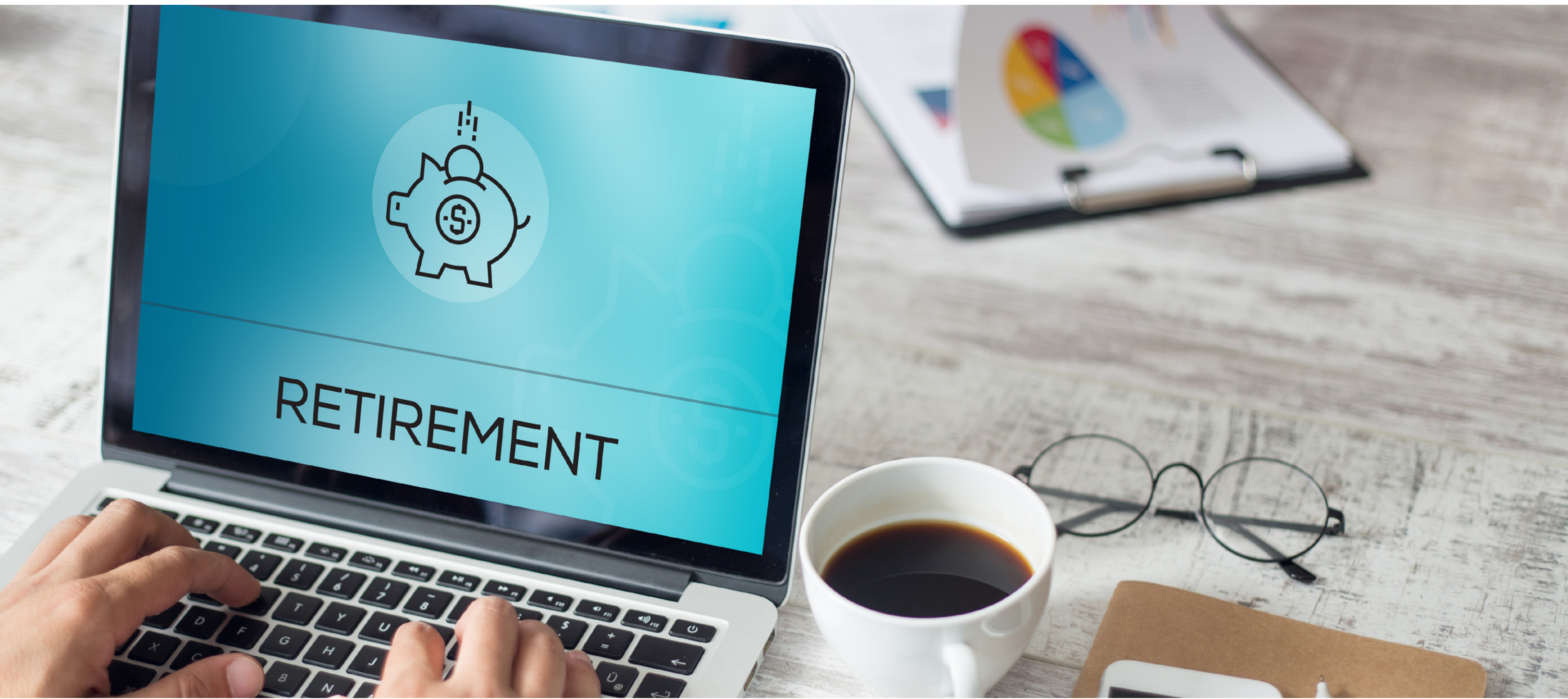
The Filbrandt Report



Are You Leaving Money on the Table?

Supplemental Plans Can Make or Break Your Retirement Goals

By Shaun Quirk, CFP®
Associate Adviser

Will you have enough money saved to retire comfortably? For many in academia, the answer is unknown. University retirement accounts—through TIAA, Fidelity, or others—can be complicated. Many faculty sign up for some mysterious plan through the university on day one of their tenure never to look at it again, and retirement is treated as a far-off event rather than a targeted action plan to reach goals. There is often money left on the table that could have been managed to reduce taxes, lower costs, and save more to live the retirement life you desire.

Most universities offer a retirement plan that requires participation for certain employees, a trend shifting overwhelmingly from defined-benefit to defined-contribution plans. These are similar to a 401k where both the employer and employee contribute to an account at a defined level—usually a percentage of salary, up to certain limits. Although these plans can be wonderful savings tools, for many professionals this will not be enough to produce the desired level of income in retirement. To counter this, many employers now sponsor “voluntary” or “supplemental” retirement plans. On the following page, we walk through three potential retirement savings plan projections for academia.

Supplemental Retirement Plans for University Faculty

Supplemental retirement plans are tax-advantaged savings plans that allow university employees to save for retirement above and beyond any mandatory contributions. Choosing to enroll can be the difference between retiring on your own timeline or being forced to work beyond your desired retirement age.

Some employers offer multiple supplemental retirement plans, such as a 403b or a 457b. To illustrate the benefits of investing in supplemental plans, the tables below depict a hypothetical client, Professor Joe, and the various savings possibilities through his university. The red table depicts Professor Joe's projected retirement account balance if he never contributes a dime to his plan and only accepts the employer's mandatory match. With only the mandatory plan, Professor Joe will have $670,193 to live on in retirement, assuming he retires at 65. Note the assumptions made in the table's legend, including a 2% annual Cost of Living Adjustment (COLA).

Table 1: Hypothetical Retirement Savings Plan Projections

	Employer Match ONLY	Maximizing 403b ONLY	Maximizing 403b AND 457 Plans
Retirement Age	65	65	65
Annual Contributions	$9,000 in year 1	$33,000 in year 1	$53,905 in first year of full eligibility
Projected Acct. Balance	**$670,193**	**$2,278,051**	**$3,257,990**

Assumptions:
Starting Salary: $150k
30-year work span beginning at age 35
Salary COLA of 2% annually
Max contrib. limits don't change over time
4% rate of return
403b catch-up provision at age 50

Red Table: Professor's employer contributes 6% of his salary to a defined contribution retirement plan and Professor does not contribute any additional dollars toward retirement.
Gold Table: Professor's employer contributes 6% of his salary to a defined contribution plan and Professor contributes the maximum amount to the 403b plan, earning the additional employer match of 3% on top of the 6%.
Blue Table: Professor's employer contributes 6% of his salary to a defined contribution retirement plan and Professor contributes the maximum amount to the 403b plan, earning the additional 3% on top of the 6%. Professor also contributes the maximum of $19,500/year to the 457b plan.

Depending on the structure of the university-specific retirement plan, maximum contributions to a 403b may be up to $26,000/year: $19,500 plus an age-50 catch-up contribution of $6,500. When we apply this option to Professor Joe's retirement account summary in the gold table, he saves a total of $2,278,051 to live on in retirement.

If offered, a 457b plan also allows for the same $26,000/year maximum contribution (assuming the same catch-up provision). That limit is separate from the contribution limit for a 403b plan. Applying this option to Professor Joe's retirement account summary in the blue table, he saves over $3 million to live on in retirement! Though these charts are hypothetical, they do represent common options and plans available to academia nationwide. To determine your eligibility for each plan and the maximum contributions allowed, contact your HR/benefits representative or work through a CERTIFIED FINANCIAL PLANNER® who is well-versed in university retirement accounts.

Depending on your age and the rules governing any mandatory retirement plans you participate in, these additional plans could offer the opportunity to contribute up to $26,000 per year ($19,500 if under age 50), per plan on top of any mandatory contributions. That could represent additional tax-advantaged savings of over $50,000 per year!

The Catch-Up Provision and Other Supplemental Plan Benefits

The golden rule of retirement savings is to make the minimum voluntary contribution needed to receive the full employer-matching contribution. Contribution amounts typically can be changed at any time during the year, but your benefits office can give you deadlines for changes that correspond to your pay schedule. Try to make these changes earlier in the year; contributing an extra $26,000 is easier to do over 12 pay periods as opposed to six.

Most supplemental retirement plans also offer a special catch-up provision for those nearing full-retirement age (usually defined as age 65) where you can contribute more than the $26,000 limit if you had not been making contributions to the supplemental retirement plan in full in recent years. For 403b plans there is an age-50 catch-up, mentioned in the previous scenarios (currently $6,500 annually). For a 457b plan, a catch-up provision can also be the age-50 amount of $6,500 annually, or more in some cases.

On excess contributions: Most universities will automatically stop contributions once the annual limits have been reached. However, if too many dollars are contributed in a given calendar year, the IRS will tax the excess contributions at 6% per year for each year the excess remains in the account.

A relatively new feature, many supplemental retirement plans also offer the ability to make contributions on a Roth basis. In contrast to pre-tax contributions where your taxable income is reduced in the year contributions are made and you are taxed on every dollar withdrawn in retirement, Roth contributions allow you to pay the tax on the contributed amounts in the current year. There is no change to your current taxable income, but funds are withdrawn completely tax-free in retirement, subject to certain holding period requirements.

While no one can predict what income tax rates will be 20+ years down the road, the added flexibility of these tax-free distributions allows you to develop a more tax-efficient retirement income distribution plan. Maximizing the supplemental plans available to you, in addition to the qualified plan sponsored by your university, positions you for a successful retirement. Consult with a CERTIFIED FINANCIAL PLANNER® to find the options that make the most sense for your goals.

Advisory services are offered through Filbrandt Wealth Management, LLC (FWM). FWM is an independent, fee only, advisory firm that works with university faculty, physicians and other professionals. FWM is not associated with the university or any retirement vendor. FWM is not associated with any university benefits office nor did any university release private retirement or personnel information. For further information about FWM, please visit www.filbrandtco.com or call at (800) 431-9740.