Jane Walstedt: And now, I’d like to turn the floor back over to Tricia, the operator, to tell people how to ask questions.

Tricia?

Coordinator: Thank you.

At this time, we’ll take questions.

If you have a question, simply press *1 on your telephone touchpad. At any time, you may withdraw your question by pressing *2.

Once again, that’s *1 if you have a question and *2 to cancel.

And when prompted, please state your name for pronunciation purposes.

One moment while the questions register.

Thank you.

Jane Walstedt: So, Tricia, do we have any questions yet?

Coordinator: At this time, I’m showing no questions.

Jane Walstedt: Okay. I have some questions. But before I get into that--and I think maybe our listeners will think of questions as we go along--
do either of...any of you wish to comment on the remarks of any of the other speakers? You know, like adding something about a topic that you cover?

Michael Masiello: I’ll be happy to start. I mean I thought the other two presentations were excellent. They hit on all the critical points.

We sometimes refer to the college savings or college funding as really it’s more of a retirement planning problem. And I agree with Kathleen that, you know, it shouldn’t...college funding should not supersede your own retirement, and lots of different people have said it different ways.

But children who are dedicated workers and determined to get a college education can find a way, one way, shape, form or another, whereas parents who have basically scrapped their retirement plans to pay for college cannot look to those same children for financial support for the rest of their lives.

And I’ve always liked that analogy because it kind of puts it into perspective for folks. And again the presentations were excellent.

Jane Walstedt: Thanks, Mike.

Michael Masiello: Sure.

Jane Walstedt: Lynette or Kathleen, did you have any...want to add anything?

Kathleen Longo: I think...oh sorry. Go ahead.

Lynette Atchley: Go ahead, Kathleen.

Kathleen Longo: Thank you.
The key thing is really integrating, because you can’t really look at one goal on its own. You really have to look at the full picture and make your finances work given all of your goals.

And so that’s the important piece, to just not look at one topic area. Focus on the big picture and lay out your plans from there.

Lynette Atchley: I completely agree.

I did want to say earlier…something to add to what Mike said earlier.

Write it down when you’re looking at your budget. Write it down on paper. Because when you actually see what you’re spending--your actual spending compared to your budget--you will be so amazed. And you don’t really realize that until you just actually sit down, write it down, and pay attention to that.

Jane Walstedt: Okay. Thank you.

Tricia, do we have any questions yet?

Tricia?

Coordinator: And our first question comes from Scenica Jordan of Kansas City, Missouri.

Jane Walstedt: Thank you.

Scenica Jordan: Hi. It’s really not a question, but I have two setups for [my] retirement plan. And I don’t know how they actually pay out when you retire, but the money I have goes partially in one, then the other comes from my job.
Do they normally pay out at a certain age also?

Jane Walstedt: So, are you talking about both of the accounts--whether they normally pay out at a certain age?

Are these pension plans or are they 401(k) plans?

Scenica Jordan: Well, I believe one of them is a pension and the other one is like a retirement savings plan.

Jane Walstedt: You mean like a defined contribution [plan] or 401(k)? Are those terms familiar to you?

Scenica Jordan: It’s not familiar to me. No, it isn’t. It’s through the post office. One of them is through the post office.

Jane Walstedt: Uh-huh. Do you currently work for the post office?

Scenica Jordan: No, but I used to. But I still have that retirement plan going on though.

Jane Walstedt: I see. Okay.

And the other plan you have is through a private employer?

Scenica Jordan: Yes, through the government, it’s through FERS.

((Crosstalk))

Jane Walstedt: Through the government. Okay. Do you know whether that is the Federal Employee’s Retirement [System] [(FERS)]?
Scenica Jordan: Yes. That one is FERS.

Jane Walstedt: FERS. Okay.

Scenica Jordan: But the other one isn’t.

Jane Walstedt: Okay.

Do any of our speakers want to try to answer her?

Lynette Atchley: Actually, I would like to attempt to answer you.

Scenica Jordan: Okay.

Lynette Atchley: The pension plan will typically have certain guidelines. And what you can do is you can contact [your] human resources person.

Scenica Jordan: Uh-huh.

Lynette Atchley: At the employer that you worked at when you developed [started contributing to] that pension plan. And they should be able to provide you with some information that says if you wait until you’re age 65, this is what you should receive as a payout. And if you wait until age 62, this is what you would receive as a payout.

Do you understand that part so far?


Lynette Atchley: Okay.
Now the other plan sounds to me like it might be a [defined] contribution plan. That’s…actually for most plans, any time you’re after age…older than age 59-1/2, you should be able to withdraw the money. It’s just that you won’t necessarily get the same amount as you would if you waited until you’re age 65 for that pension plan.

For the 401(k) plan or the defined contribution plan, it’s just the same way. And if you can…-the longer you can hold onto it for it to accrue…

Scenica Jordan: Uh-huh.

Lynette Atchley: …tax-deferred, the better off you’ll be for planning for your retirement.

Scenica Jordan: Okay.

Jane Walstedt: I’m not familiar with the postal service retirement plan, but in terms of the federal retirement [savings] plan, we have the…for the employees who have been with the government longer, we have the Civil Service Retirement System [CSRS] plan. That is a defined benefit pension plan where we get a specific amount based on the high three earning years when we retire.

But under FERS, FERS is a three-part plan. That’s the newer federal employees plan.

And that three-part plan consists of a defined benefit pension, but a smaller amount [than CSRS]; Social Security; and a 401(k) plan [Thrift Savings Plan]. So the employee can choose to contribute up to a maximum amount to the 401(k) plan, and the government also contributes a matching amount up to a certain limit.

And usually, with these plans, as you were told…
Jane Walstedt: …what you get depends on when you draw it out. If you draw it out before the …well, before a certain age, you’ll get, as you were told, less. [Current and former employees of the Federal Government can find retirement information on the Web site of the U.S. Office of Personnel Management (OPM) at www.opm.gov/retire/. From that page you can access FERS, An Overview of Your Benefits, if you are enrolled in FERS, or Retirement Facts 1, if you are enrolled in the Civil Service Retirement System (CSRS). Information on the Minimum Retirement Age (MRA) can be found on the OPM Web site at www.opm.gov/retire/html/faqs/faq11.asp.]

And there was some very graphic example that I read somewhere about Social Security, the difference between retiring early--say at 62--and retiring later--say at 66, because under Social Security, the age is gradually going up at which…the age which should be considered full retirement.

And the difference [in what was received] between a woman retiring at 62 and retiring say--I think in this example it was 68--was quite considerable.

Does anybody want to chime in anymore on that?

Michael?

Michael Masiello: Well, no. I would agree. The numbers we’ve used historically…and I’d have to revisit the formula--because I just commit it to memory at this point--but roughly between 62 and 65, we use the differential of about 80% of what you would have gotten at 65 you would then be able to get at 62.

And I agree the number and the gap is getting wider and wider.
Jane Walstedt:  Uh-huh.

Scenica Jordan:  I got a little ways to go.

Michael Masiello  That’s good news.

Jane Walstedt:  I think the first thing is, as somebody suggested, meeting with your personnel people, your human resource people, and asking them to explain very clearly what the rules are--

((Crosstalk))

Jane Walstedt:  what happens if you retire at this age and that age.  Actually, federal employees usually -- I’m sure it would be the same for you -- we get statements [called “Personal Benefits Statements”] every year that tell us if we retired at age so and so, here is what we would get in our monthly pension.

Scenica Jordan:  Right.  They stopped sending me that.  I don't know why.  Maybe I need to find out what went on.

Jane Walstedt:  Right.  I think you do because you should be getting that.  And that’s helpful. And you can take that back to human resources and talk to them about it.

Scenica Jordan:  Okay.

Jane Walstedt:  Because some of these formulas are pretty complicated.  It helps.  I know I’ve gone through our personnel office here in the Labor Department, and I’ve gotten them actually to do a printout for me as to what I would be getting if I retired at a certain age.  And that would be either, you know, myself or if I elected to include a survivor benefit.
Jane Walstedt: We in the past...sometimes, we’ve had our retirement counselor here at Labor sit in on the call because the federal system can be somewhat different than the private sector system. But I want to remind listeners that we do also send your questions to our Wi$e Up mentors. And so, Michael is a Wi$e Up mentor, but other mentors can also choose to answer that question after the call.

So you should look on the Wi$e Up Web site and see what the other mentors may have to say in answer to your questions. Some of them may be more familiar with the federal system.

Jane Walstedt: Anyway, I’m sorry. Tricia, do we have another question?

Coordinator: And our next question comes from Melonie Beauchamp of Salem, Oregon.

Jane Walstedt: Okay. Go ahead, Melonie.

Melonie Beauchamp: Hi. Yes. I work for the state of Oregon. And my husband just retired. He’s 20 years older than I am. He’s 64—He’s receiving Social Security, U.S. Army retirement, and of course the State retirement.

And we have a daughter who’s in ninth grade. She wants to go to college, good thing. We’ve been telling her since she was born that she had to go there. And I work, again, for the State and am in the National Guard, so I’m going to get a retirement from both.
My question is - and I listened to what you said, and I agree. I’d rather - she can work her way through college (we did), but we want to help. I want to move to Panama. They have a great program for people who have retirements. My husband does, so I want to go back and be warm again.

What’s best to do--to quit before she goes to college, would she have a better chance of getting good financial aid, especially if we’re out of the country, or work ten more years, then I’ve had 25 years with the State, and I’m vested, so it’d fully accrue while we did other things. I guess I’m trying to look forward to what kind of planning we should do or shouldn’t do.

We’ve got some savings for him, for her, and for his grandchildren.

Jane Walstedt: Anybody want to…

Woman: I’ll take a stab at that.

Jane Walstedt: Okay.

Woman: Well, in thinking about it, I wouldn’t let the financial aid piece make the decision. I would really look to see if you are able to financially retire comfortably at that time. Because when they look at the family’s [expected] contribution and when they look at the parents’, it’s a fairly low percentage of your assets and income – it’s 5.64% -- as far as what will affect the financial aid. So I would look more at it from a retirement lifestyle standpoint. Does this work overall for you to be able to move there?

Jane Walstedt: Okay.

Anybody else want to chime in? No?
Okay. Well, Melonie, you know that we’re…as I said we’re going to post this question also to our WiSe Up mentors on the Web site. So watch that site for…

Melonie Beauchamp: Okay. That was kind of what I expected to hear. But it’s kind of nice to hear from professionals to back that up.

Jane Walstedt: Okay.

Melonie Beauchamp: Thank you.

Jane Walstedt: You’re welcome.

Tricia, do we have another question in the queue?

Tricia?

Coordinator: At this time, I’m showing no further questions.

Jane Walstedt: Okay. Well then I’ll throw one out.

What if I had a major emergency? Can I withdraw funds from my retirement plan?

Michael Masiello: Well, I’ll answer that one first only because I’m sure the three of us are chomping at the bit to address that.

I jokingly tell some of our clients that this is not the Bank of Masiello. Unfortunately…I mean, the easy answer to your question is “Yes, you can.” The correct answer is “No, you shouldn’t ever.” But the reality is people will ultimately … based on life emergencies or perceived emergencies or
circumstances. There are means and ways to get money out of your retirement accounts. Some of them have penalties. Some have income taxes. And others you can do a little bit of planning relative to minimizing those taxes and/or penalties.

As a general answer, my preference would be not to ever tap that retirement account until such time that you are retired because you’re A) not only going to pay taxes and possibly penalties under withdrawals, but you’re losing the tax-free or tax-deferred compounding of that principal for a long period of time.

As the earlier examples showed, the longer you keep money compounding without taxation, the bigger that pot grows to, even though the definition of “emergency” or “I need to have that” is kind of like beauty in many respects -- something that’s in the eye of the beholder.

And I’m sure the other two advisors have gotten similar calls in the last couple of weeks. But I’ve had two or three [calls] just this week where the request for the money has come in and they’re for non-emergencies, but we can’t convince the client not…to not take that money out, because in their mind, it is an emergency or it is a critical emergency I guess I should say.

But I’ll defer to the others. But yes, yes you can do it, but no, we typically recommend trying not to at all costs if you can afford it.

Lynette Atchley: Mike, I completely agree with you.

And my mother is my worst client. She doesn’t listen to me. She withdraws money from her retirement accounts all the time.
Anyway, there are some things that, you know…what Mike mentioned is absolutely…it’s great advice.

Now, there are sometimes those situations where, you know, maybe you’re not 59 1/2 and you just really need the money. There are some ways to avoid that penalty, and I wanted to just touch on that quickly. Actually, I meant to do that earlier.

If you…you can take a distribution [funds from your retirement account] to pay for health insurance premiums if you’re unemployed and avoid that penalty. You can take a distribution to pay for qualified higher education expenses for either yourself, your spouse, a child, or grandchild and avoid the 10% penalty.

You can take a distribution of up to $10,000 as a first-time home buyer and also avoid that penalty.

And there’s several others, you know--disability, medical expenses that might exceed 7.5% of your adjusted gross income. I’m just kind of reading off of a list of the 10% early withdrawal penalty exclusions or exemptions [those are some of the things that are excluded from the 10% early withdrawal penalty].

Jane Walstedt:  Can you just define “distribution”? Many will know what it means. Some might not.

Woman:  Okay, good.

The word “distribution” is typically used along with the retirement plan. When you withdraw money from a retirement plan, that is called a distribution from that retirement plan.
Jane Walstedt: Great. And I think, Kathleen, you used the term “tax deferred.”

Kathleen Longo: Uh-huh.

Jane Walstedt: And tax deferred--correct me if I’m wrong--that means you don’t pay the taxes on the money upfront; you pay when you draw it out.

Kathleen Longo: Correct.

Jane Walstedt: Right. Okay.

Sometimes, I know not everybody knows what these terms are.

I’m going to pose…well first, Tricia, do we have another question in the queue?

Coordinator: And at this time, I’m showing no further questions.

Jane Walstedt: Okay.

I’m going to throw one more question out. We may run just slightly over before I turn it over to Sarah Miller to give us closing remarks.

And that is, do you think assets for college funding should be owned in the parent’s name or the child’s name?

Kathleen Longo: I’ll take that since I did college planning.

You know, I think, for the greatest flexibility, putting it in the parent’s name. There used to be some more tax advantages [to putting those assets in a child’s name]. People may have heard of what’s called the Kiddie Tax, where
you could move some assets into the child’s name at a younger age--once they reached 14.

Well, they’ve removed that ability. So now there’s no income shifting--to be able to shift assets-- until the child is age 18. [A child’s investment income may be subject to tax at the parent’s tax rate if the child is under age 18 (previously under age 14) at the end of the year. The amount of taxable investment income the child can have without it being subject to tax at the parent’s rate has increased to $1,700 (previously $1,600). See Part 2 of Publication 929, *Tax Rules for Children and Dependents* For use in preparing 2006 Returns.]

So for greatest flexibility and for maximizing your goals, I think starting to make sure that you have enough on your...the parents holding it. And then when you think about other ways to own it, like a 529 plan, the parents can still be the owners and [the kid can be the beneficiary], but you still have a lot of flexibility.

Think about if you put money in the kid’s name, and, depending on the state you live in, at their age of majority, which is 18 or 21, that’s their funds. And we’ve also seen some scary things that young people can do with those funds, so better to put it in the name of someone who may be a little more wise.

Jane Walstedt: Thanks, Kathleen.