

Retirement Case II

Florida Optional Retirement Plans

Your client is employed by the State of Florida and has enrolled in the State's Optional Retirement Plan. The State contributes 10.14% of the client's gross income into a retirement fund. The employee is allowed to contribute to a separate 403-B plan. However, the employee cannot contribute by salary reduction more than the percentage the employer contributes (\$11,000 or 50% of your salary whichever is the lesser)
http://www.fltreasury.org/treasury/fs_03.html.

The client currently contributes an **average of \$224.53** to their individual plans every two weeks. Your client has been employed by the state since the fall of 1986. Your client files taxes as **single**.

Your client's annual net salary after taxes (http://www.irs.gov/forms_pubs/forms.html
<http://www.irs.gov/file/display/0,,i1%3D52%26genericId%3D16273,00.html>) and 403-B deductions is \$50,347. Your client contributes \$5,837.83 per year to the retirement plans. You client wishes to have a \$70,000 **take-home income** upon retirement. **The client plans in retiring in 17 years and you can estimate your client will live 25 years after they retire.** Their current retirement plan is through Metlife Investors USA (purchased Security First). The client has the option to either change provider or to change investment options within the Metlife Investors USA (purchased Security First) provider. See the following site for further information:
<http://www.frs.state.fl.us/frs/orpoap/orpoap.htm>

Their current plan consists of three accounts with the Metlife Investors USA (purchased Security First) provider. **The balance and investment vehicle(s) of each account is as follows:**

Current Portfolio:

Fidelity VIP:Growth	41084.49
Guaranteed Accumulation Account*	116208.91
Fidelity VIP: Growth*	25968.43
Lord Abbett Growth & Income	55509.89

\$238,771.72

. *These two account's funds are provided by the employer and cannot be mixed with the other two accounts. All of the employer's contributions are made into these two accounts.

Current Internal Revenue Code (IRC) requirements generally permit you to contribute up to 50% of your annual adjusted salary, not to exceed \$11,000 (indexed). Your client is confused about this statement. Does the maximum of \$11,000 (indexed) include the employer's contributions? Discuss this problem in your analysis. Check this site and the search mechanism: <http://www.irs.gov>;
<http://search.irs.gov/web/query.html?col=irsweb&charset=iso-8859-1&ht=0&qp=->

[Wct%3AInternal+Revenue+Manual+%28IRM%29&q=100%25&ws=0&la=en&qm=0&st=1&nh=10&lk=1&rf=0&oq=&rq=0&si=0&qt=%22403%28b%29%22&Go.x=8&Go.y=5](http://www.irs.gov/formspubs/display/0,,i1%3D50%26genericId%3D12488,00.html) ;
<http://www.irs.gov/formspubs/display/0,,i1%3D50%26genericId%3D12488,00.html> ;

You must begin receiving distributions by April 1st of the calendar year following the calendar year in which you attain age 70 1/2 or retire, whichever occurs later.

Distributions from the contract must be paid over one of the following time periods:

- Over your life or joint lives of you and your beneficiary or
- Over a period not greater than your life expectancy or the joint life expectancies of you and your beneficiary
- 50% excise tax is imposed on the required amount that was not distributed (excluding funds placed into the deceased estate).

State's contributions must be taken as a "lifetime income" with any remaining amount upon death distributed to the beneficiary.

You may need to find the social security tax rate, the Medicare tax rate, and your client's federal tax rate (tiered levels). You must determine how federal income tax, Medicare, and social security is calculated (on gross salary or salary after deferred contributions).

See: <http://ssa-custhelp.ssa.gov/cgi-bin/ssa/faq>

<http://www.irs.gov/individuals/display/0,,i1%3D1%26genericId%3D15035,00.html>;

Your client will receive social security plus the retirement benefits. You must estimate your client's social security payments. Your client has no living spouse. See the following sites:

<http://www.ssa.gov>

Client's Retirement amount:

<http://www.ssa.gov/planners/calculators.htm>

Be sure to adjust for inflation. When you adjust for inflation justify why you are using a one year, a five year or a 10 year or 20-year historical inflation rate. The following site may be useful: <http://www.bls.gov/data/>

Given your calculations on the current retirement investment portfolio's **inflation-adjusted return**, what must your client's plan equal at retirement to reach the objective of **\$70,000 after tax per year** for retirement (assuming a life expectancy of 25 years after retirement)? **(Check on whether some of your Social Security may be taxable.)**

See the following site:

<http://www.irs.gov/individuals/display/0,,i1%3D1%26genericId%3D14177,00.html>

You will need to examine the client's current investments in the retirement account. Disregard any other possible type of cash flows from investments for retirement other than the retirement funds considered in this case.

Analysis of Current Situation:

Determine if your client's **current contributions have exceeded** the tax-deferred annual contribution limits.

Compute the **risk and the inflation-adjusted return of the current Metlife Investors USA (purchased Security First) portfolio given the data provided in the excel spreadsheet.** Calculate the inflation-adjusted return of each account and then calculate the retirement portfolio's inflation adjusted return using the three inflation-adjusted returns you calculated from the three individual accounts. Using the weights of the accounts, calculate the inflation adjusted risk return of the retirement portfolio.

Compute the anticipated retirement funds available upon retirement in 15 years (your client's 67th birthday) under the current investment plan. **Be sure to adjust your portfolio's return for inflation.**

Determine how long the retirement funds would last if monthly withdrawals were made in the **before-tax** amount that you calculated to supplement the social security payments to produce the **after-tax** annual amount of \$70,000.

Analysis of Proposal(s):

Determine the proper provider for your client. **Even if the current portfolio will meet the client's cash flow needs, there may be another provider and/or funds that would increase the investor's risk-adjusted return.** Justify why you recommend one provider over another.

Determine an **appropriate allocation mix for the plan until retirement** (percentage in bonds, stocks, etc). The allocation mix **may change** upon retirement.

Determine the investments offered by the chosen provider that you would use. Discuss the risks using appropriate beta and Treynor or Sharpe measures (if available) and **returns** on the various investment combinations offered by the provider.

Compute the risk (beta) and inflation-adjusted return of the portfolio you create.

Compute the anticipated retirement funds available upon retirement after your adjustments to the plan.

Determine how long the retirement funds would last if monthly withdrawals were made in the **before-tax** amount that you calculated to supplement the social security payments to produce the **after-tax** annual amount of \$70,000.

What suggestions would you make to the client to achieve his retirement goals? **Even if the current portfolio will meet the client's cash flow needs, there may be another provider and/or funds that would increase the investor's risk-adjusted return.**

If the current portfolio is not going to meet the client's cash flow needs, the client could increase contributions but calculate the affect it would have upon the monthly take-home. Remember the client still needs to meet his current expenses, which are close to \$4000 per month.

Write-UP:

Completing your analysis, you will write a memo to the client outlining: (1) what the current portfolio's return, risk and expected cash flows will be upon the client's retirement, (2) what your analysis of other providers and various portfolio(s) would yield as to return, risk, and cash flows upon retirement, and (3) your final suggestion with justifications as to what the client should do. You will include in the appendix any spreadsheets or tables necessary for the client to understand your analysis.