



Nine Things That Matter Now  
for  
9  
Pennsylvania Public  
School Teachers and Administrators

A guide to help you make smart retirement decisions  
and save thousands of dollars in fees.

## 9 Nine Things That Matter Now

### Dump those high cost 403(b)'s

Do you realize that fees in many insurance company issued 403(b) plans can cost you 2.5% or more per year – before you even get a return! On a \$100,000 account balance earning 5% per year for the next ten years you would pay out over \$30,000 in fees. You might be thinking that your provider doesn't charge these fees because you don't see them on your statement. However, the operating expense charges are there buried in the fine print. It's just that they are deducted before you receive your return, whether positive or negative.

It is important to understand that the world of investing is very different today compared to when some of these programs were put into place by some of the “endorsed providers” in local school districts many years ago. There are new vehicles like index funds and ETF's that charge a fraction of what these old 403(b) dogs do. Even after you add an advisory fee for professional investment advisory services, you should be paying less than half of what you are paying now. While you might be stuck with these approved vendors and their products while you are working, you are usually able to transfer these funds elsewhere after you retire. So, use the retirement planning process as an opportunity to get some of this sorted out.

### Wait on Social Security, if you can

Basically, Social Security is a life expectancy game. If you think you might live to be in your eighties and beyond, it's usually better to delay receiving social security benefits as there is a much higher payout at age seventy versus the reduced benefit you could receive at sixty two – if you can afford to do so. In fact, it's about a 57% higher payout in this example. If you continue to work and earn more than \$14,000 per year it usually pays to wait to take benefits as well so you don't incur any penalties. If you took benefits early, you are not locked in. You can change your mind, pay back the benefits you have received, and re-apply for the higher benefit payments. After age sixty five, you can earn any amount you want and still collect full benefits. There are some other strategies available such as a file and suspend strategy that can help your spouse increase their benefits filing under your record as opposed to their own.

So, if you retire and just don't need the money and think you might live a while, consider waiting to file for social security benefits.

### Inflation planning is now up to you—not PSERS or the Pennsylvania state legislature!

*The sooner you realize this the better prepared you will be.*

There was a time when the Pennsylvania state legislature granted cost of living adjustments

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for retired members of PSERS. The increases came every four to five years and a member's pension benefit was bumped up accordingly – actually about half of what the true cost of living increases had been – but, hey, an increase is an increase! However, it has been eight years since the last increase and it is looking like there might not be any increases for quite a long time. As you likely know, about ten years ago then Gov. Tom Ridge threw the teachers a bone on his way out of office when he wanted to change the multiplier from 2.0 to 2.5 for state employees done at a time when the pension systems appeared to be flush with money. However, we have had two economic tsunami's hit in the past ten years which has had a negative effect on the pension funds sustainability. This sequence of events is about to put tremendous pressure on school districts throughout the state. Property taxes throughout Pennsylvania are bound to rise so that the shortfall can be made up for past political maneuvering and lack of consideration made for potential severe drops in the financial markets. Basically there is no money to pay COLA's and it could be political suicide if they paid them now. So, planning for inflation is up to you. Hopefully you have accumulated other funds that can be invested in a way that will keep pace with inflation so that when you start feeling the pinch in about ten years, you will not have to worry! Your lump sum distribution can act as a nice hedge against inflation – just make sure you allocate it in a way that will keep pace – that is the

challenge and why you might need professional guidance.

### Plan your retirement BEFORE your exit counseling meeting

So many teachers and administrators wait until the last minute to plan their retirement. In fact, many individuals go to the mandatory PSERS exit counseling sessions and complete their forms on the spot never having really studied the options or considered a variety of scenarios based on life's possible twists and turns. We suggest that the retirement planning process starts at least a year in advance, if not earlier. Starting early will allow good decision making. You will have to decide whether to withdraw your lump sum from PSERS and invest it – the usual breakeven return is about 7%. So if you plan to put the lump sum under your mattress which is kind of like putting it in the bank these days, you might actually come out behind than had you left the money at PSERS. Now there is much more to it than that issue alone, but, this is the type of consideration that requires thought and planning so you can make a decision and just automatically hand in the rollover form because that is what your colleagues tell you to do. Planning ahead on the option choice is perhaps even more critical and requires even more planning, especially if you have to provide for somebody else if you pass away first.

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### Pause before you choose a PSERS survivorship option

Recently we met with a new client who came to us as a referral when her husband had passed away after a long illness. We came to find out that she chose PSERS Option 3 which provided a 50% survivor's benefit to her husband. However, what she didn't consider at the time was there was a very high probability that he could die first simply because of many years of declining health. That is exactly what ended up happening. So, now she is stuck with a reduced pension payout for the rest of her life and there will be never be any survivors benefits paid to her family. We could cite example after example of cases where very little planning and lack of information caused major mistakes in the option selection process. However, if you consult with a professional who understands the nuances of PSERS you and your family can make the best decisions possible. Let us provide another example: About ten years ago, we consulted with a member of PSERS and his spouse who was getting ready to retire after a long career. The topic of life expectancy came up during one of our meetings and during a break the spouse admitted that her husbands health was severely declining and that she didn't expect him to live very long which was contrary to how the retiring member felt. So, after a great deal of planning, they settled on Option 1 rather than one of the other survivorship options. About a month after the husband retired, he died. His spouse received over a million dollars

and now the money has passed to their two children since the spouse's death two years ago. Now that is why it pays to plan things out a little!

### Product or Advice

The financial services industry has undergone tremendous change in the past ten years. Financial products have become better, cheaper, and more transparent. Most of the advisory community have diversified their businesses and now offer fee-based planning in addition to the conventional product sales model. Advisors that can go both ways are "dually registered", and, we would argue, can't possibly act in your best interests. They are faced with conflicts of interest every day - "Should I sell this client a high commissioned product or work for a fee tied to how much money I manage for you?" "And, maybe I can sell a life insurance policy or fixed annuity and get a fat commission check as well!" That has conflict of interest written all over it!

We hate to tell you this, but, the public school system and it's endorsed providers continues to operate under an antiquated business model by and large and the ones who pay the price are the employees who contribute to these high cost programs paycheck after paycheck. There is a better way – hire a **fee-only** fiduciary to work with you. They offer an open architecture business model that allows them to go out in the marketplace and put together portfolios made up of the low

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cost index funds and ETF's from highly reputable organizations such as Vanguard, iShares, and others. The advisor has no "interest" in offering one product over another – only the product that works best in a particular situation. And, fee-only advisors do not sell annuities and life insurance. In our experience, policyowners are the ones left holding the bag after their agent has earned their commission and is now long gone.

It's time to change the game. Pennsylvania public school teachers and administrators deserve much more and it's available to them through Addis & Hill's My PA School Retirement Program!

**Long-term medical care costs are your biggest financial threat, after inflation.**

Based on a 2010 Cost of Care Study conducted by Genworth, nearly two-thirds of people over age sixty-five will need care either at home or in some kind of facility. In Pennsylvania, the average annual cost of care in 2010 for skilled nursing care is \$85,593, \$34,920 for assisted living, and \$44,616 for a home health aide. Now, what if you are fifty seven years old today and care might not be needed for twenty years or more? If costs increase by a modest 5% annually, that same nursing home will cost you over \$220,000 per year in 2030. If you stay in that facility for 3 years, you will have to come up with over \$700,000! Yes, your pension and social security will help pay for some of the costs, but, the difference is going to come out of your pocket. The consequence is that your spouse

who doesn't require care may not have enough money to live comfortably and/or your children won't receive what you have worked hard for during your life - the nursing home will reap the benefits! Just be aware of the risks you might be taking in this area and make a decision to deal with them.

**Get those beneficiary designations right**

Beneficiary designations are important to review periodically for your IRA, 403(b), and life insurance policies. If you die, the money passes to whom ever you have named on the beneficiary designation form even if it conflicts with your will. So if you named your brother as your 403(b) beneficiary before you were married and never changed it, guess who gets the money – your brother! Major life events such as marriage, death of a spouse, divorce, and estranged children should be a trigger for reviewing your beneficiary designations. In addition, you should always be sure that your current contingent beneficiaries are up-to-date. Don't forget that your will is designed to distribute your assets that are not contract related such as real estate, a bank account, or non-retirement account. Contracts such as life insurance, qualified retirement plans (IRA's and 403b's), and annuities all distribute through a beneficiary designation at your death.

**It's not about the returns, it's about the dollars**

Many people that come to us are so focused on what such and such an investment has earned or

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lost that they forget what the real purpose of their money is for and how much they might need so they don't run out during their lifetime. We try to help new retirees understand what is possible with their money not by trying to maximize a return ( a secondary goal ), but, by trying to manage the downside risk. If you are able to experience a 90% chance of not running out of money with a risk averse portfolio (30% stocks, 70% fixed income), why in the world would you allocate your money to an 80% stock portfolio and subject yourself to all the ups and downs in the markets in doing so? It's important that retirees start to look at the dollars required to live their best life as opposed to trying to achieve some arbitrary return that may not have any association at all with their life. In addition, we

often see situations with retiring members of PSERS who hadn't realized that they are sacrificing (not doing or buying what they could) and are leaving more to their heirs unknowingly. So, in summary, realize that you might actually be able to achieve more goals with less return and less risk than you thought possible. Start by looking at the dollars and you are well on your way!

**If you'd like to learn more about Addis & Hill's retirement planning services, we invite you to call for a complimentary meeting to see how our expertise can benefit you. 610.688.9500**

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### About Addis & Hill, Inc.

Addis & Hill has over 20 years experience planning the retirement of Pennsylvania's public school teachers and administrators. We help retiring members of PSERS make smart decisions with their money. We understand how the retirement system works, the decisions you need to make, and how to help you navigate through the process from start to finish.



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