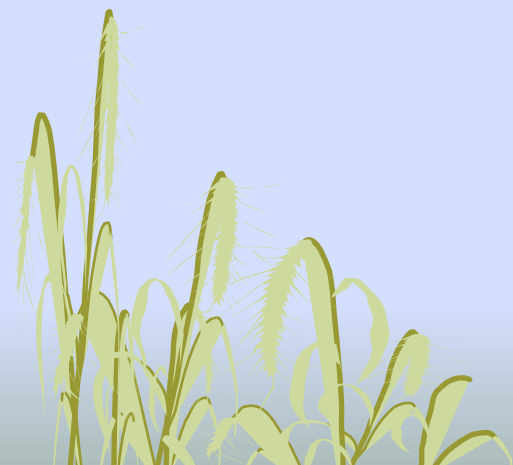
What is your financial goal?

- Enough income in retirement?
- Leave something to your heirs?
- Leave something to charity?



Lifecycle Funds

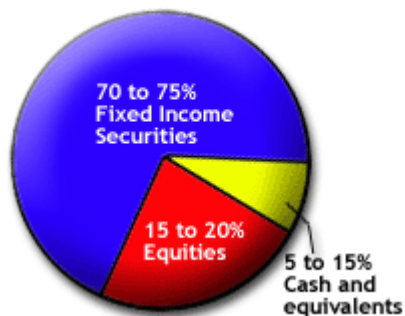
- Designed for a particular investment goal and time horizon.
- Asset allocation shifts as the fund reaches retirement age goal.



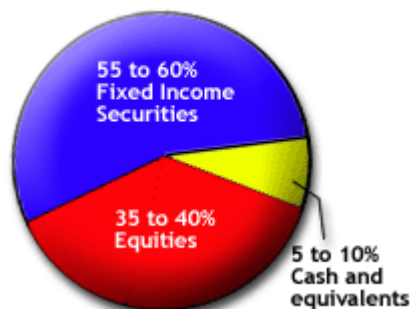
ASSET ALLOCATION

based on risk tolerance

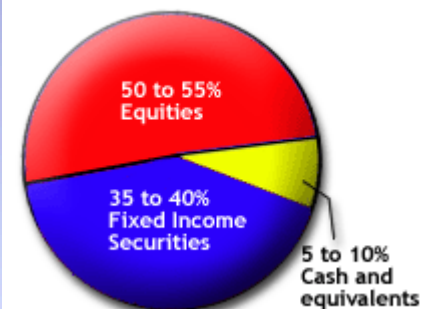
Conservative Portfolio



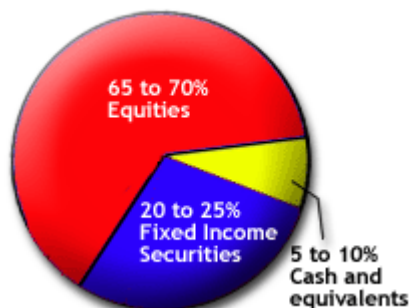
Moderately Conservative Portfolio



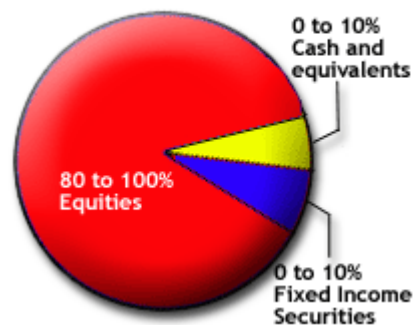
Moderately Aggressive Portfolio



Aggressive Portfolio



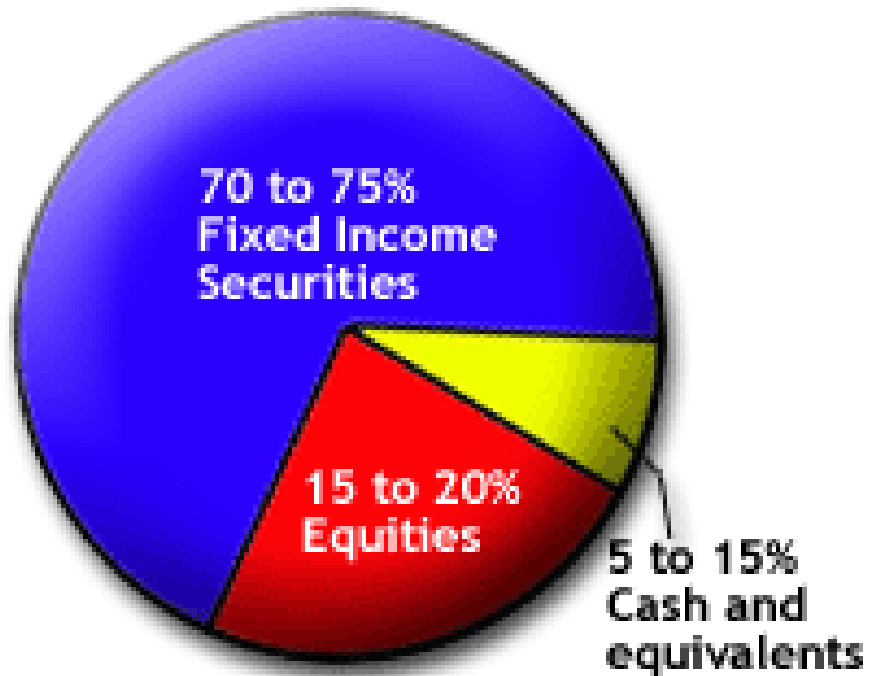
Very Aggressive Portfolio



ASSET ALLOCATION

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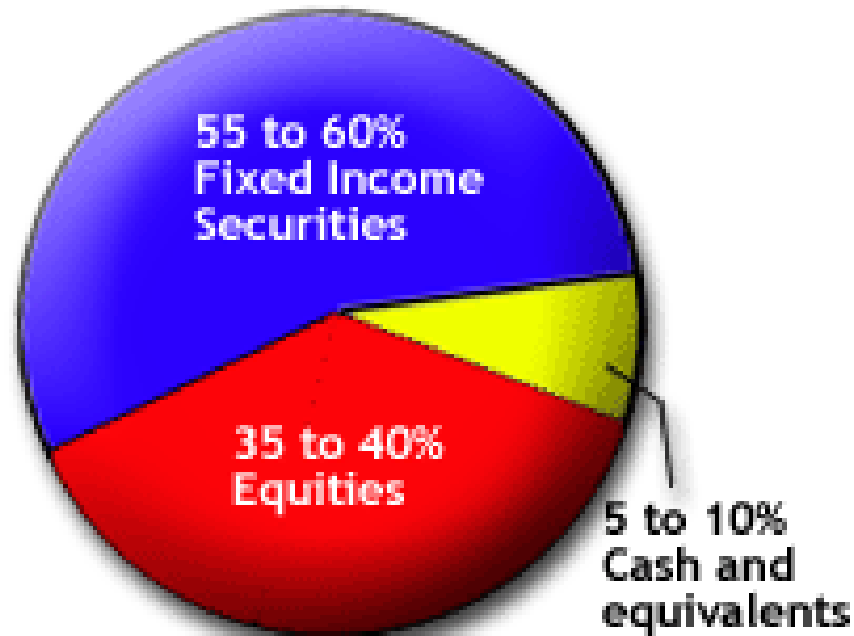
Conservative Portfolio



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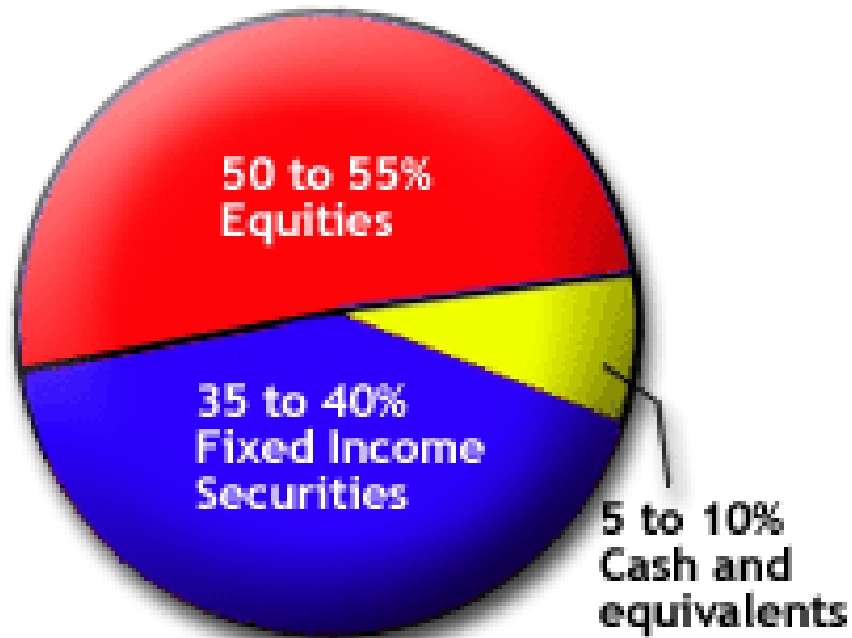
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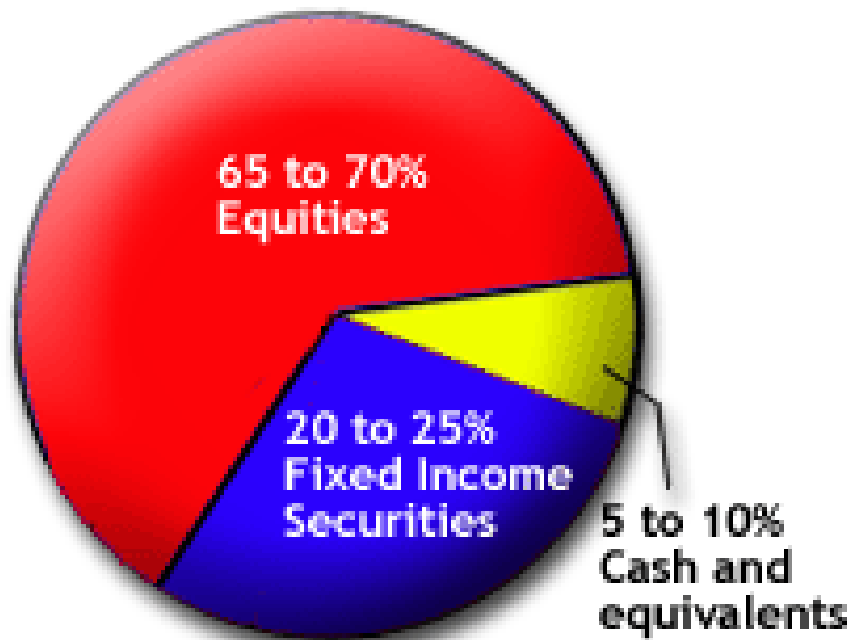
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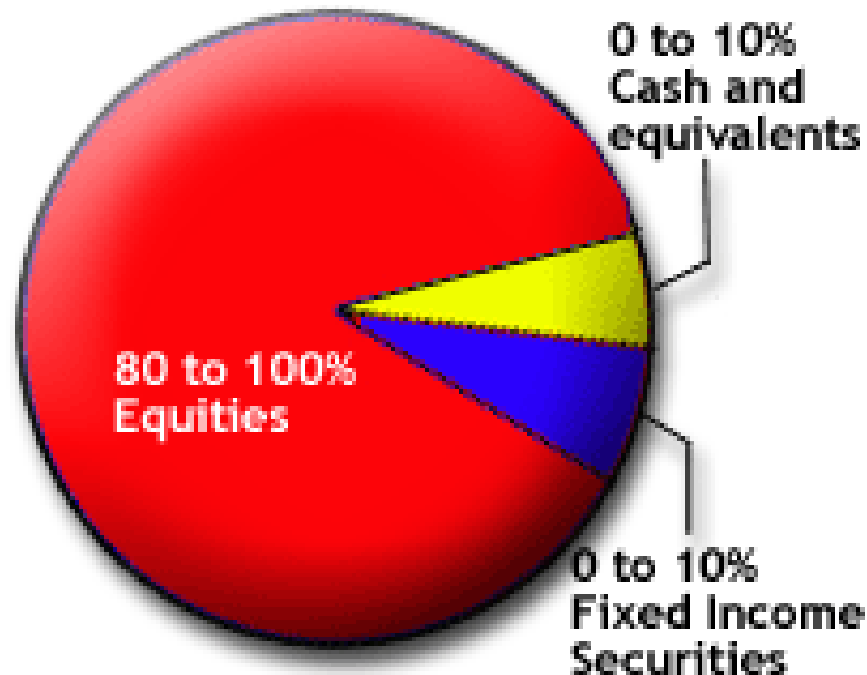
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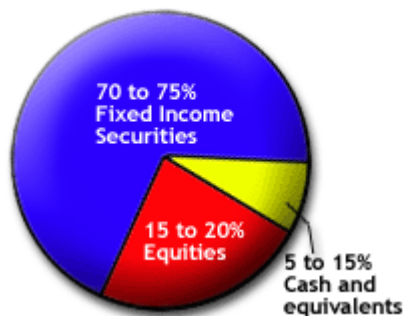
Very Aggressive Portfolio



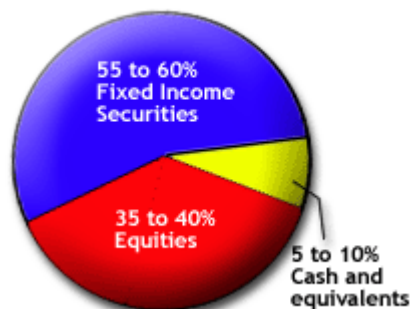
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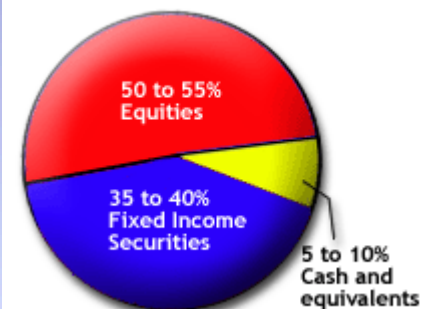
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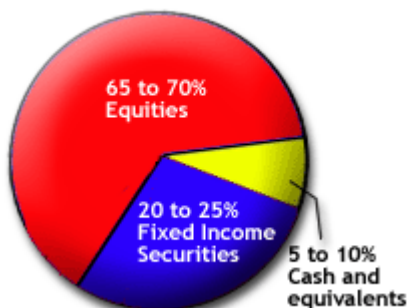
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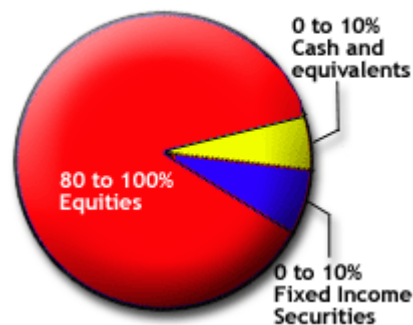
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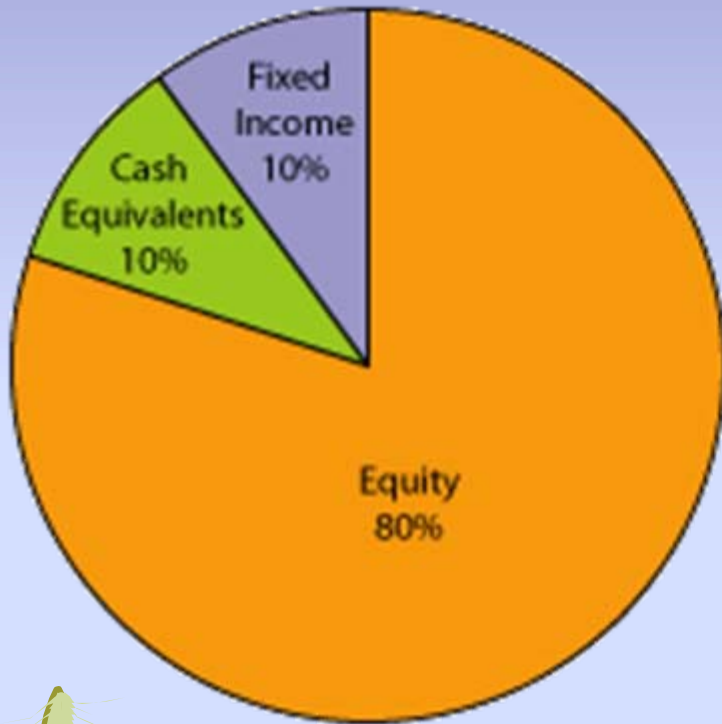


Very Aggressive Portfolio

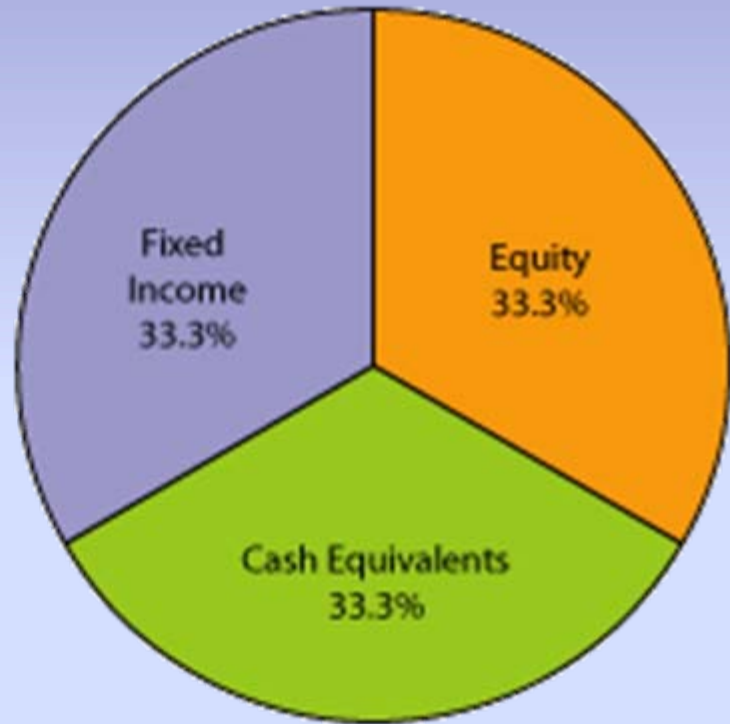


Sample Asset Allocations

Younger Investor

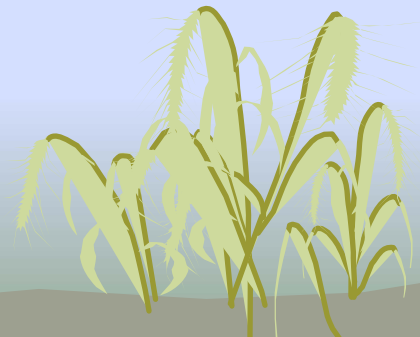


Older Investor



How much is too much?

- >20 – 30 investment instruments is probably too many.
- Dangers:
 - Can hurt performance
 - Investment capital is spread too thin

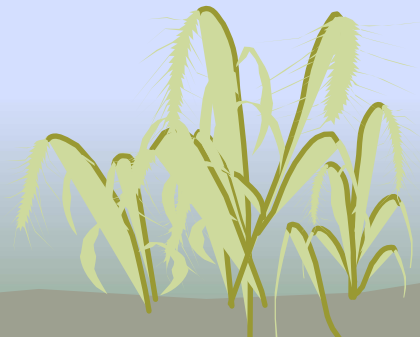
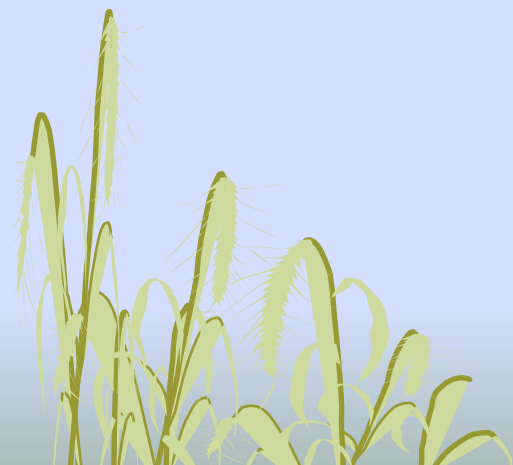


Rollover your 403(b)

- When you retire...
 - Annuity
 - Roll it over into an IRA.
 - Tax advantage
 - Extend the life of the investment
- Leave your job
 - Leave your money in the plan
 - Roll it over
 - New employer's plan
 - IRA
 - Take the cash

Annuity at Retirement

- Receive monthly income
- Option for spouse
- Option for “times certain”
- Once selected, there are no options to change the plan.



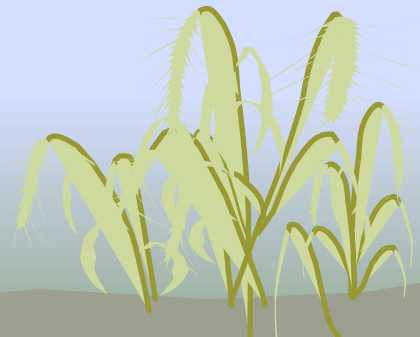
Leave funds w/ employer

- Pluses

- Savings can continue to grow.
- If tax-deferred account, you pay no taxes until you take money out.

- Negatives

- Less control of your assets
- Can't consolidate with other IRA accounts



Roll funds to new employer

- **Pluses:**
 - Savings continue to grow.
 - If tax deferred account, you don't pay taxes until you withdraw money.
 - You may be able to borrow from it.
- **Negatives:**
 - May have less variety and control over investments
 - Options are limited to choices w/in employers plan
 - May have a wait period as new employee.

Take the cash

- **Pluses:**
 - Use the money to pay debts or make purchases
 - Money can be reallocated to diversify investments.
 - Have 60 days to re-invest or pay taxes on the cash.
- **Negatives:**
 - If from a tax-deferred account, you will immediately pay income taxes.
 - 20% will be withheld by firm holding the money.
 - Pay a 10% penalty if under age 59 ½.

Roll over to an IRA

- **Pluses:**

- If tax-deferred account, pay no taxes until you with-draw money at retirement.
- You control reallocation and diversity of investments
- Can combine with other retirement money
- Money continues to grow tax-deferred or tax free in a Roth account.
- Pass remaining money to heirs at death.

- **Pluses:**

- No limit on the amount you can roll into a rollover IRA, (annual limits on regular IRA contributions.)

- **Negatives:**

- You cannot borrow from an IRA.

Stretch out an IRA

- Roll money from 403(b) to an IRA.
- If tax deferred, only pay taxes when money is withdrawn.
- Designate a beneficiary or beneficiaries.
- At death, beneficiary can begin to make minimum withdrawals. The only tax is on amount withdrawn.

Example: John Smith

- 45-year-old daughter Mary is the beneficiary of his \$500,000 403(b) plan.
- Under the old rules, Mary would have had to liquidate the account within five years of his death. If she took a lump sum this year and added the \$500,000 to \$75,000 other taxable income, the payout would push her into the 35% tax bracket and add as much as \$165,150 to her tax bill. Her after-tax take would be less than \$350,000.
- The new rules let Mary roll over the money into an “inherited IRA,” with the requirement that she start distributions by the end of the first year after her dad’s death. She gets to base those payouts on her life expectancy, which the IRS says is 38.3 years. That makes the first mandatory payout \$13,724, adding just \$3,431 to her tax bill for the year.
- Assuming the balance earned 6.5% a year, Mary’s required annual withdrawals would grow to \$81,958 in the year she reaches age 80. At that point, she will have pulled more than \$1.6 million out of the IRA. If she dies at that time, the account would still hold more than \$800,000, which she can leave to her heir to stretch out over his or her life expectancy.

• References:

- Securities and Exchange Commission
- National Assoc. of Securities Dealers
- Kiplinger's Retirement Report

- Dr. Suzanne Badenhop, April 2007

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