Wi$e Up Teleconference Call
Strategies for a Secure Retirement
July 31, 2006
Questions and Answers

Jane Walstedt: And now I think I’m going to ask the operator to give us instructions on how to ask a question.

Coordinator: Okay.

Jane Walstedt: I'm sorry, before we go to that, I just wanted to mention that the call will be posted on the Wi$e Up Web site in audio form and transcript form. And what we do with the transcript, we often add parenthetical information to clarify things or to provide additional Web sites. So those of you listening may wish, after the call, if you couldn’t catch everything, write everything down, to check out the transcript.

And now, operator, would you please give us instructions on how to ask a question.

Coordinator: At this time if you would like to ask a question or make a comment about today’s conference call, all you have to do is press *1 on your touchtone phone. You will be asked to state your name.

Once again to ask a question at this time, you must press *1 now.

Thank you. Stand by for the first question.

Jane Walstedt: Thank you. While we’re waiting for the first question, Martha, I just wanted to interject when you mentioned that a spouse can receive those benefits from a defined benefit plan, people also need to realize they’re not going to get them at the same level that they got them when their spouse was alive.
For instance, my mother her…when my father died, her pension…his pension was reduced by 50%. So, yes, they do receive benefits, but they’re reduced.

Martha Priddy Patterson: Well, that depends on the pension plan.

Jane Walstedt: Really?

Martha Priddy Patterson: And the option that the employee or the person who was formerly employed chooses.

Most pension plans will permit, within reason, or give several options for the employee to choose the level of the survivor annuity.

Now obviously, the larger you make the survivor annuity for the wife or for the husband (if the wife has a pension plan), the smaller the overall [retirement] benefit is going to be [when both spouses are alive].

So that’s very important to understand.

Jane Walstedt: Thank you. That was a good point, because it’s true, I know, of our federal retirement benefits, in terms of survivor benefits. We do have a choice of how much to contribute for the survivor and how much they’ll get. [That is, we can designate how large a survivor benefit our survivor will receive].

The only thing I want to add before we turn to questions is that I want to ask Martha if you could explain what tax-deferred means.
Martha Priddy Patterson: Well, tax-deferred simply means that you’re not going to pay taxes [on the money you put into a “tax-deferred” retirement plan, for example] in the year you could [actually] get your hands on it or you earned it, but you’re going to pay taxes on it at some future period [such as when you withdraw the money during retirement].

So specifically with the 401(k) plan, you defer [paying taxes on] money for your entire career if you’re lucky. When you begin to take money out of that 401(k) plan, you will pay taxes on those amounts that do not represent either earnings or contributions you have made that in fact you had paid taxes on.

So you’ve got the benefit of saving more money over that long period, as Kevin pointed out--which is an extremely good point about the time value of money and how important it is to save when you’re young, if you have that advantage--but you’re going to have to pay the federal government some tax at some point.

Jane Walstedt: Yeah, I appreciate that. I know you explained it, but I wasn’t sure you’d tied it together. Tax-deferred for our listeners is like saying tax-delayed.

Martha Priddy Patterson: Exactly.

Jane Walstedt: The tax is delayed. It’s not paid on the money you contribute until you pull it out.

Let me now ask the operator, “Jeannie, do we have any questions?”

Coordinator: Yes, we do, Ma’am.
First up is Sharon Hardy. Ma’am your line is open.

Sharon Hardy: Thank you. Can you hear me?

Jane Walstedt: Oh yes.

Sharon Hardy: I would like to know--this is not in regard to myself because I do have
the savings and my investments--but for those that are just coming out
of high school or college, those women loaded with debt, how are they
expected to save 10%, and also those single women that are head of
household struggling with the price of gas?

I know there’s always been issues in different periods of time, you
know, women in depression time. But it’s extremely hard to do some
of the things that you’re talking about. Can you please help those
folks? [This question was posed to the Wi$e Up mentors, and their
answers will be posted on the Wi$e Up Web site.]

Jane Walstedt: Judi, I know you were interested in asking that question, but any of the
three of you is welcome to answer it.

Judi Martindale: This is Judi.

Of course, it’s difficult. There’s no question about that. Ten percent is
a goal for sure. But I think something just as important as the 10%
goal is to get into the habit [of saving].

So oftentimes the conventional wisdom is to pay off all the debt before
you start saving. But I personally like to pay down the debt and save
at the same time even if it takes you a little bit longer to pay down the
debt.
I know this might not make sense financially, but what it does do is establish the habit of saving. And that’s what’s crucial.

There’s no question that it’s difficult, but you know the irony is that I have some clients in the position that you’re talking about and some clients who have a great deal of money and they all struggle with saving 10%. It needs to be a habit that we establish somehow. And if it’s 1% now, that’s fine. That can go up. [In her book No More Baglady Fears: A Woman’s Guide To Retirement Planning, Judi has a chart that shows the benefit of saving even $10 a month.]

Jane Walstedt: Martha and Kevin, do you have anything to add?

Kevin Huff: Well, perhaps. This is Kevin. Thinking of your retirement account as a future liability fund the way that pension managers do with pension funds. What they do is they actually look out 30 years, 40 years down the road and say, we’re going to have these people moving into retirement and we have to fund to a certain number for them.

That day is going to come and we can either do it now incrementally [gradually], or of course, if we wait, there’s going to be more pain involved.

So I guess that’s maybe another way to kind of frame the question. There will be retirement; there will be that need down the road, and I think if you look at that reality, then it may help, you know, whether it’s $500 or $1,000, or any amount, at least the discipline is the important point.
And I think, Kevin, we didn’t discuss, we talked about it before the call, but if, unfortunately, you happen to get divorced, it’s very important to consider the pension as part of your assets in divorce and consider what part of your soon-to-be ex-spouse’s pension you might want to ask for in a divorce settlement.

Most women are working today, but for those who aren’t, it would be particularly important. And for those who are married [and working.]

Good point.

Okay. Jeannie, do we have another question?

Of course we do.

Next up is Carla Jenkins. Ma’am, your line is open.

Okay. Thank you.

I have a question. I’m 28 years old and I just started a new job and my income is doubled. Prior to that, I have an IRA that’s not fully funded. What should I do in that situation?

Well, you can’t go back and fund for prior years with IRAs unfortunately.

Okay.

But you can, since you’re getting more money now, a lot more money than you had just a little while ago -- I would say first of all, if you haven’t already funded your IRA for this year…
Carla Jenkins: Uh-huh.

Martha Priddy Patterson: …put that money in, because that’ll give you six months more to basically get income on the money. And then be sure that January 1 you are out there funding your IRA for next year.

And, Kevin, other advice you would give on that?

Kevin Huff: No, that’s very sound.

Jane Walstedt: Does your new employer--you're saying you had an IRA under your old employer--does your new employer provide…?

Carla Jenkins: No, I actually got one from the bank.

Jane Walstedt: I’m sorry?

Carla Jenkins: Actually I purchased one from the bank--the traditional IRA.

Jane Walstedt: Right, but I think you said you switched jobs…

Carla Jenkins: Right. But the job I had prior to this didn’t have retirement [benefits].

Jane Walstedt: Right. But in your new job, do you have retirement benefits?

Carla Jenkins: Yes, I do.

Jane Walstedt: You do. A different type? In other words, do they offer something other than the IRA?
Carla Jenkins: I think so. I’m with the government so it would be the Thrift Savings Plan, TSP.

Jane Walstedt: The federal government?

Carla Jenkins: Yes.

Jane Walstedt: Right. Yeah, you… in the federal government, depending… well, now I guess that you’re part of what they call the Federal Employee Retirement System which consists of the Thrift [Savings] Plan, Social Security, and the defined benefit pension plan.

So you have kind of a mixture of the defined benefit and the defined contribution. The defined contribution is the 401(k).

Carla Jenkins: Okay.

Jane Walstedt: I myself have both an IRA and money in the Thrift, so there’s nothing wrong with that. [Carla could contribute to both or either.]

Okay. Jeannie, do we have another question?

Coordinator: Yes, Ma’am.

Next up in line is Carol Borges.

Carol Borges: Thank you. Good afternoon.

Of course it depends on what your principal amount is and what the interest rates are, but is there a rule of thumb whether it’s smarter to, say, get a home equity loan as opposed to borrowing against your
401(k)? And I’m talking about, say, an amount of money that would be equal to 30% of your home value.

So is there a rule of thumb as to which way is smarter or is it totally dependent on interest rates?

Jane Walstedt: Who would like to tackle that one?

Martha Priddy Patterson: Well, I’d say it’s always smarter not to borrow from your 401(k) if you can avoid it. But there, as you say, it really does, I believe, all depend on interest rates.

Carol Borges: Well, I’ve been told that, you know, when you borrow against your 401(k), you’re paying yourself back. Therefore you’re giving yourself more interest. But in my logic, you’re only putting back what you’ve taken out, so you’re losing the compound interest of what would have been there.

So is my logic okay or is it completely, you know…?

Martha Priddy Patterson: I would agree with you, but, Kevin, again, what are your thoughts on that?

Kevin Huff: The way that I’ve -- actually comparing [home equity] debt to 401(k) [debt], what I’d like to do is just step back and look at the debt question alone. And then asking yourself what amount of interest, what amount of growth would I need on some other asset to justify leaving that asset invested versus paying off that asset, I mean, excuse me, liquidating [cashing in] that asset and paying the debt off, and if there’s enough of a spread there, then it can be justifiable.
Now working debt into the 401(k) question, I’m not sure if - that’s a tough one. I don't know. I don't know.

Jane Walstedt: Well, why don’t we think about that and maybe we can add, if we have some additional thoughts, add that into the transcript. [The question was posed to the Wi$e Up mentors and their responses will be posted on the Wi$e Up Web site.]

Carol Borges: Thank you. That would be great.

Jane Walstedt: Okay.

In terms of the last caller, I just want to clarify when I said I have an IRA and a Thrift, what I do now is that [the investments in] my IRA [are] still earning interest. I haven’t added contributions [to my IRA since I became eligible for the Federal Thrift Savings Plan]. My contributions now go into my 401(k) [Thrift]. So although I’m keeping my IRA and it’s earning money--what I already had in there is [earning money], my new contributions are going into the Thrift, really, because when I had the IRA I was just contributing on my own and I wasn’t disciplined enough to contribute to the maximum, whereas with the Thrift, it’s automatically deducted [out of my pay] so it’s much easier. And I hope that helps.

Jeannie, do we have another question?

Coordinator: Yes, Ma’am.

Next up is Cheryl Bynum.

Cheryl Bynum: Great. It’s Cheryl Bynum from EPA. I have a quick question.
Where can I go to get more information about whether it’s better to prepay my mortgage, get a home equity loan to fix my house and increase its value for possible selling and trading up, or just max out totally on my Roth and my TSP? [This question was posed to the Wi$e Up mentors, and their answers will be posted on the Wi$e Up Web site.]

Jane Walstedt: Wow, these are difficult questions. Don’t you think, speakers, that it depends so much on the person’s total financial situation?

Martha Priddy Patterson: Yes, and on the various interest rates.

Jane Walstedt: Right. It almost sounds like the kind of question that should go to a financial advisor, because they would then have the whole picture of the person’s financial … the whole financial picture and make… be able to give a more intelligent answer. Don’t you think?

It’s kind of hard in a vacuum.

Judi Martindale: If I may, I’d interject--this is Judi--I’d interject that when you go see a financial planner, to look for someone who’s fee-only as opposed to fee-based or some of the other forms of compensation, because then you’ll get someone who doesn’t have any potential conflicts of interest and can look at the situation, like you’re talking about, without trying to sell any products or anything, because in that particular situation, the one that you just mentioned, you need some good analytical advice I would think.

Cheryl Bynum: Right. Okay, thank you very much.
Martha Priddy Patterson: You’re welcome.

Coordinator: And we have one more question, Ma’am.

Jane Walstedt: We have no more questions?

Coordinator: One more.

Jane Walstedt: One more, okay.

Coordinator: Carolyn Jenkins, your line is now open, ma’am.

Carolyn Jenkins: Okay. Hi, this is Carolyn.

My question is I’ve been in the TSP for about 15 years, the Thrift Savings [Plan] for federal employees. Now I’m getting like six years away from retirement.

Which of the funds [in the plan] is best for me? And then can you address the Roth IRA, is that better than a TSP? [This question was posed to the Wi$e Up mentors, and their answers will be posted on the Wi$e Up Web site.]

Jane Walstedt: Well, I don't know if any of the speakers feel able to answer the first question. Maybe try the second one.

In terms of the first question, I think it’s something we in the federal system wrestle with and I don't know if the retirement counselor in your agency… that retirement benefit counselor could point you to somebody or whether talking to the Thrift plan [administrators] themselves could help you.
I mean, it’s… I wrestle with that myself, because they have greater choices now. They’ve added that small cap fund [the Small Cap Stock Index (S) Fund] and the international fund [the International Stock Index (I) Fund] and the other fund that lets you kind of adjust according to where you are in your work life [five lifecycle funds]. I think it’s so individual.

Kevin Huff: Jane?

Jane Walstedt: Yeah.

Kevin Huff: Jane, if I may.

I agree with you and the question, and pardon the - to repeat what you’ve said about the total financial picture, a lot of it really depends on where you’re going to be pulling money for your lifestyle expense needs during retirement [that is, which funds you will be drawing upon first, during early years of retirement, to meet your needs].

Now I should mention, six years from retirement, as your retirement date gets closer, you certainly, as you’ve heard and read, need to be converting to more conservative types of investments, and with less volatility, so that you would not be actually pulling out from funds where a market has a big decline [and you thus lose money].

So rebalancing your portfolio to a more conservative allocation is very important during this time. I’m not familiar with the funds that are used in federal programs so it would be difficult -- in fact it probably wouldn’t be very prudent to make suggestions without knowing your total financial picture.
Some persons may leave a large portion invested for the long term, because of legacy planning and some other needs. They don’t need all those funds. They don’t need to be moving all of those assets to a more conservative portfolio.

So really what you need to do is talk to a financial planner who could help you map out what your expense needs [are] or [are] projected to be during retirement and then look at those assets that should be appropriately liquidated and moved to a more conservative level of investment.

Jane Walstedt: And, Kevin, in addition to the ones I [already] mentioned in the Thrift plan, we have a stock index fund, the C [Common Stock Index Investment] Fund; we have a bond fund [Fixed Income Index Investment (F) Fund]; and we have the Government Securities [Investment (G)] Fund.

And I think what you just said made me think… I mean, one important thing is to not have all your eggs in one basket, right? Not to have them all in the stock fund or all in the bond fund.

But… so I mean, the idea of that life cycle fund--I think it’s called that--they just added is that your portfolio would be rebalanced for you depending on where you are in your career.

But whether it’s a good idea to invest in that [the lifecycle funds] when you’re six years away from retirement, I’m not sure. I’m so close to retirement, I’m not going to invest in that particular one.

But there are about, what, six choices now in the Thrift plan.
Cornelia, you had - you had a question.

Cornelia Moore: I have a question. I don't know if Judi has the answer to this or someone else.

But do you have an idea of what percentage you get from Social Security in terms of your retirement compensation?

Jane Walstedt: What percent of your pre-retirement earnings?

Cornelia Moore: Yes, uh-huh.

Jane Walstedt: I looked for that figure on the Social Security Web site. They used to have it. They don’t…I couldn’t find it now. I don't know if any of you know.

Martha Priddy Patterson: This is Martha.

It depends so much on the number of years you worked, the number of years you worked under Social Security-covered employment.

For example, many federal workers -- federal workers generally -- are not eligible for Social Security based on their work for the federal government. [Federal workers under the Civil Service Retirement System (CSRS) do not earn Social Security benefits from their Federal employment. Federal workers under the Federal Employees Retirement System (FERS) do. The Federal Employees Retirement System became effective January 1, 1987. Almost all new employees hired after December 31, 1983, are automatically covered by FERS.]
They will receive something for any private employment they may have had.

And it also, of course, depends on whether or not you worked long enough -- basically 35 years to get a full Social Security benefit -- to get credit for every year. And what your earnings were each year.

So there are a number of elements that will go into setting your Social Security benefit.

But the other great thing about the Social Security benefit, of course, is it’s usually indexed -- or at least it has been up to now -- for inflation. And so that is a great amount of protection for Social Security benefits.

Jane Walstedt: I think they used to give on the Social Security Web site the average…

Martha Priddy Patterson: Yes.

Jane Walstedt: …average percent that was replaced. Maybe they do…

Martha Priddy Patterson: They do.

Jane Walstedt: …somewhere, but there’s a page on the Social Security Web site about women and Social Security, and I thought it was there that there used to be… - had information of percentage replaced. That’s where I got these figures on the average benefit for men and women.

Martha Priddy Patterson: But that average is based on an average income wage base for everyone, if you will.
Jane Walstedt: Right.

Martha Priddy Patterson: And obviously, if you earned $200,000 a year, you would not be getting that particular level of Social Security benefit by any stretch of the imagination.

Jane Walstedt: Right.

Okay, well, I wish we had time for more discussion, but I think it’s time to bring the call to a close.