

**SAVING FOR TOMORROW AND  
LIVING TODAY.  
CAN I DO BOTH?**

Bert Campbell CFP®, CLU, ChFC®  
Bert@acifinancial.net  
864-654-3121

ACI Financial, LLC  
154 Exchange Street  
Pendleton, SC 29670

# THE CHALLENGE

- ◉ Attain financial Independence
  - Definition: Having sufficient wealth to live on without having to depend on employment.

# THE PROBLEM

Prioritizing my spending today in order to be able to live and prepare for the future.

# THE EXCUSE

- ⦿ I am too young to worry about it.
- ⦿ I am too old to do anything about it.
- ⦿ I have too many obligations.
- ⦿ I do not want to invest time or money into planning for my future.

# THE ANSWER

- ◉ Determine you want to do all you can to understand and prepare for the future.
- ◉ Thoroughly understand the plans you are currently participating in.
- ◉ Learn how to be efficient with your finances.
- ◉ Learn how to be efficient with investments.

# UNDERSTAND WHAT YOU CURRENTLY HAVE?

## ◉ *Social security*

- Social security predicts that it will provide no more than 40% of the money you will need in retirement.

## ◉ *State Retirement*

- Your SCORP, SCRS, or SCPORS retirement plan may or may not be enough.

# SOCIAL SECURITY

- You are contributing **7.65%** of your salary to FICA(Federal Insurance Contributions Act) which is your portion of the Social Security and Medicare tax
  - Retirement benefits can begin as early as age 62 with reduced benefits. Full retirement benefits are available between age 65 and 67 according to the year you were born. Benefits can be deferred to age 70.

# YOU ARE CONTRIBUTING 9 % OF YOUR SALARY TO YOUR STATE RETIREMENT PLAN

- ⦿ Either to the optional retirement plan (SCORP) or the defined benefit plan(SCRS/PORS)
  - SCRS is a *defined benefit* plan with your income based on your salary and the number of years worked.
  - SCORP is a *defined contribution* plan and the state adds 5% per year to your account balance. Your income is based on the account balance when you retire. Available at age 59 ½.



**WHAT ELSE CAN I DO?**

# SUPPLEMENTING YOUR RETIREMENT SAVINGS THROUGH SALARY REDUCTION

- Salary Reduction and Tax Deferral
  - Instead of receiving a set amount in your paycheck, you, the employee, defers (or delays) getting that money.
  - The money goes into a plan sponsored by your employer and is not taxed until it is distributed at retirement.

# THREE EMPLOYER SPONSORED PLANS THAT ARE AVAILABLE TO YOU

1. 403(b): available for employees of public school systems and 501(c)(3) tax exempt organizations (non-profits such as churches and hospitals)
2. 457: offered to state or local government employees
3. 401(k): for employees of all other organizations

# THREE EMPLOYER SPONSORED PLANS THAT ARE AVAILABLE TO YOU

- All 3 supplemental income retirement options are named for the IRS tax code that they fall under.

# THE BASICS: 403(B) ,401(K), AND 457

- ⦿ Income taxes are deferred until the money is distributed to you.
- ⦿ You are not required to take any distributions until the age of 70 ½ years.

# THE BASICS:

## 403(B) AND 401(K) AND 457

- Money comes out of your paycheck on a semi-monthly basis.
  - 12-month employees make 24 contributions per year.
  - 9-month employees make 16 contributions per year (Sept-April).
- Clemson employees have the choice of either 403(B) ,401(K) or 457.
  - 403(B) has multiple options available from different companies.
  - 401(K) and 457 is limited by the state of South Carolina to one plan.

# DEFERRAL AMOUNT LIMITS: 403(B) AND 401(K)

- ⦿ The deferral limit is \$18,500 per year.
- ⦿ “Combined limit”: the \$18,500 limit is a total of any contributions made to both plans.
- ⦿ If you are over age 50, then you may defer an additional \$6000 per year for a total of \$24,500.

\*IRS limits subject to change annually

# DEFERRAL AMOUNT LIMITS: 457

- ⦿ The deferral limit is \$18,500 per year. If you are over age 50, then you may defer \$24,500.
- ⦿ No combined limit: you can contribute \$18,500 to 457 *and* \$18,500 to 403(B) or 401(K) (someone over age 50 can contribute \$24,500 to each plan with no combined limit).
- ⦿ This means that an employee may contribute as much as \$37,000 or \$49,000 per year (over age 50) into their supplemental retirement plans as long as their salary is enough to support the reduction.

\*IRS limits subject to change annually



# WITHDRAWALS- 100% TAXABLE AS ORDINARY INCOME

- ◉ With all 3 plans, any withdrawals you make are subject to ordinary income tax at your marginal tax rate in effect when the withdrawal is made.
- ◉ In service withdrawals are allowed for 403(B) and 401(K) if you are older than 59 ½. 457 does not allow for in service withdrawals unless you are 70 ½.
- ◉ You are not required to make any withdrawals until age 70 ½, at which point your account will be subject to RMD (required minimum distributions).

WHY AREN'T  
YOU SIGNED UP  
FOR THE 401K?



www.dilbert.com scottadams@aol.com

I'D NEVER BE  
ABLE TO RUN  
THAT FAR.



4/2/01 © 2001 United Feature Syndicate, Inc.

# WITHDRAWALS: 403(B) AND 401(K)

- ◉ If you are retired or separated from service and make a withdrawal from a 403(B) or 401(K) before age 55, you will be subject to penalties for early withdrawal as well as the ordinary income tax.
- ◉ If you are retired and age 55, or older than 59 1/2 you may withdraw without any penalties, subject to ordinary income tax only.

# WITHDRAWALS: 457

- ◉ With a 457, there is no minimum age for withdrawals as long as you are retired but you cannot make any withdrawals until you retire or separate from service. The penalty tax for withdrawal does not apply to this plan if you are retired.

\*Cannot withdraw from a 457 if currently employed

# HARDSHIP DISTRIBUTIONS

- ⦿ Some plans may, but are not required to, provide for hardship distributions.
- ⦿ A plan that permits hardship distributions must provide specific criteria used to make determination of a hardship.
- ⦿ Generally you should think of these plans as money not available until retirement.
- ⦿ The tax penalty applies even to hardship distributions.

# HARDSHIP DISTRIBUTIONS: 403(B) AND 401(K)

- A hardship distribution can occur when there is an *immediate and heavy financial need* of the employee and the amount is necessary to satisfy the financial need.
  - An immediate and heavy financial need depends on the facts and circumstances.
  - Events deemed to be immediate and heavy include certain medical expenses, payments necessary to avoid eviction and foreclosure, etc.

# HARDSHIP DISTRIBUTIONS: 457

- A hardship distribution can only occur when the participant is faced with an *unforeseeable emergency*.
  - Unforeseeable emergencies include a severe financial hardship resulting from an illness or accident, loss of property due to casualty, or other similar extraordinary circumstance arising as a result of events beyond the control of the participant.
  - There is an early withdrawal penalty on a hardship distribution if allowed by the plan

# LOANS 403(B), 401(K), AND 457

- ⦿ The loan provisions will vary with each company (interest rates, etc.).
- ⦿ All accounts smaller than \$20,000 have a higher threshold of 80% or 95% of the account balance with a maximum loan of \$10,000.
- ⦿ The largest loan allowable is 50% of your account up to \$50,000.
- ⦿ The \$50,000 loan limit is per taxpayer not per account.



# POLICY LOANS

- If you are borrowing for a home or principal residence, you may have 15 years to payback however the interest is not tax deductible. All other loans are limited to a 5 year term.
- The terms of the loan are set by the plan.

# WHAT IS A ROTH IRA?

- The Roth IRA is named for Senator William Roth of Delaware who sponsored the legislation in 1989.
- A Roth IRA is an alternative to a traditional Individual Retirement Account where contributions are not tax deferred, but the earnings and growth are tax free if you make qualified distributions. A qualified distribution is for an account that is over 5 years old and the owner is 59 ½ or older.
- You can leave amounts in your Roth IRA as long as you live. A Roth IRA is not subject to Required Minimum Distributions(RMD's).

# ROTH IRA INCOME LIMITATION

- If you are single and modified adjusted income is less than 120,000, or married filing jointly and modified adjusted income is less than 189,000, then you are eligible to contribute the full amount.
  - Under age 50: \$5,500 annual limit
  - Over age 50: \$6,500 annual limit
- You do not get an income tax deduction for tax purposes but you will pay no tax on earnings as long as the account is 5 years old and you are over 59 ½ when you make withdrawals. This plan is income tax free for federal and state income taxes.

# ROTH EXAMPLE

- ◉ \$5,500 per year earning 7% for 40 years
- ◉ \$458.33/month with a future value of \$1,203,030
- ◉ \$220,000 is the after tax cost of the Roth IRA.
- ◉ \$1,203,030 is the Tax Free benefit from the Roth IRA

# ROTH IRA ADVANTAGES

- ◉ Pay tax now and do not worry about future tax rates.
- ◉ Investments are not restricted to company plan limitations.
- ◉ Ease of transfer to beneficiaries.
- ◉ No new plan is required if you change employers.

# ROTH IRA DISADVANTAGES

- ⦿ You may not be eligible if your income is too high.
- ⦿ Roth IRA does not provide the ease of payroll deduction for deposits.
- ⦿ Roth IRA requires you to set up your own plan.

# ROTH 403(B), 401(K) AND 457

- The Roth 403(b), 401(k), and 457 contribution limits are the same as the traditional plan limits. The state offers Roth options for 401(k) and 457.

# SUMMARY

- ◉ Social security predicts that it will provide no more than 40% of the money you will need in retirement.
- ◉ Your SCORP or SCRS retirement plan may or may not be enough.
- ◉ Supplementing your retirement income strategy with a supplemental plan can provide you with the dollars needed to provide your needs, wants, and wishes in retirement.



# SUMMARY

- Efficient investing
  - Suitable
  - Sustainable
  - Tax efficient



ACI FINANCIAL, LLC

Bert Campbell CFP®, CLU, ChFC®

Bert@acifinancial.net

864-654-3121

www.acifinancial.net

154 Exchange Street

Pendleton, SC 29670

Albert M. Campbell, Jr. is an Investment Advisor Representative and Registered Representative of and offers securities and advisory services through Cetera Advisor Networks LLC, member FINRA/SIPC. Cetera is under separate ownership from any other named entity.