



The Retirement Income Stack

How to build it up & NOT knock it down

Investments and Financial Planning



**“I retire on Friday and I haven’t saved a dime.
Here’s your chance to become a legend!”**

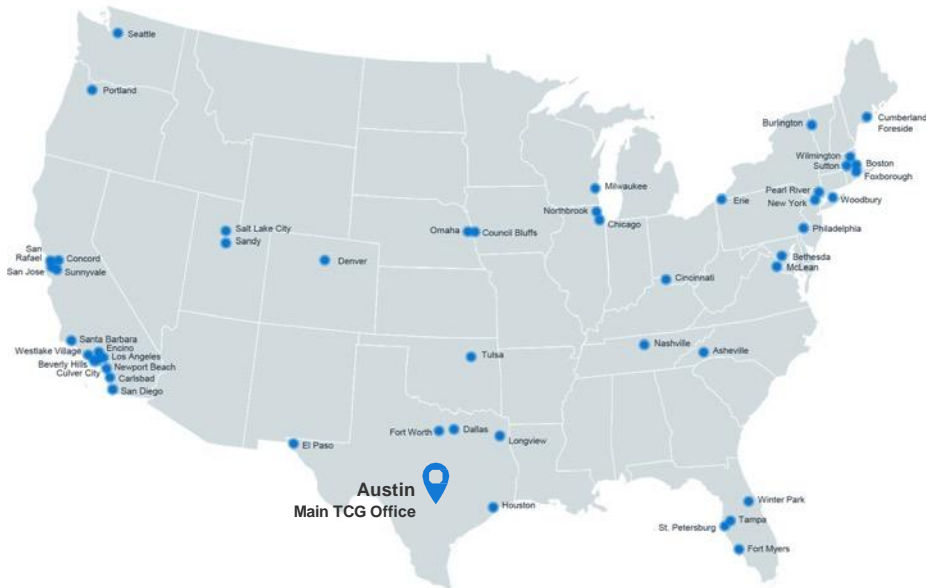
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We help you get ready for tomorrow

When you work with us, you're at the center of a vast network of retirement, wealth management, and financial wellness specialists ready to bring clarity to a changing world with tailored solutions and unrelenting advocacy.

National Reach | Local Leadership



Who We Serve



Advisory
\$142B+
Retirement plan assets under advisement

Retirement Plans
7,900
Retirement plans under advisement

HUB International By the Numbers



530+
Locations in
North America



Top 5*
Global Insurance
Broker



13,000+
Employees

HUB owned RIAs provide investment advisory and management services to clients. All HUB RIAs reflect an aggregated amount of \$105,369,032,198 in regulatory assets under advisement. This includes \$74,817,452,822 in nondiscretionary institutional assets under advisement, primarily comprised of ERISA qualified retirement plans where we act as a 3(21) fiduciary, and \$24,392,640,791 in discretionary institutional assets under management, comprised of qualified retirement assets where our RIA acts as an ERISA 3(38) investment manager, and other institutional client assets and nonqualified plans, as well as \$2,936,425,431 in total Wealth Client assets under advisement. HUB Retirement and Private Wealth employees are Registered Representatives of and offer Securities and Advisory services through various Broker Dealers and Registered Investment Advisers, which may or may not be affiliated with HUB International. Insurance services are offered through HUB International, an affiliate.

Region 10 RAMS



- Investment Advisory Committee (IAC) oversees the program
- 457(b) Tax-Deferred Savings Plan
 - Closest governmental equivalent to 401(k)
- TERRP (Teacher/Employee Recruitment and Retention Program)
 - 401(a) plan
- 457 FICA Alternative Plan
 - Part-time or substitute
- 403(b) Third-Party Administration

RAMS Investment Advisory Committee

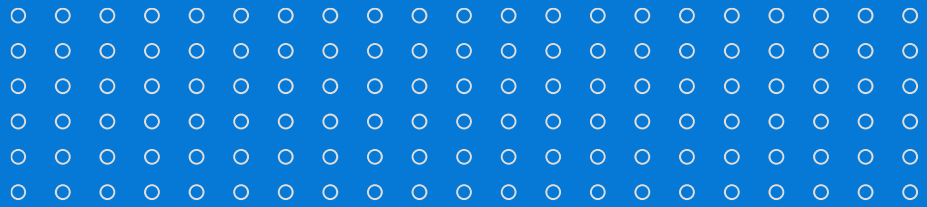


- Meets every quarter to review investments and all matters of the plan
- Made up of representatives from participating districts
- TCG Advisors does research for and gives suggestions to the IAC
- The IAC has authority to replace underperforming investments



Today's Topics

- ✓ Understanding TRS
- ✓ Social Security Issues
- ✓ Retirement Savings
- ✓ Steps for Success



Teacher Retirement System

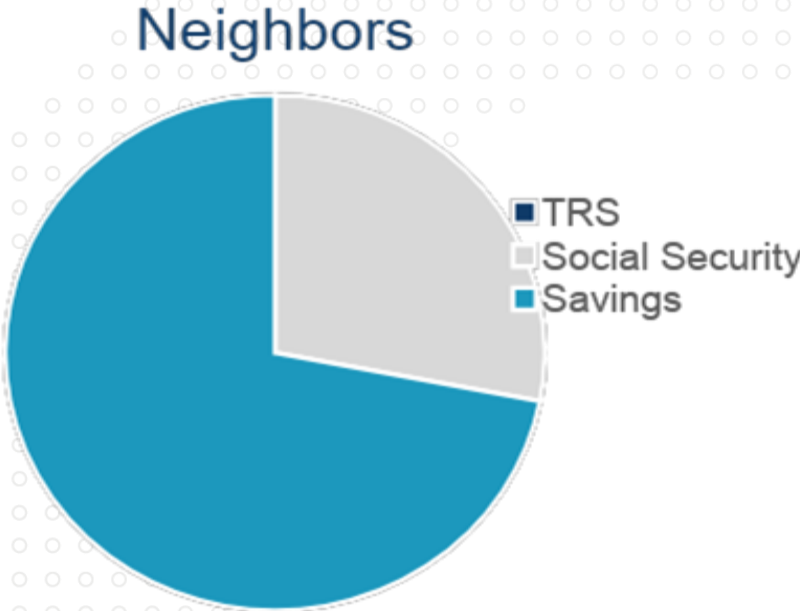
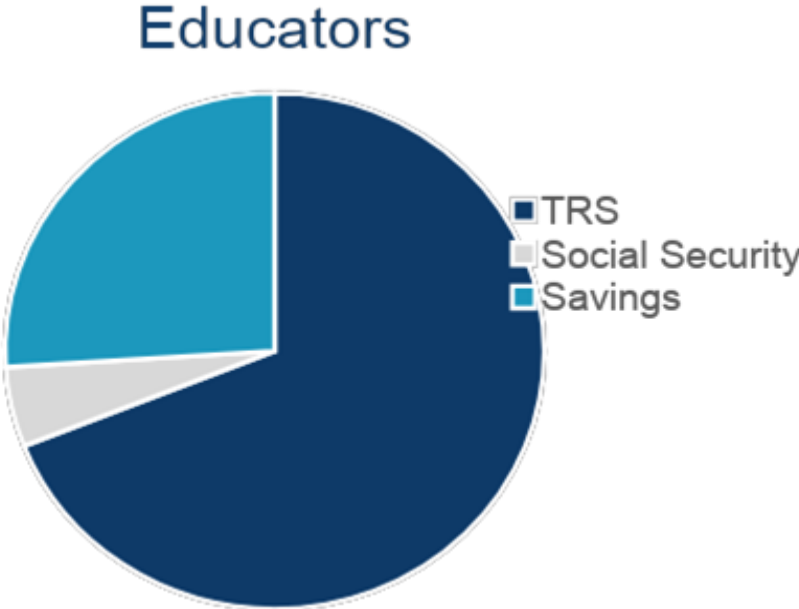
Retirement Income Stack, Block #1



TRS Retirement vs. Corporate Retirement

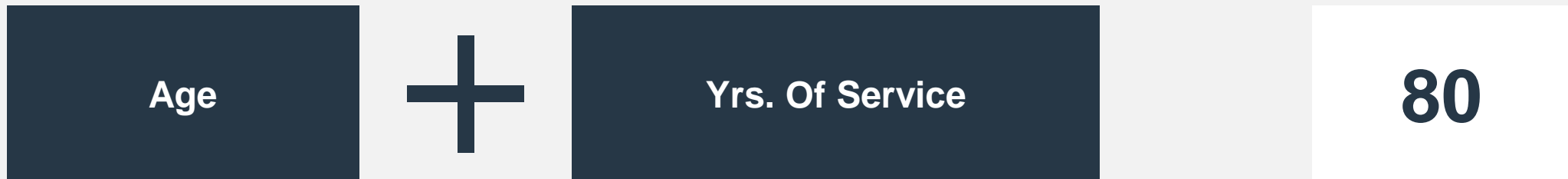


Income in retirement is very different for Texas teachers than it is for their spouses and neighbors



EVERYONE is the Rule of 80!

- The Rule of 80 is the qualifier, not the percentage
- How you get to the Rule of 80 matters based on the Tier Number that you're in
- To be eligible for Normal-Age service retirement, you must meet one of the conditions within your tier
- The same is true for Early-Age Retirement Eligibility



What is My Tier?

Changes to the retirement plan over the years have resulted in several distinct membership categories, each with its own retirement eligibility requirements and early-age reductions.

TRS Tier 1 & 2

- Current membership began **PRIOR** to September 1, 2007, and
- Had at least five years of service on August 31, 2014

Retirement Criteria:

- Rule of 80 and at least 5 years of service, or
- Age 65 with at least 5 years of service

TRS Tier 3 & 4

- Current membership began **BETWEEN** September 1, 2007 and August 31, 2014
- Had at least five years of service on August 31, 2014

Retirement Criteria:

- At least age 60, meet the Rule of 80, and at least 5 years of service, or
- Age 65 with at least 5 years of service

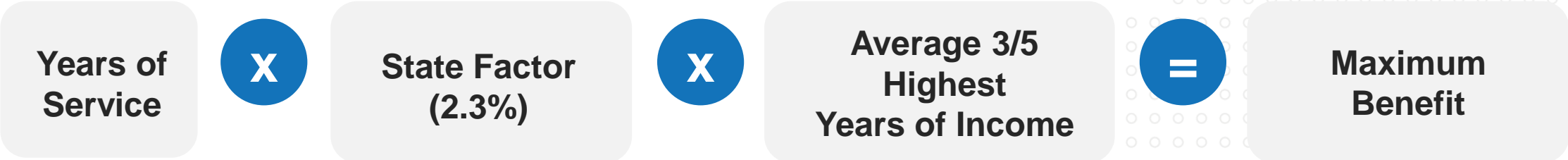
TRS Tier 5 & 6

- Current membership began On or After September 1, 2014, or
- Did not have at least five years of service on August 31, 2014

Retirement Criteria:

- At least age 62, meet the Rule of 80, and at least 5 years of service, or
- Age 65 with at least 5 years of service

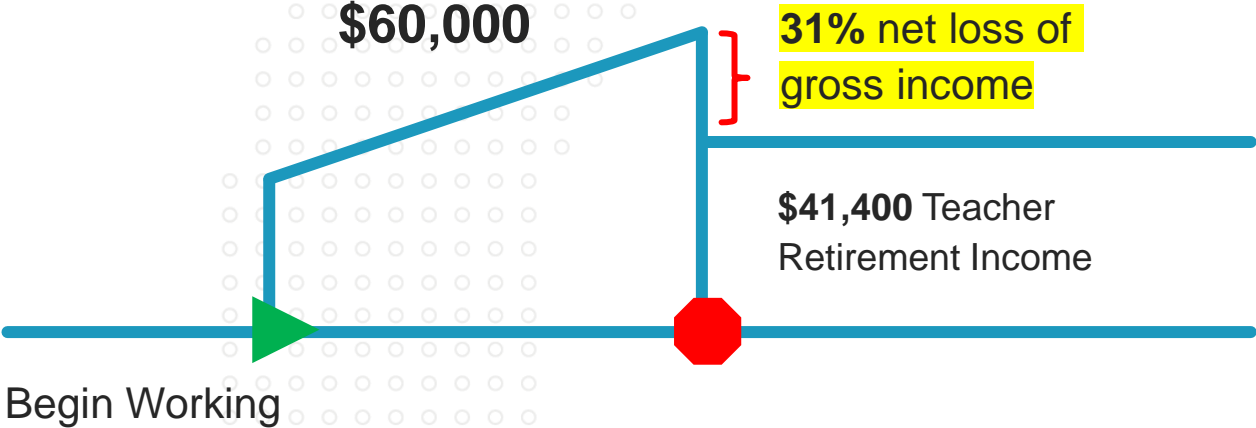
TRS Retirement Formula



Example:

Years of Service	30
State Multiplier	69%
Average Income	\$60,000

Maximum Benefit \$41,400



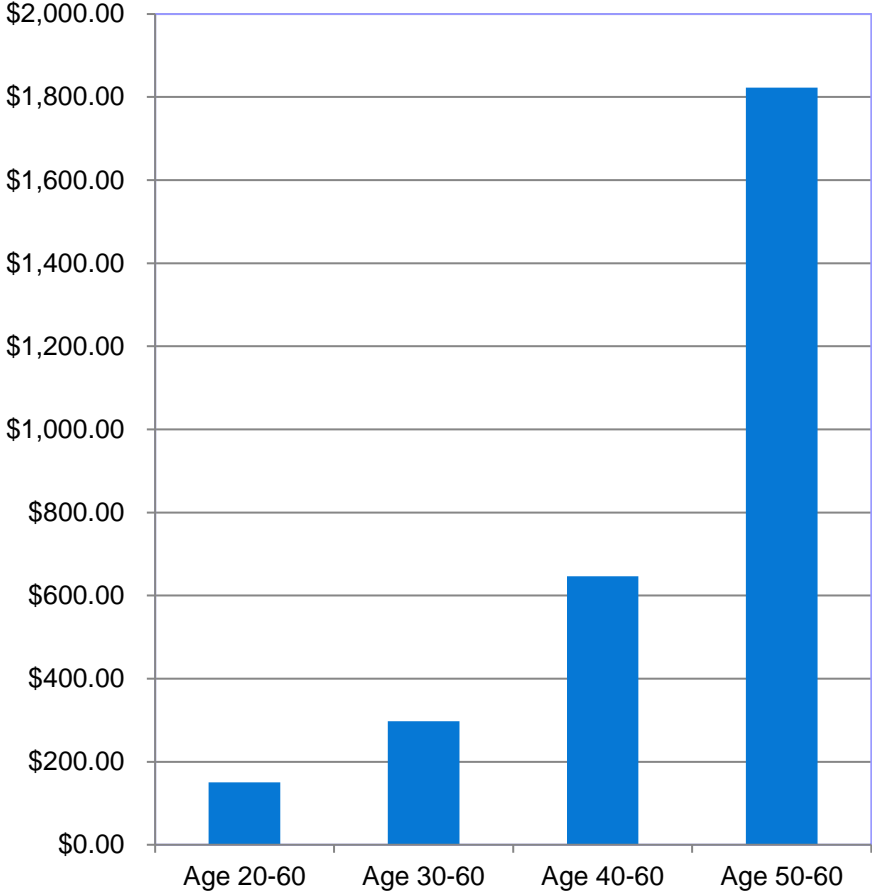
Taking Aim at the Target



Investment Needed to Replace Difference of
\$18,600 Annually
(TRS Benefit vs. Pre-Retirement Income):
\$300,224*

**Assumptions include a lump sum invested at 5% interest, with annual amount paid at beginning of each year for 30 years. This rate is assumed for illustration purposes only and is not guaranteed.*

Taking Aim at the Target



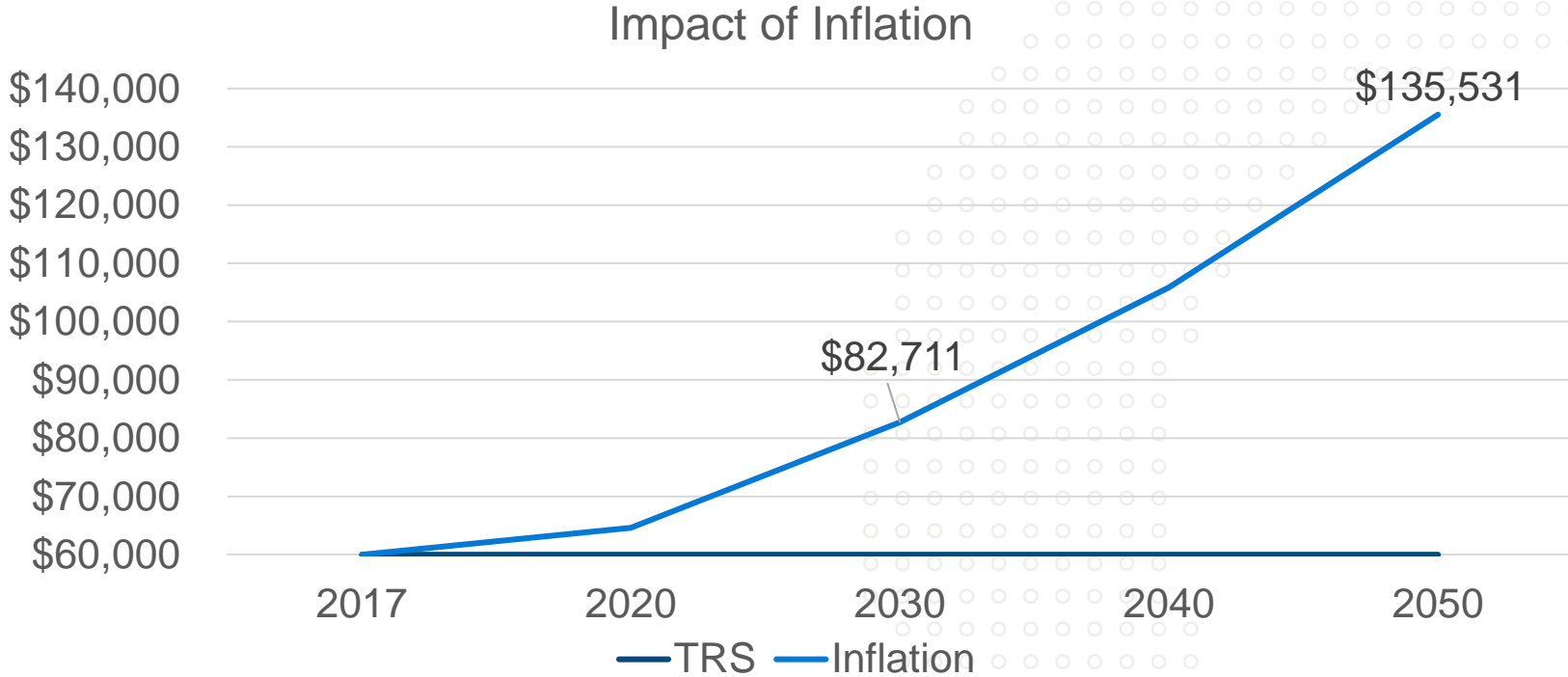
Years of Savings	Monthly Contribution
40	\$150.01
30	\$297.39
20	\$646.55
10	\$1,822.87

Assumes an 6% annual return after fees and expenses for illustration purposes only, not guaranteed.

Inflation vs TRS

TRS does NOT have Cost of Living Adjustments (COLA)

Inflation (2.5%) vs. TRS Income (0%)



Ways to Maximize Your TRS

- **Increase Salary — Good Luck!**
- **Increase Years of Service Credits**
 - Work longer
 - Purchase Service Credits
- **Types of Service Credits**
 - Withdrawn, Out-of-State, Military, Unreported or Substitute, etc.
 - Cost varies depending on type of service
 - Contact TRS for cost estimate

Types of Service Credits



- Estimated cost can be obtained by going to your MyTRS account or contacting TRS for actual cost
- Withdrawn Service
 - Cost: Amount withdrawn plus 8% annual interest
- Unreported & Substitute Service
 - Cost: Actuarial cost
- Military Service
 - Purchase up to 5 years
 - Cost basis dependent on when military time was served (+) 8% annual interest
- Out-of-State Service
 - Cost: Actuarial cost
 - May purchase 1 year of service credit for each year earned under TRS — up to 15 years
 - If the service used will also be used for a pension in another retirement system, then the service purchase is limited to 5 years

Important TRS Rules You Need to Know

TRS Computation Year



A minimum of **90 days**.



The full **fall semester** in the last year before you retire.



TRS compensation is computed on the same basis

- *Exception for 7/1 12-month employee in last year of employment – look back to 7/1 of previous year*

3 Year vs 5 Year Avg



3 YEAR AVERAGE - Individuals who were members and met one of the following conditions by August 31, 2005, are considered to be Grandfathered:

- At least age 50;
- At least 25 years of service; or
- Met the Rule of 70.

Sample TRS Statement



1000 Red River Street
 Austin, TX 78701-2698
 (800) 223-8778
 www.trs.texas.gov

Annual Statement

TRS123 (08-20)



Please review your salary and service credit information on this statement. If salaries are incorrect, contact your employer(s) immediately. To report service credit discrepancies, promptly notify TRS. For help in reading this statement or estimating retirement benefits, visit www.trs.texas.gov and click on Annual Statement.

INFORMATION PRESENTED ON THIS STATEMENT ONLY REFLECTS TRS DATA. SALARIES, SERVICE CREDIT, AND OTHER DATA ARE SUBJECT TO AUDIT AND ADJUSTMENT PRIOR TO PAYMENT OF ANY BENEFITS.

Date of Birth:	
Tier:	5
Years of Service Credit:	8
Service Credit based on school year (Sept.1 through Aug. 31), not calendar year.	
Beginning Account Balance	\$28,832.04
Total Annual Deposits	\$0.00
Interest Credited in 2020	\$576.64
Account Balance as of Aug 31, 2020	\$29,408.68

Salary Reported for FY*	2020	
Highest Salaries	2016	\$57,310
	2018	\$55,960
	2014	\$54,212
	2015	\$53,890
	2017	\$51,474
Average Salary:	\$54,569	

Partial Lump Sum Option (PLSO)

Possible Reasons to Do

- Poor Health
- Estate and Critical Need for Heirs (e.g., disabled child)
- Other Estate Needs — Guarantees money to heirs instead of reversion to retirement system at death
- No Savings Going into Retirement
- High Debt

Reasons Not to Do

- You will not be able to invest the money and beat the Retirement System
 - Pay Actuarial Cost for funds; Usually have to earn minimum Net 11.00% if try to match State — Can you do this with no risk??
- You have not planned for inflation and budget in retirement, so your income runs short later
- You will be tempted (and give in) to spend the money you planned to save

Note Partial Lump Sum (PLSO) Eligibility

- 5 Year Average — Rule of 90
- 3 Year Average — Rule of 80

Other Items

- QDROs
 - Must be approved by TRS
 - Should run by TRS before finalized
 - TRS Rule that can change the QDRO
 - Texas Government Code Sec. 804.005
 - Designed to provide retirement income for spouse once member can retire
 - Can significantly reduce growth in member's future TRS benefit increases
- Check Your TRS Statement!
 - Unreported service credit can only be corrected if pointed out to TRS within 5 years
 - Correction of Compensation and/or Service Records
 - No correcting information will be accepted by TRS after the member has retired and received the first annuity check

Common Question

Is TRS Stable and Safe? Is it the Best Way to Provide Retirement for Educators?

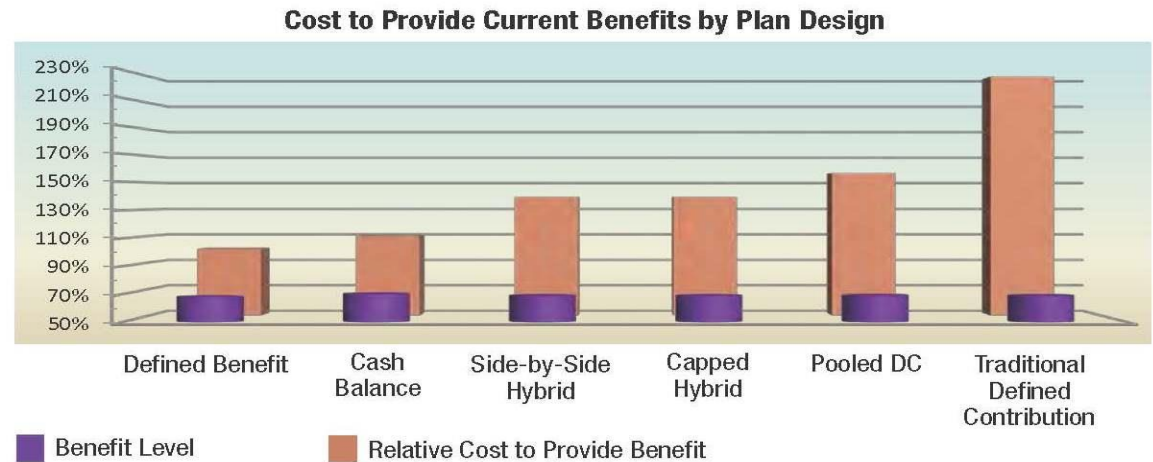
✓ Yes

- System is over 79.5% funded
- System is actuarially sound and can pay benefits through 2075 with no additional funding
- System is mandated and governed by the Texas Constitution

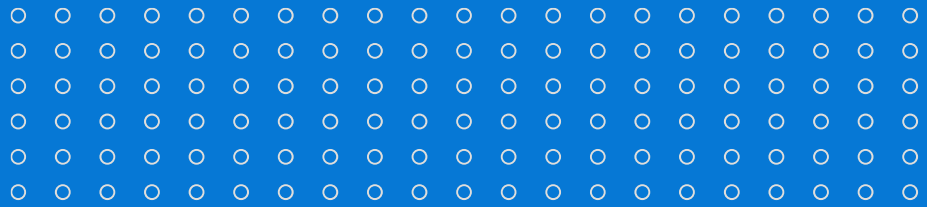
✓ TRS is also the most efficient system for providing pension benefits

Greater Efficiency from Defined Benefit Plans

Actuarial modeling shows that to provide the same level of benefits, other plan designs (such as traditional defined contribution plans) are 10 percent to 130 percent more expensive than the current TRS defined benefit plan.



Sources: TRS Comprehensive Annual Reports August 31, 2013 and 2014, TRS Pension Benefit Design Study 9/1/2012, and TRS publication "A Great Value for All Texans" and TRS 2018 Operating Budget Report to Board



Social Security Issues

Retirement Income Stack, Block #2



Remember your TRS Annuity is never reduced by Social Security!





Social Security Considerations

2 Regulations

- **Government Pension Offset (GPO)**
 - Applies to member's SPOUSAL Social Security benefits
 - (SSA Pub No. 05-1007)

- **Windfall Elimination Provision (WEP)**
 - Applies to member's OWN Social Security benefits
 - (SSA Pub No. 05-10045)

- www.ssa.gov

Periodically bills are filed to repeal GPO and WEP at Federal level — very costly to repeal

Government Pension Offset: Spousal Benefit

- You are eligible to receive a benefit in an amount equal to 50% of your spouse's benefit
 - Former spouse is eligible if married at least 10 years
- Subject to a Two-Thirds offset
 - This further reduces or offsets entirely your eligible SS payment
- Grandfathering
 - Current rule: You have to be employed by, and retire from, a SS-covered District for your last 60 months to be eligible for no reduction

GPO Example: Spousal Benefit

- TRS Pension: \$2,100
- Spousal SS Benefit: \$1,000
- Subtract 2/3 of TRS benefit from eligible SS benefit

SS BENEFIT	\$1,000
- (2/3 of \$2,100)	\$1,400
<hr/>	
	-\$400

TRS Member is **not** eligible for spousal benefit but receives full TRS annuity

- TRS Pension: \$2,100
- Spousal SS Benefit: \$1,600
- Subtract 2/3 of TRS benefit from eligible SS benefit

SS BENEFIT	\$1,600
- (2/3 of \$2,100)	\$1,400
<hr/>	
	\$200

TRS Member **is** eligible for spousal benefit of \$200 plus full TRS annuity

Remember your TRS Annuity is never reduced by Social Security!



Windfall Elimination Provision



- Qualify
 - Service Credits under Social Security (SS)
 - Eligible for four credits per year
 - Total of 40 credits to qualify for a benefit
 - For 2022, received four credits if earned \$6,040
 - Each credit is \$1,510
- Reduce
 - Impacts employees eligible for their OWN SS and government/state pension
 - Uses a factor to calculate your SS benefit income based on 'Years of Substantial Earnings'

Windfall Elimination Provision – YOUR BENEFIT



Years of Substantial Earnings:

1968–1971 \$1,950	1989 \$8,925	2007 \$18,150
1972 \$2,250	1990 \$9,525	2008 \$18,975
1973 \$2,700	1991 \$9,900	2009 \$19,800
1974 \$3,300	1992 \$10,350	2010 \$19,800
1975 \$3,525	1993 \$10,725	2011 \$19,800
1976 \$3,825	1994 \$11,250	2012 \$20,475
1977 \$4,125	1995 \$11,325	2013 \$21,075
1978 \$4,425	1996 \$11,625	2014 \$21,750
1979 \$4,725	1997 \$12,150	2015 \$22,050
1980 \$5,100	1998 \$12,675	2016 \$22,050
1981 \$5,550	1999 \$13,425	2017 \$23,625
1982 \$6,075	2000 \$14,175	2018 \$23,850
1983 \$6,675	2001 \$14,925	2019 \$24,675
1984 \$7,050	2002 \$15,750	2020 \$25,575
1985 \$7,425	2003 \$16,125	2021 \$26,550
1986 \$7,875	2004 \$16,275	2022 \$27,300
1987 \$8,175	2005 \$16,725	
1988 \$8,400	2006 \$17,475	

Years of Substantial Earnings %:

30 or more:	90%
29:	85%
28:	80%
27:	75%
26:	70%
25:	65%
24:	60%
23:	55%
22:	50%
21:	45%
20 or less:	

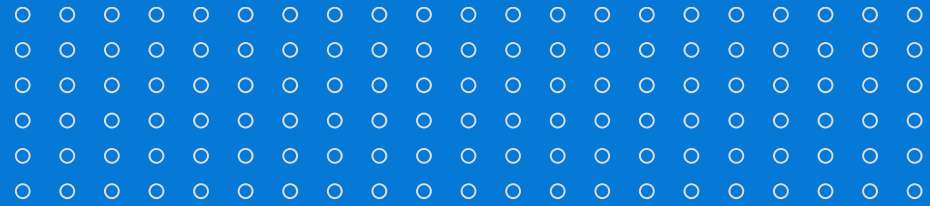
Maximum WEP Reduction 2022



Maximum WEP Reduction for Workers Who Become Eligible in 2022, by Years of Substantial Coverage

Years of Social Security Coverage										
20 or fewer	21	22	23	24	25	26	27	28	29	30+
First factor in formula:										
40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%
Maximum Dollar amount of monthly WEP reduction for workers who first become eligible for Social Security in 2022.										
\$512	\$460	\$409	\$358	\$307	\$256	\$204	\$153	\$102	\$51	\$0.0

****Important:*** The maximum amount may be overstated. The WEP reduction is limited to one-half of your pension from non-covered employment.



Retirement Savings

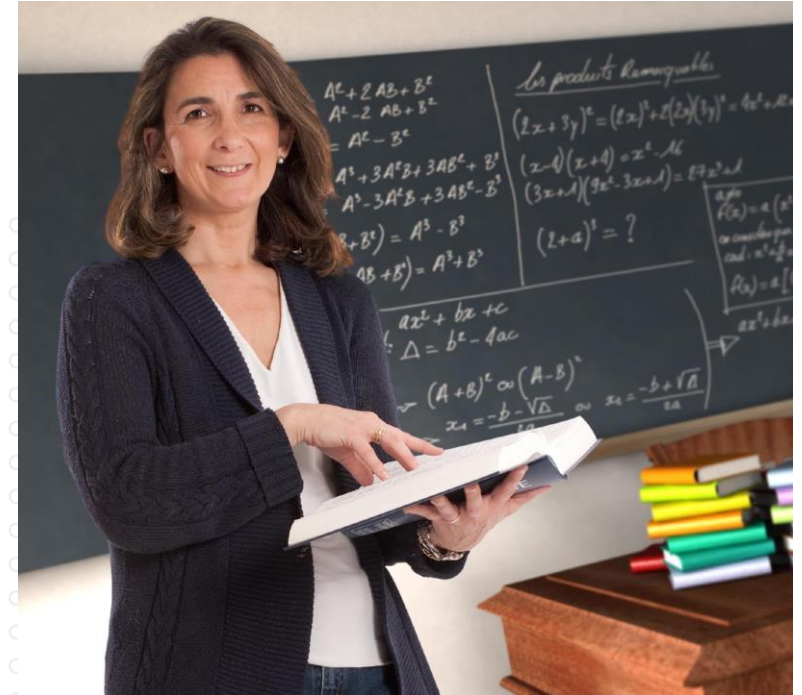
Retirement Income Stack – Block #3



Educators Options for Retirement Saving



- Employer sponsored plan types
 - 457(b)
 - 403(b)
- Individual Plans
 - Traditional IRA
 - ROTH IRA
- Savings / Brokerage Accounts (after-tax dollars)



Don't Confuse the Shield with Investments



- 403(b)
- 457
- 401(k)
- IRA

Important Note: There is no total escape from taxes. No matter which plan you use, you will eventually pay some taxes. However, the impact of taxes is usually much less with a tax-deferred plan.

Congress - Taxes



Tax Code - 403(b),
457, 401(k), IRA, etc.



Your Investments



Comparison of 403(b) & 457(b)



Feature	457(b)	403(b)
Individual vs Group Plan	Low fees relative to most 403(b) plans; no commissions; full disclosure of fees	May have higher fees, pay commissions/ sales loads. ○ Limited number of no commission options
Access to Funds	Termination of employment, Death, Disability, Retirement, Age 59½ (even if still employed), Unforeseen Emergency, Loans	Termination of employment, Death, Disability, Retirement, Age 59½ (even if still employed), Hardship or Loan
Eligible Withdrawal Age Restriction	None	59 ½ Years old or 10% Penalty ~Unless fully retired after age 55
Investment Committee/ Advisor Oversight	Yes - RAMS	No
Contribution Limits (can contribute to both plan types)	2023: \$22,500; \$30,000 age 50+	2023: \$22,500; \$30,000 age 50+

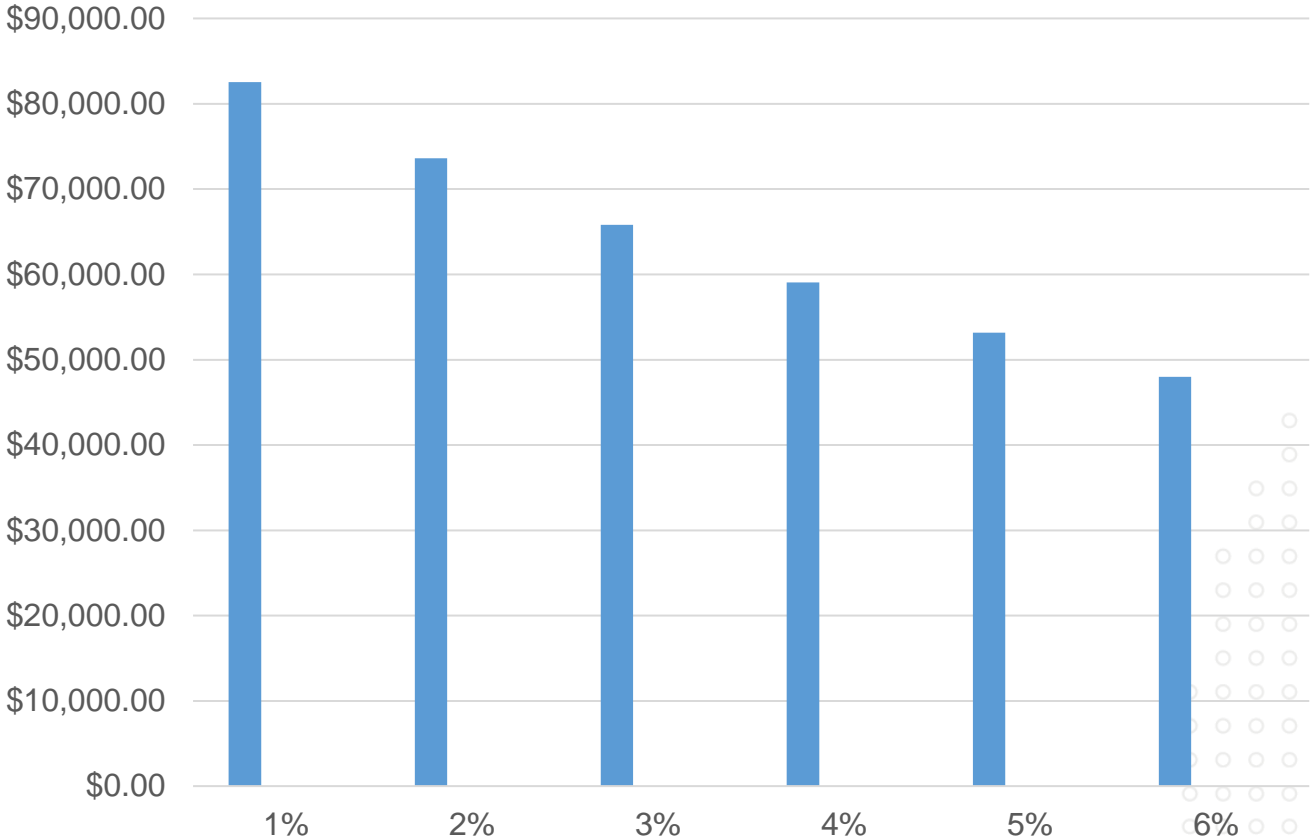
Watch Out For Your Best Interest!



- Excessive hidden fees
- Inappropriate types of investments
- Lack of monitoring of investments
- Life insurance as an investment
- Pension “maximization”
- Annuity riders
- Investing the lump sum to “beat” TRS
- “Shadow Marketing” and Endorsements



The Fee Effect



Annual Fee	Balance
1%	\$82,549.26
2%	\$73,599.44
3%	\$65,824.55
4%	\$59,057.63
5%	\$53,156.51
6%	\$48,000.00

Balance based on 6% earning net of fees with \$200 monthly contributions for 20 years at the beginning of the month. Actual rate of return is not guaranteed and is for illustration purposes only. Remember that all investing involves risk.

Excessive Fees

- 12b-1 Fee
 - Generally allows distributors to compensate broker/dealers and representatives for selling their funds. It also can be a charge to cover marketing and distribution costs of the investment.
- Withdrawal Charge (a.k.a. Surrender Charge)
 - A fee charged by some annuities and funds when an investor takes money out of his or her account.
- Mortality and Expense Fee (M&E)
 - This applies to some types of annuities and covers insurance related costs.
- Transfer Fee
 - This is an amount charged by a fund to transfer either within the fund family or to another company.

Excessive Fees

- Expense Deductions
 - Charges for investment management, administration and distribution services
- Management Fee
 - Also called the investment advisory fee, this represents the company's cost for managing the money in the fund
- Wrap Account Fee
 - Charged by some types of funds for fund management, this is an annual percentage of the investor's assets in the account
- Custodial Fee
 - The charge for safekeeping or physically holding the securities in the fund

The Limits of Fund Rating Services



	Fund A	Fund B	Fund C	Fund D
Morningstar (Dec 2000)	★★★★★	★★	★★★	★★★★
Forbes (Dec 2000)	C	A	A+	D
US News & World Report (Dec 2000)	34	50	10	93
Wall Street Journal (Jan 2001)	E	C	A	B
BusinessWeek (Jan 2001)	A	No Rating	B+	C

Funds A, B, C, and D are actual funds. They are not identified because the purpose of this illustration is to emphasize that ratings, by themselves, do not provide enough information to make a sound investment decision. Morningstar: Five stars is highest rating; one star is lowest rating. US News & World Report: 100 is highest rating; 1 is lowest rating.

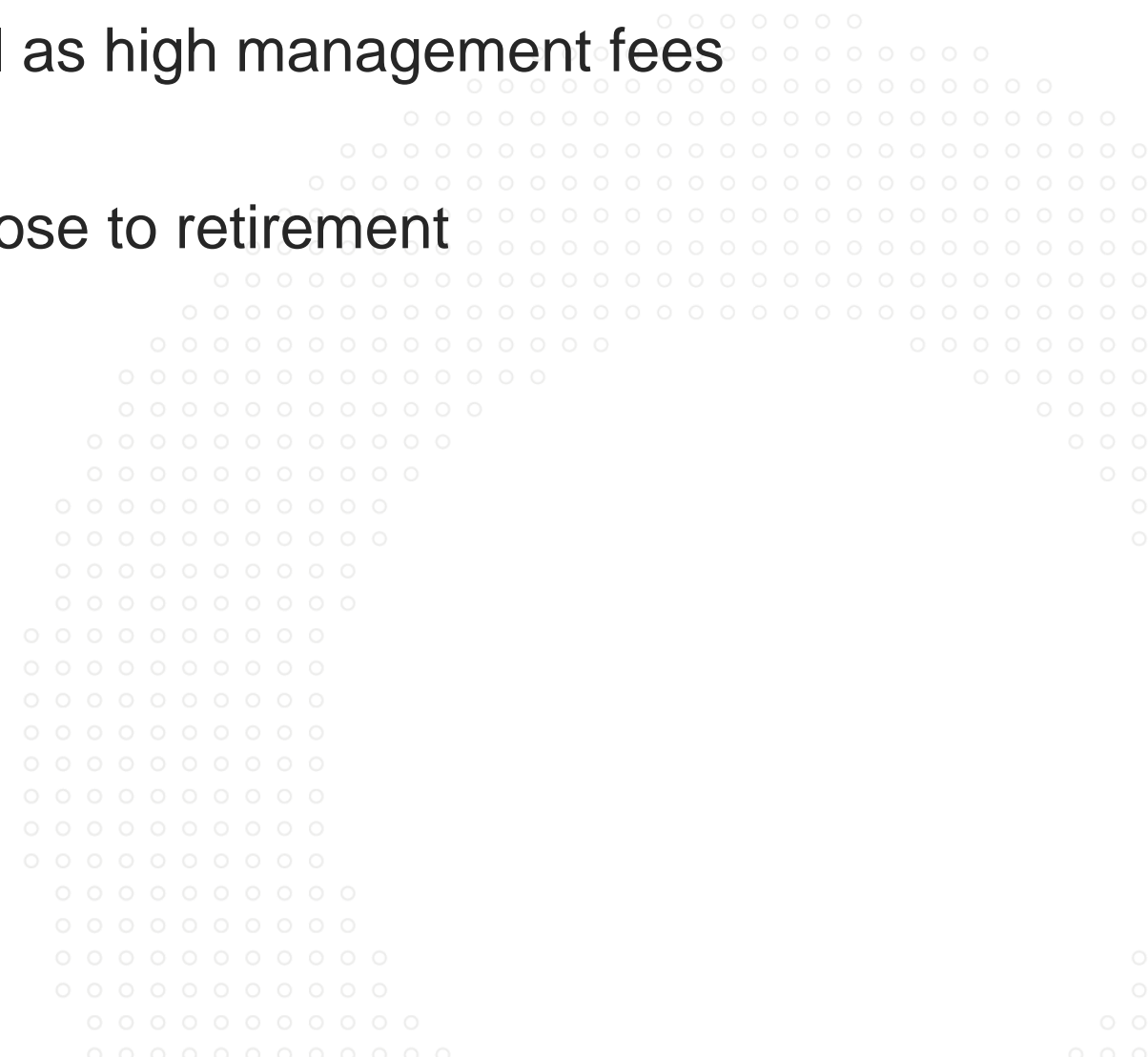
Fixed Annuity

- Guaranteed by issuing company
- Surrender penalty
- Distribution options (KNOW how and when you can get your money out)
- Typically marketed/sold by salesman that are compensated by receiving a commission
- Lacks diversification

Variable Annuity



- May have high expenses — M&E as well as high management fees
- Surrender Charges
 - Be careful to avoid new penalties if close to retirement
- Marketed by commissioned Salesmen

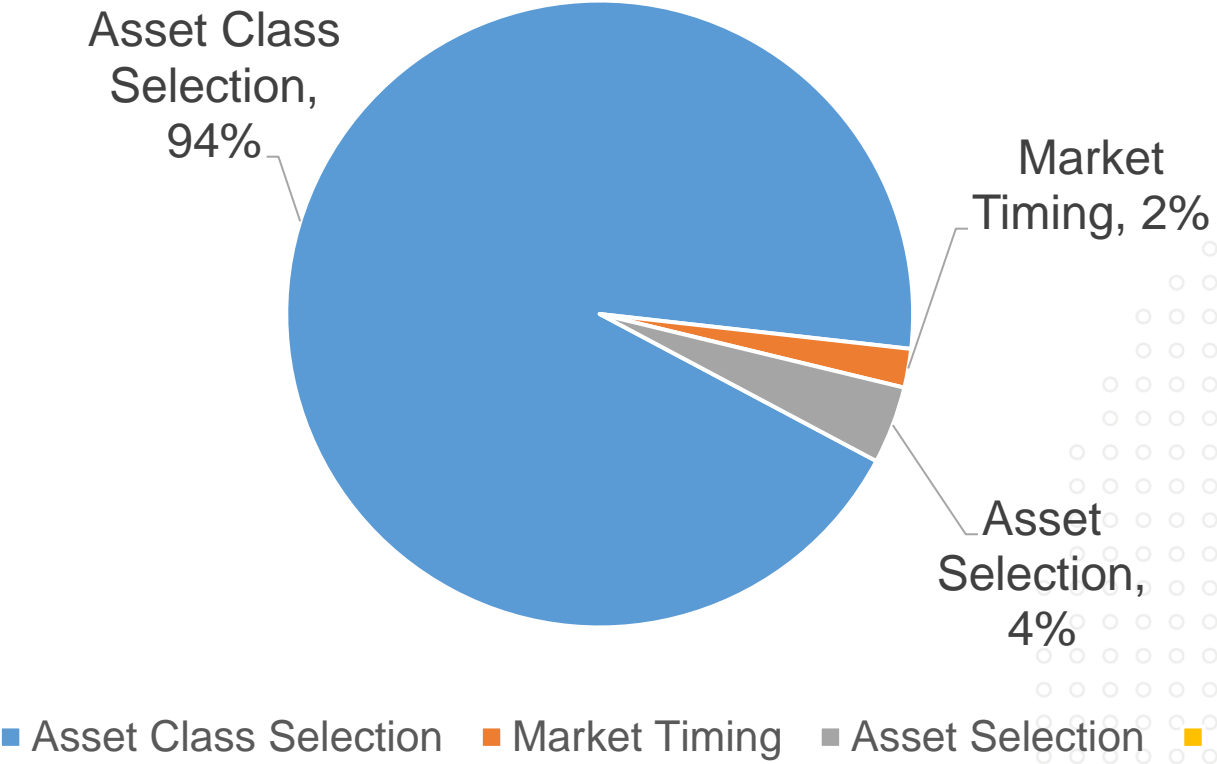


Mutual Funds

- Variety — too many choices
- Load and No-Load Funds
- Management Fees
- Sales Charges
 - A Shares
 - B Shares
 - C Shares
 - M Shares

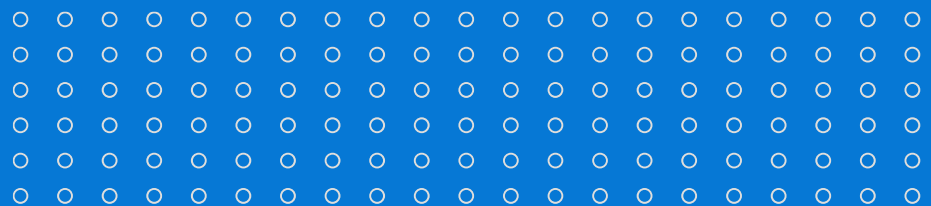


Key to Success: Diversification



The figure shows a breakdown of factors that account for variations in portfolio returns.

Source: *Determinants of Portfolio Performance* (Brinson, Hood, Beebower, 1986)



Steps for Success – Breakout Sessions





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Contact Us

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