Can I Create a Sustainable Income in Retirement?

*Pre-Retirement Webinar Series*

Session 2

Aug. 20, 2019
Today’s Presenters

Grace Pomroy  
Senior Financial Educator

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Portico Financial Planner

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Portico Financial Planner
Agenda

• Welcome
• ELCA Retirement Plan Distribution Options
• Social Security
• Additional Income Sources
• Housing Allowance Eligibility
• Closing

Questions?
Email Portico Customer Care at mail@PorticoBenefits.org
Put “Pre-Retirement Webinar” in the subject line
ELCA Retirement Plan Distribution Options
ELCA Retirement Plan — Distribution Options

**Withdrawal Strategy**
- Maintain management of portfolio
- Systematic / periodic withdrawals

**Combination of Both**

**Annuity**
- Exchange assets for promise of lifetime income
- Select beneficiary and minimum income period

**Action**

**Considerations**
- You may run out of assets before you die
- You no longer have a pool of money to manage or access

*20% annual limit on withdrawals from employer contributions.
For informational purposes only, does not constitute an offer to sell any investment, and may be subject to changes and corrections. An offer for the sale of interests in the funds will only be made through the Investment Funds Descriptions for the funds. Investment Funds Descriptions are available upon request.
Withdrawal Rules

• Prior to age 59½, you can make **limited withdrawals from your account** in the case of a disability or hardship.*

• At age 59½ or older, you may be **eligible to withdraw** up to:
  – 100% of **member pretax contributions** plus earnings
  – 100% of **any rollover and housing equity contributions** plus earnings
  – 20% per year of the total balance of **employer contributions** (including earnings) as of the prior Dec. 31, or $20,000, whichever is greater**

*You may elect to have payments made from your Housing Equity Account, Rollover Account, Predecessor Plan IRA Account, and/or After Tax Rollover Account at any time.
**Withdrawal limits do not apply to members over age 75, alternate payees, beneficiaries, or terminally ill members.
Withdrawals from Investments

• Two types of withdrawals:
  – Systematic withdrawals
  – One-time withdrawals

• How much income can your investments provide?
  – What mix of investments will you use?
  – What average returns should you expect?
  – What average returns do you need?
  – How much can you withdraw without running out of money during your lifetime?
  – When must you withdraw from retirement accounts?
  – Which accounts should you withdraw from first?
Given an average 8% return, why can’t I take 8%?

Hypothetical, for illustrative purposes only. Source: Standard & Poor’s. The sequence of returns has an average compounded annualized return of 8% over 25 years and year-to-year volatility consistent with a portfolio comprised predominantly of stocks. Annual returns rounded to the nearest whole number. Accumulation portfolios assume a starting value of $100,000 at age 40 with no annual withdrawals. Distribution portfolios assume a starting value of either $100,000 or $735,302 at age 65 and a 5% first-year withdrawal rate adjusted thereafter for 3% inflation annually. Except where noted, the average annualized return for the 25-year period is 8%.
## Probability of Meeting Income Needs

Various withdrawal rates and portfolio allocations over a 25-year retirement

<table>
<thead>
<tr>
<th>Withdrawal Rate</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>100%</td>
<td>75% B</td>
<td>50% B</td>
<td>25% B</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>25% S</td>
<td>50% S</td>
<td>75% S</td>
<td>100% Stocks</td>
<td></td>
</tr>
<tr>
<td>84%</td>
<td>28%</td>
<td>69%</td>
<td>79%</td>
<td>79%</td>
<td>77%</td>
</tr>
<tr>
<td>97%</td>
<td>0%</td>
<td>4%</td>
<td>26%</td>
<td>63%</td>
<td>65%</td>
</tr>
<tr>
<td>95%</td>
<td>0%</td>
<td>0%</td>
<td>29%</td>
<td>46%</td>
<td>52%</td>
</tr>
<tr>
<td>92%</td>
<td>0%</td>
<td>0%</td>
<td>12%</td>
<td>29%</td>
<td>40%</td>
</tr>
<tr>
<td>87%</td>
<td>0%</td>
<td>0%</td>
<td>12%</td>
<td>29%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Some Pros and Cons of a Withdrawal Strategy

Pros:
- Increased **flexibility**
- Assets remain **liquid**
- May have **money left over to give** to the people and places you care about when you pass away
- Available for additional **partial withdrawals**

Cons:
- **Maintain management** of portfolio
- **Desire to increase the % withdrawn** in order to maintain the same income
- Difficult to **determine withdrawal rate** to last a lifetime
- May **run out of assets**
How does the ELCA Participating Annuity work?

Members who annuitize choose to transfer a sum of money from their account to a shared pool.

Pooled assets are managed and invested strategically with the goal of making monthly payments and smoothing out market swings.

Designed to pay monthly payments for the life of the annuitants.

Carefully consider the target asset allocations, investment objectives, risks, charges, and expenses of any fund before investing in it. All funds, including Portico Benefit Services’ funds, are subject to risk and uncertainty. Past performance cannot be used to predict future performance. Portico Benefit Services’ funds, including the ELCA Participating Annuity Investment Fund, are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Losses or market underperformance can precipitate a reduction in monthly participating annuity payments. Fund assets are invested in multiple sectors of the market. Some sectors, as well as the funds, may perform below expectations and lose money over short or extended periods. See the ELCA Investment Fund Descriptions, Investment Memorandum for the ELCA Participating Annuity Trust, and/or the ELCA Retirement Plan Summary on myPortico for more information.

Neither Portico Benefit Services nor the funds it manages are subject to registration, regulation, or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 or state securities laws. Accordingly, members are not afforded the protections of the provisions of those laws and related regulations.
The ELCA Participating Annuity: Process & Options

• How does it work?
  – You start receiving monthly payments immediately
  – Annuitants participate in the fund’s investment performance & mortality experience
  – Payments may go up or down each year

• What options are available?
  – You can choose a **single-life** or **joint-life** annuity
  – Most annuity options come with a **15-year minimum payout** option
Some Pros and Cons of the ELCA Participating Annuity

Pros:

• Continuous **lifetime income**
• Annuitized assets **managed for you**
• Shared risk and benefit
• Income may continue to beneficiaries

Cons:

• Less **flexibility**
• Annuitized assets are **not liquid**
• May need additional assets for **legacy planning**
• Funds no longer available for **additional withdrawals**
Sally & Dan’s Retirement Vision

• Plan to move and purchase their first home in a bigger city
• Look forward to travel
• Focus on volunteering, traveling, and grandkids
• Plan not to work in retirement
• Interested in a withdrawal strategy
Nancy’s Retirement Vision

• Plans to stay in her home — mortgage paid off
• Hopes to work part-time
• Looks forward to creating pottery and volunteering
• Interested in an annuity strategy
Social Security
Social Security Projections

Your Retirement Benefit Estimate

The amount you receive when you first start your benefits sets the base amount you will get for the rest of your life.

You can get lower monthly payments for a longer period of time or higher monthly payments over a shorter period of time.

Assuming you continue earning about the same amount, if you

- wait to start your benefits at **your full retirement age** (67 Years and 00 Month(s) for you), your monthly benefit will be about **$2,215.00**.
- delay starting your benefits until **age 70**, your monthly benefit will be about **$2,746.00**.
- stop working at **age 62** and start receiving Social Security benefits, your monthly benefit will be about **$1,536.00**.

**Assumptions:** We estimate your benefits using your average earnings over your working lifetime. If you worked last year, we will also assume that you will continue to work and make about the same amount as you entered for last year's earnings.

These estimates do not include:

- **Medicare** premiums or other amounts that may be deducted from your benefit.
- Any Social Security **benefits you may be eligible for** on the record of your current, divorced, or deceased former spouse.

Determine what you can expect to receive from Social Security by visiting ssa.gov/estimator or calling 1.800.722.1213
How much does Social Security currently provide?

Maximum monthly 2019 benefit at FRA* = $2,861

Average monthly 2019 benefit = $1,461

* Full retirement age
When can I collect Social Security benefits?

<table>
<thead>
<tr>
<th>BORN</th>
<th>AGE FOR FULL BENEFITS</th>
<th>REDUCED BENEFIT AT AGE 62</th>
</tr>
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<tbody>
<tr>
<td>Before 1938</td>
<td>65</td>
<td>80%</td>
</tr>
<tr>
<td>1943-1954</td>
<td>66</td>
<td>75%</td>
</tr>
<tr>
<td>1960 and Later</td>
<td>67</td>
<td>70%</td>
</tr>
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NOTE: For years missing, add two-month increments to reach your age for full benefits.
When should I collect Social Security benefits?

Break-even point: age 80

# Living Spouse Benefits

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>How long must I be married?</td>
<td>At least 1 year, or less if spouse is the parent of your child</td>
</tr>
<tr>
<td>How much can a spouse receive?</td>
<td>50% of your benefit amount at spouse’s full retirement age</td>
</tr>
<tr>
<td>When can a spouse commence spousal benefits?</td>
<td>As early as age 62 (with reduction), if you’ve commenced your benefit</td>
</tr>
<tr>
<td>What if your spouse earned a benefit based on her/his own earnings record?</td>
<td>Your spouse receives the greater of his/her own benefit or the spousal benefit</td>
</tr>
</tbody>
</table>
Social Security Spousal Benefit

$500: Spousal benefit based on 50% of Dan’s $1,000 Social Security benefit

$400: Kathy’s Social Security benefit based on her own work history

Kathy receives the greater of the two
Considerations — When to Collect Benefits

• Do you need the money?

• How long do you think you will live?

• What are your other sources of retirement income?

• What will you do with the money? (If it will be invested, what returns do you expect?)

• How much will you earn before full retirement age?

• How much of your benefit will be subject to taxation?
Example — Social Security Benefit Choices

Sally & Dan
• Decide to wait to retire and collect benefits at their full retirement age
• Sally collects 50% of Dan’s benefit since his benefit is higher than her own

Nancy
• Delays her benefit and collects it at age 70
Additional Income Sources
Other Personal Income Resources

- Part-Time Work in Retirement
- Previous Employers’ Retirement Plans/Assets
- Inheritance
- Taxable Accounts
- Spouse’s Retirement Assets
- Spouse’s Pension
- Equity in Personal Residence
- Rental Property
- Other

ACTION STEP: Inventory your other income sources.
Other Available Income Sources

Sally & Dan
- Spouse’s pension
- Traditional IRA
- Inheritance

Nancy
- Part-time work in retirement
- Equity in her home
- Roth IRA
Rolling Money into Your ELCA Retirement Plan

Pretax rollovers of at least $200 can be made from the following types of retirement plans into your ELCA Retirement Plan account:

- Traditional IRAs
- 401(k) plans
- 403(b) plans
- Other ELCA retirement plans

Interested in rolling money over? Call a Portico Financial Planner at 800.922.4896.

Rollover Benefits:

- Consolidation
- Potential housing allowance exclusion
- Potentially lower fees and administrative costs based on access to investments priced at institutional rates
Housing Allowance Eligibility
## Housing Allowance Eligibility for Distributions

| What is it?                                                                 | The IRS allows pastors to claim the housing allowance exclusion on designated housing allowance distributions received from a church-sponsored plan. The housing allowance exclusion must be designated in advance, in writing, before the beginning of each calendar year. Portico completes this designation annually for all eligible members.  
|                                                                          | NOTE: This does not apply to surviving spouses or beneficiaries. |
| Can it be applied to annuity and withdrawal distributions? | Yes. |
| How does it impact withholding?                                           | Can elect to have no taxes withheld from annuity payments and/or waive the 20% mandatory withholding from lump-sum distributions. |
Housing Allowance – Excludable Income

Based on the IRS guideline, the amount excludable from federal gross income is the lesser of:

1. Amount designated as housing allowance by Portico

2. Annual amount spent for primary residence, including: down payment; mortgage principal and interest; utilities; taxes; insurance; maintenance; and furnishings

3. Fair rental value of the home, including furnishings and cost of utilities
Housing Allowance Example

- $50,000: Amount designated as housing allowance by Portico Benefit Services
- $65,000: Annual amount spent for your primary residence
- $40,000: Fair rental value of the home, including furnishings and cost of utilities

$40,000: Amount excludible from federal gross income
Clergy Housing Allowance Worksheet

How We Serve
Our work with members typically falls into one of three categories: Financial Basics, Tax Planning, and Retirement Planning. Contact us to discuss your needs and get started.

FINANCIAL BASICS

TAX PLANNING

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
<th>Conversation</th>
<th>Resource</th>
</tr>
</thead>
</table>
| Clergy Housing Allowance | The Clergy Housing Allowance Exclusion provides unique savings for eligible clergy — both during their working years and in retirement. A planner can help you determine how much income can be excluded from income tax, and understand the impact of a home purchase on this process. | 15 – 30 minutes | Clergy Housing Allowance Worksheet  
Tax Advantage: Clergy Housing Allowance Exclusion |

Portico Benefit Services does not provide tax advice. We provide members with certain written tax information of general application to help them understand the way in which we administer our plans. Consult with your tax or legal advisor for tax questions or advice specific to your situation.
Portico Walks With You – In-House Financial Planners

Prepare in advance:
- List of income sources
- Retirement picture
- Budget for today and retirement

Call us at 800.922.4896

Create a plan for your retirement income with the help of a Portico Financial Planner.
Closing
4 Things You Can Do Today

1. Learn more about your ELCA Retirement Plan distribution options.
2. Determine what you can expect to receive from Social Security and consider ways to maximize this important benefit.
3. Inventory your other retirement income sources.
4. Create a plan for your retirement income with help from a Portico Financial Planner.
Next Steps

- Post-Webinar Survey
- Follow-Up Email
- **Ready to Retire Webinar** on Sept. 19 at 1 p.m. (Central)