

Financial Fitness

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Retirement Income An Overview

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Where to Begin

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1. Do you have a plan? Is it up to date?
2. Do you have a budget?
 - ***what are your expected expenses
 - ***what is your income
 - ***what expenses are short term (mortgage, tuition, loans...)
3. Do you have an emergency fund?

Confer with your Financial Advisor And Accountant

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- What are your goals? Current and future?
- Understand your risk tolerance (willing vs. should)
- Understand the investments offered to you
- Understand how the investments meet your goals
- Don't ever be afraid to ask questions and ask for other options.
- Be clear about the type of investor you are
- Eg cds.

What is your plan?

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- What are your goals?
 - Legacy?
- What are your needs?
- How will you implement the plan?
 - Goals vs needs

Retirement Income Overview

Generating cash flow

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- Social Security
- IRA/401K
- Income and Dividends
- Annuities
- Bond Ladder Strategy
- Other Misc.

Social Security

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- What is it?
- A government program that replaces a percentage of a worker's pre-retirement income based on the worker's lifetime earnings.

- [SSA.Gov](https://www.ssa.gov)

Social Security

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How does it work?

1. Early retirement age. Can take as early as age 62, with a reduction from full benefit age.
2. Full retirement age. Depends on year of birth.
 - 1943-1954 66
 - 1955 to 1960 gradually increases to 67
 - 1960 or later 67
3. Delayed Retirement Age. Wait until 70, benefit amount increases 8% each year from full retirement age.
4. Working beyond retirement age may increase benefits if you have higher earnings. Add to credits.
5. Maximum benefits 2022 (ssa.gov) 62/\$2364; full retirement \$3345;
70/\$4194

IRA , 401K, Pension

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- After 2020 required distributions begin at 72 years of age (Apr 1 of following year.)
- Required Minimum distribution based on prior yearend value 12/31.
- Age determines the required amount
- Distributed assets are taxed as ordinary income
- 401K Company sponsored plan, may have matching, limited choices.
Rmd for 401K, same as an IRA
- IRA broad investment choices, 401K limited to the company plan
- Note: Pensions are taxed as ordinary income

Personal Finance

Investments outside of Retirement accounts

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- Investment assets provide retirement income opportunities.
- Dividends and interest payments may provide an adequate stream of income and meet retirement needs.
- Tapping appreciated stocks may cover the shortfall.
- Active Management.
- Follow your risk tolerance and goals

***Important to discuss financial plan and goals with your financial advisor and accountant.

Investment Assets

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- Unitrust: provides a set percentage of the net asset value of a trust, determined annually and usually paid monthly. (3%)
- Active Management vs. Passive
- Inflation

Annuities Insurance Products

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- What is an annuity:
- *An annuity is a contract between you and an insurance company under which you make either a lump sum payment or a series of payments, and in exchange the insurance company agrees to make payments to you in the future.*
- Maryland Insurance Administration Consumer Guide
- 800-492-6116 www.insurance.Maryland.gov

Annuities overview

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- A. Two basic types
 - 1. Fixed: Insurance Co guarantees payments for a certain term at a certain amount.
 - 2. Variable: Investment product, shifts risk to consumer.
- B. Payments
 - 1. Lump sum
 - 2. Over time
- C. Payout Timing
 - 1. Deferred (accumulation/distribution)
 - 2. Immediate

- Many different types of Annuities
- Risk of living too long
- What is your risk tolerance
- What does Peace of mind mean for you—steady stream of income
- What is your financial plan--
- What are your financial needs
- Tax deferred
 - Check Insurance company ratings
- Contracts are complicated, contact a professional

Ask Questions

Few of the Many Questions to Ask

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- 1. What types of annuities are available to you?
- 2. What can they do that other investments cannot?
- 3. What are the risks to your money?
- 4. How do you get your money --- are there any restrictions?
- 5. What are the tax consequences?
- 6. What is the seller's compensation, direct and indirect? How does that impact your payout?

Consider consulting with: Financial Advisor/Accountant

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Resource: Maryland Insurance Administration:
Consumer Guide to Annuities

800-492-6116 www.insurance.Maryland.gov

BOND LADDERS

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- WHAT are they?
- WHY are they used?
- HOW do they work?

Bond Ladders. What are they?

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- A structured portfolio of individual cds, treasuries, municipals or bonds that mature in consecutive years.
- Possible part of a full financial plan

Why are they used?

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- Strategy:
- 1. Manage interest rate fluctuations.
- Staggered maturity dates allow for varying interest rates. At bond maturity, funds can be rolled over to the end of the ladder, or used for expenses.
- 2. Provide a steady stream of income/manage cash flow.
- Interest paid on individual bonds is on a set schedule.
- 3. Annual liquidity

How do they work?

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- Bond ladders can create a steady stream of income
- A set amount of money is used to purchase bonds, cds, treasuries, municipals each year.
- Each bond, cd, treasury, municipal has an annual consecutive maturity date.
- As each matures, it can then be reinvested at the next longest consecutive date.
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Other Sources for Retirement Income

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- Family: Inform
- Lottery: Beware

Review

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- Overview
- Social Security
- 401K/IRA
- Investments
- Annuities
- Bond Ladder
- Financial Advisor

Resources

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1. Maryland Insurance Administration,
A Consumer Guide to Annuities
800-492-6116, www.insurance.Maryland.gov
2. Social Security Administration
SSA.gov
3. Consumer Financial Protection Bureau
Consumerfinance.gov

Questions

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Questions

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