Welcome to Duke’s Retirement Planning Workshop for Spring 2017. Today our presenters will provide you with an overview of your Duke benefits in retirement, your Duke retirement plans and other pre-retirement planning information. I hope you enjoy the seminar and gain valuable information as you explore topics relevant to planning for retirement. Please take a few moments to complete the electronic survey, that will be emailed to you, so we will know if this has met your needs and include any suggestions you might have for future sessions.

Sincerely,

Joyce Williams
Assistant Vice President, Human Resources - Benefits

Today’s Presenters:

Retirement Planning       Lynn Ball
Duke Benefits in Retirement  Brandy Angus, HR Benefits
Retirement Planning – Presenter Lynn Ball
This portion covers critical issues such as determining how much savings you will need for retirement and investing strategies before and during retirement. Specific attention will be given to selecting a health plan, balancing investments, Social Security and Medicare rules, tips on choosing a financial advisor and estate planning.

Benefits in Retirement – Presenter Brandy Angus
This portion will discuss health plan options, meeting retiree health eligibility rules (i.e. Rule of 75) and how it impacts your benefits, the Employees’ Retirement Plan (ERP) and the Faculty and Staff Retirement Plan offered to eligible Duke Employees. We will discuss how these plans work and the benefits of participating. Duke offers some of the most competitive benefits in the country.

Who do I call about my benefits at Duke?

Appendix

Internet Resources ii
Retirement Checklist iii
Retirement Lifestyle Decisions iv
Glossary v - xii
What Is The Retirement Planning Process?

- Where am I now?
- Where do I want to be?
- How can I get there?

You may be planning 1/3 or more of your life!
Planning for Inflation:

Year 0 10 20 30

$9.70

$9.70

$14.36

$21.25

___________________________________

___________________________________

___________________________________

___________________________________

Planning for Inflation:

Year 0 10 20 30

$9.70

$9.70

$14.36

$21.25

___________________________________

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___________________________________
Planning for Inflation:

The Drill Down Approach!

How much will it cost?

What does it cost to live right now?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work Expenses</td>
<td>5%</td>
</tr>
<tr>
<td>Medical Insurance</td>
<td>5%</td>
</tr>
<tr>
<td>Social Security</td>
<td>7%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>8%</td>
</tr>
<tr>
<td>Transportation</td>
<td>10%</td>
</tr>
<tr>
<td>Savings</td>
<td>10%</td>
</tr>
<tr>
<td>Food</td>
<td>10%</td>
</tr>
<tr>
<td>Housing</td>
<td>20%</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
**How much will it cost?**

*How will our expenses change in retirement?*

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>10%</td>
</tr>
<tr>
<td>Transportation</td>
<td>10%</td>
</tr>
<tr>
<td>Food</td>
<td>10%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>10%</td>
</tr>
<tr>
<td>Medical Insurance</td>
<td>10%</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Replacement Ratio</strong></td>
<td><strong>70%</strong></td>
</tr>
</tbody>
</table>

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**Determining your Retirement Needs:**

How Much Will You Have?

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**Financial Resources**

Social Security/Medicare
Personal Resources
Duke Retirement Plans
Social Security

- Full Retirement Age (FRA) depends on year of birth

<table>
<thead>
<tr>
<th>Born</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1938</td>
<td>65</td>
</tr>
<tr>
<td>1943-1954</td>
<td>66</td>
</tr>
<tr>
<td>&gt;1959</td>
<td>67</td>
</tr>
</tbody>
</table>

- Reduced amount available starting at age 62

Social Security – How Much Can I Collect?

- Spousal Benefit Available
- Benefit is reduced for each month you begin benefits prior to your FRA

<table>
<thead>
<tr>
<th>FRA</th>
<th>Available at 62</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>80%</td>
</tr>
<tr>
<td>66</td>
<td>75%</td>
</tr>
<tr>
<td>67</td>
<td>70%</td>
</tr>
</tbody>
</table>

Social Security – What Is The Spousal Benefit?

- Spouse will receive the greater of:
  - any Social Security benefit earned on their own,
  - an amount equal to 50% of your benefit
- Reduced if beginning prior to FRA
Social Security

- Can I work and collect Social Security?
- 2017 Earnings Limitations

<table>
<thead>
<tr>
<th>Age</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>62 - NRA</td>
<td>$16,920</td>
</tr>
<tr>
<td>The year you reach NRA</td>
<td>$44,880</td>
</tr>
<tr>
<td>NRA+</td>
<td>No Limit</td>
</tr>
</tbody>
</table>

Are My Benefits Subject To Income Tax?

- Preliminary Adjusted Gross Income*

<table>
<thead>
<tr>
<th>Single</th>
<th>Married Filing Jointly</th>
<th>Benefits Subject To Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25,000</td>
<td>&lt;$32,000</td>
<td>None</td>
</tr>
<tr>
<td>$25,000-$34,000</td>
<td>$32,000-$44,000</td>
<td>50%</td>
</tr>
<tr>
<td>&gt;$34,000</td>
<td>&gt;$44,000</td>
<td>85%</td>
</tr>
</tbody>
</table>

* Includes wages, interest, dividends, rental income, other sources, plus tax-exempt interest, plus 50% of Social Security benefits

What Else Should I Know?

- One year prior to collecting, confirm earnings history is correct
- Apply for benefits 3 months prior to collecting
- Call Social Security at 1-800-772-1213
- www.ssa.gov
- www.medicare.gov
Understanding Medicare

What Do I Need to Know?

Health/Dental Coverage: What Changes When You Retire?

<table>
<thead>
<tr>
<th>Today</th>
<th>Retirement Date</th>
<th>Age 65 or older (or Medicare eligible)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>Retired</td>
<td></td>
</tr>
</tbody>
</table>

- Duke Medical Plan
- Medicare and Duke
  Plus Supplemental
  Plan (if eligible)
- OR-
- 3rd Party Supplemental Plan
- Duke Dental Plan

What is Medicare?

- Medicare provides health insurance for retired people **over 65**, people **under 65 with certain disabilities** and people with **End Stage Renal Disease**.
- Created by Congress in 1965 during Lyndon Johnson Administration.
- Administered by the Social Security Administration
- www.medicare.gov
- Download: Medicare & You
Medicare Eligibility

- Enroll at age 65; or older if covered by active employer sponsored policy
- Permanent Disability
  - Must enroll in Medicare Parts A & B when eligible
- Spousal Eligibility
  - Spouse may qualify at 65 based on your work record – even if you are under 65
- Enroll 60 – 90 days prior to:
  - Age 65 or Retirement Date
- Penalties for late enrollment if no previous employer sponsored coverage
- Special Enrollment Period – SEP
  - Delayed Enrollment without penalty if you are over 65 but have been covered through employment – yours or a spouse’s

What are Medicare “Parts”?

<table>
<thead>
<tr>
<th>What it Covers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part A</strong></td>
</tr>
<tr>
<td>Hospital coverage.</td>
</tr>
<tr>
<td>• Hospital room and board, durable medical equipment.</td>
</tr>
<tr>
<td>• Hospice at home.</td>
</tr>
<tr>
<td>• Automatically enrolled at age 65 if you are receiving SSA benefits.</td>
</tr>
<tr>
<td><strong>Part B</strong></td>
</tr>
<tr>
<td>Doctor/Medical coverage.</td>
</tr>
<tr>
<td>• Treatments and procedures administered by medical professionals.</td>
</tr>
<tr>
<td>• Generally enrolled by opting in.</td>
</tr>
<tr>
<td><strong>Part C</strong></td>
</tr>
<tr>
<td>“Medicare Advantage Plans”</td>
</tr>
<tr>
<td>• Private Insurers authorized and under contract with Medicare</td>
</tr>
<tr>
<td>• Part of Balanced Budget Act of 1997</td>
</tr>
<tr>
<td>• Managed care approach, HMOs, POS plans, PPOs and PSOs</td>
</tr>
<tr>
<td><strong>Part D</strong></td>
</tr>
<tr>
<td>• If enrolled in Duke Plus no need for Medicare Part D – Prescription coverage is included in your monthly premium</td>
</tr>
<tr>
<td>• Do enroll through a Part D Insurance provider if not enrolled in Duke Plus and using 3rd Party supplemental plan for Medical that does not include prescriptions</td>
</tr>
<tr>
<td>• Monthly premiums, co-payments, deductibles and co-insurance apply and vary depending on plan. AGI may apply.</td>
</tr>
</tbody>
</table>

Medicare Costs

<table>
<thead>
<tr>
<th>What it Covers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part A</strong></td>
</tr>
<tr>
<td>Covers Hospital - Costs associated with Inpatient Care.</td>
</tr>
<tr>
<td>• Primarily paid for through payroll taxes during working career.</td>
</tr>
<tr>
<td>• Deductible: $1,316 in 2017. Most pay no monthly premium.</td>
</tr>
<tr>
<td><strong>Part B</strong></td>
</tr>
<tr>
<td>Covers Doctor/Medical - Out-patient treatments</td>
</tr>
<tr>
<td>• Deductible $183 in 2017.</td>
</tr>
<tr>
<td>• 2017 Monthly base premium $134</td>
</tr>
<tr>
<td>• Premium payments may be deducted from SSA benefits.</td>
</tr>
<tr>
<td>• Monthly premium may vary based on AGI.</td>
</tr>
<tr>
<td><strong>Part C</strong></td>
</tr>
<tr>
<td>Medicare Advantage –</td>
</tr>
<tr>
<td>• Parts A and B and usually D, bundled together under one plan.</td>
</tr>
<tr>
<td>• Administered by Medicare approved Private Insurers.</td>
</tr>
<tr>
<td>• Deductibles and premiums vary.</td>
</tr>
<tr>
<td><strong>Part D</strong></td>
</tr>
<tr>
<td>Medicare’s Prescription Drug benefit (Included with Duke Plus)</td>
</tr>
<tr>
<td>• Must enroll through Private Insurers.</td>
</tr>
<tr>
<td>• Monthly premiums, co-payments for each medication, deductibles and co-insurance may apply.</td>
</tr>
<tr>
<td>• Deductibles vary up to $400; “Donut Hole” Coverage Gap.</td>
</tr>
<tr>
<td>• Premiums vary.</td>
</tr>
</tbody>
</table>
Supplemental Insurance

- Medicare does not cover 100% of your costs.
- Supplemental Insurance is available through Private Insurers to pay costs not paid by Medicare.
- Some may be eligible for supplemental coverage Sponsored by a former Employer.
- Coverage and costs vary.

Enrolling in Medicare

- If you are receiving Social Security benefits when you turn 65, automatic enrollment
  - Otherwise you must sign up at 65 unless you have coverage through active employment. If you are a Duke retiree enrollment in Part A & B is mandatory.
- Default enrollment in Part A and B, aka “Original Medicare” unless you specify a Medicare Advantage (Part C) plan
- Enrollment in Medicare Part D is voluntary, however participants are encouraged to enroll in a Part D because Medicare B doesn’t cover prescriptions
- You may have to pay a penalty if you enroll as a late entrant

*Supplemental coverage will help pay for costs Medicare does not cover.

Total Healthcare Expenses

- Health Plan Premiums
  - Duke Plus Retiree Medical Plan
  - Medicare (If eligible)
  - Duke Plus (If eligible) Includes Prescription coverage
  - 3rd Party Medicare Supplement Plan and Part D Plan
    - Call HR for eligibility through Duke; Compare 3rd Party coverage
- Other Health Plan Out-of-Pocket Expenses
  - Deductibles
  - Co-pay
  - Co-insurance
  - Uncovered expenses
- Long term care
  - Not covered by Medicare
Retirement Plan Options

Planning for Your Retirement

- Issues to Consider
  - Rollover your plan funds to an IRA?
  - Keep your funds invested in the 403(b)?

How Should You Withdraw Retirement Savings?

- Distribution Options
  - Lump Sum Distribution or Rollover
  - Systematic Distribution
    - Fixed Period
- Distribution Options from Annuities
  - Principal and Interest Distributions over 5 or 10 Years
  - Monthly Interest
  - Lifetime Income
Lifetime Income

- Decision is irrevocable
- Provides income for life of participant, or for participant and annuity partner
- You may select one or more of these options:
  - Single life
  - Full benefit to survivor/annuity partner
  - 2/3 benefit to survivor/annuity partner
  - 1/2 benefit to survivor/annuity partner

Lifetime Income from a Fixed Annuity

- Income depends on:
  - Total accumulation
  - Average life expectancy
  - Payment option (Single/Joint)
- Payment includes:
  - Part Principal
  - Guaranteed interest
  - Dividends

Lifetime Income from Variable Accounts

- Income varies with investment performance
- Important to consider to balance fixed annuity income
- Can help combat inflation over time
- Generally can change investment mix in retirement stage
**Tax Treatment of Annuities**

- **Annuity Payments**
  - Fully taxable
  - Taxed as ordinary income in the year received
  - Can elect withholding
  - May be subject to state and local taxes

- **Death Benefits**
  - What if I die before starting my annuity payments?
    - Be certain you have named beneficiaries on your account
  - Taxation of Retirement Plans
    - Non-spouse designated beneficiary
    - Spouse

- **More on Annuities**
  - There are many different annuity products emerging on the market with customizable options:
    - Timing of Distributions
    - Survivor benefits
    - Period Certain guarantee
    - Cash refund for early death
  - You should contact your investment carrier or FA to find out more about these new options.
Distributions from Retirement Plans

- Taxable when received
  - 20% Withholding Rule
  - Watch out for traps!
- Rollover options
  - Continues to defer taxes

Systematic Withdrawal
Advantages

- Ability to accelerate or slow down distributions
- Can readily change investment mix
- May be able to leave significant assets to beneficiaries

Systematic Withdrawal
Disadvantages

- Risk of outliving principal
- May provide too little current income
Watch Out For Traps!

- Too early penalty - 10%
- Too late penalty - 50%

What Are My Investment Choices?

Investment Asset Classes

Cash and Cash Equivalents
- Pays Current Income
- <2 Years to Maturity
- Maintains Principal

- Savings and Checking Accounts
- Money Market Funds
- Certificates of Deposit
- Treasury Bills
Investment Asset Classes

**Fixed Income**
- Treasury Notes and Bonds
- Corporate Bonds
- Municipal Bonds
- Mutual Funds (Fixed Income)

**Equities (Stock)**
- Common and Preferred
- U.S. and International Funds
- Large and Small Capitalization
- Mutual Funds (Stocks)

**Hard Assets**
- Real Estate
  - Property Ownership
  - Partnerships
  - Real Estate Investment Trusts (REITS)
- Precious Metals
- Collectibles
- Oil and Gas
- Commodities
### Investor Profiles

<table>
<thead>
<tr>
<th>Conservative</th>
<th>Moderate</th>
<th>Aggressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to Goal</td>
<td>1-3 years</td>
<td>3-7 years</td>
</tr>
<tr>
<td>Objective</td>
<td>Liquidity, Safety</td>
<td>Income, Moderate Growth</td>
</tr>
<tr>
<td>Risk Tolerance</td>
<td>Low (little to no price fluctuation)</td>
<td>Moderate (some price fluctuation)</td>
</tr>
<tr>
<td>Target Rate of Return</td>
<td>Low (2-7%)</td>
<td>Medium (8-9%)</td>
</tr>
<tr>
<td>Liquidity Need</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Examples of Goals</td>
<td>Car, Vacation</td>
<td>Home, College Funding</td>
</tr>
</tbody>
</table>

### Sample Investment Mixes

- **Lower Risk 6% Return***
  - 25% Cash Equivalents
  - 55% Bonds
  - 20% Stocks

- **Medium Risk 8% Return***
  - 45% Cash Equivalents
  - 35% Bonds
  - 20% Stocks

- **Higher Risk 10% Return***
  - 65% Cash Equivalents
  - 35% Stocks

*Based on historical returns by assets classes

### What Benefits Do Mutual Funds Provide?

- Diversification
- Low Transaction Costs
- Subcategory Allocation Flexibility
- Professional Management
What Is The Cost Of Investing In Mutual Funds?

- Commissions (Loads)*
  - Front-load
  - Back-load
- Management Fees
- 12b-1 Fees*

*May not apply to 403(b) plan

Understanding Financial Advisors

Types Of Advisors

- Commission
  - Most Financial Planners
  - Stockbrokers
  - Life Insurance Agents

- Fee and Commissions
  - Financial Planners

- Fee Only
  - Some Financial Planners
  - CPA’s
  - Attorneys
What To Consider In An Advisor

- How long in business
- Credentials/background
- References
- Specialty of individual/
Focus of their practice
- How are they
compensated

Where Can I Look For Advice?

- The Financial Planners Association
  (800) 322-4237
- The American Institute of Certified
  Public Accountants (888) 777-7077
- CFP Board of Standards
  - Phone: (800) 487-1497
  - Web Site: www.cfp.net

Estate Planning
Estate Planning Myths

- It’s only for the very wealthy
- It’s only for people who are “old”
- If you’re married and own everything jointly with your spouse, you don’t need a will
- Joint ownership eliminates the need for planning
- Insurance isn’t part of your estate

Why Is Estate Planning Important?

- Taking care of survivors’ needs
- Orderly distribution of property
- Provide for guardianship of children
- Can minimize tax and probate costs
- Take care of medical considerations
- Other

Estate Planning Documents

- Wills
- Trusts
- Durable power of attorney
- Living will and health care proxy
Does The Size Of My Estate Make A Difference?

$5,450,000

Non-Financial Considerations

Financial Considerations

$1,000,000

Adjusted Gross Estate

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Retirement Checklist

- Create a personal action plan for retirement that considers your:
  - Lifestyle and financial goals
  - Retirement income needs and sources
  - Asset allocation during retirement
  - Insurance coverage needs and costs
  - Wishes on leaving a legacy for heirs
- Understand how your Duke benefit plans contribute to your financial security during retirement

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Disclaimer

- This workshop dated, May 23th, 2017 is intended to be presented in a live workshop by a workshop leader who interacts with the audience and provides appropriate context and discussion on the information contained in the presentation.
- It is not intended to provide advice on the material presented.
Topics we’ll cover today

• Life Insurance
• Education Benefits
• Retiree Health/Dental Insurance (Rule of 75)
• Duke Retirement Plans

Life Insurance

• Basic Life ($10,000)
  – Convert to a whole life policy at retirement by contacting MetLife at 919-605-0488
  – Rates based on age at retirement
**Life Insurance**

- Supplemental Life
  - If enrolled for at least two years at time of retirement, you may continue current coverage until age 95 at Duke’s group retiree rates
    - Retiree rates are higher than the rates for active employees
  - Term life insurance
    - Rates increase as you get older
  - Contact Mercer Voluntary Benefits at 800-552-9670 to continue coverage
- Universal Life
  - Contact the Holroyd Agency at 919-755-8684 or North Carolina Mutual at 800-635-4467 about your options
  - Potential for cash accumulation

**Post Retirement Certificate**

- $2,500 benefit payable to spouse/estate
- To qualify must meet ALL of the following:
  - Hired at Duke prior to December 1, 1974
  - Participated in Duke’s group life insurance plan for at least ten years
  - Retire at age 65 or older
- Certificate issued after retirement

**Education Benefits**

- Children’s Tuition Grant Program
  - Must be eligible for Tuition Grant at time of retirement and
    - Meet Rule of 75 (age plus most recent continuous service date)
      OR
    - Retire on or after age 65
Retiree Health/Dental Insurance

• Am I eligible?

• How much will it cost?

Retiree Health/Dental Insurance

• Must be actively employed at Duke and participating in the health/dental plan at the time of retirement
• Dependents must be enrolled at the time of retirement
• Meet the eligibility requirements for your operating entity

Retiree Health/Dental Insurance Eligibility

University and Medical Center Employees
— Meet the Rule of 75 (age plus most recent continuous service date)

If you transferred from the Health System to the University/Medical Center after July 1, 2002 refer to the Retirement Planning Guide for additional eligibility requirements
**Retiree Health/Dental Insurance Eligibility**

Duke University Health System Employees

- Employees hired prior to July 1, 2002
  - Meet Rule of 75
- Employees hired on or after July 1, 2002
  - Must have 15 years of continuous service after age 45

*If you transferred from the University/Medical Center to the Health System after July 1, 2002, refer to the Retirement Planning Guide for additional eligibility requirements.*

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**Retiree Health/Dental Insurance Premium Contributions**

- Health insurance
  - Varies, based upon date became eligible for retiree health (Duke contributes 0%, 60%, 70% or 80% towards cost for individual premium under Duke health plan)*
- Dental insurance
  - You are responsible for paying the retiree dental insurance premium

* If you qualify for a contribution towards your retiree health coverage, then Duke contributes 50% towards the health premium for dependents.

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**Ineligible for Retiree Health/Dental Insurance**

- Coverage through COBRA
  - Must be participating in health and/or dental plan(s) at time of retirement
  - Extends coverage for 18 months
  - Total premium plus 2%
  - Billed monthly
Health Insurance for Retirees

• Are you or any of your covered dependents age 65 or older?
  – No, then you will have the same health insurance options as active employees until obtaining age 65
    • Duke Select
    • Duke Basic
    • Blue Care
    • Duke Options
  – Yes, then the person that is age 65 or older is required to enroll in Medicare A and B. Medicare will become the primary insurance and Duke Plus (the retiree plan) is secondary for anyone over age 65. If you are under 65, then Duke Plus is primary

Provider Networks for Duke Plus (Retiree Plan)

• If you are Medicare-eligible, you may visit any doctor you choose. However, you will receive in-network benefits if you see a provider that accepts Medicare. (Most Duke providers accept Medicare)

• Participants not eligible for Medicare may use any health care provider, but will realize increased savings by using a provider that participates in the UHC Choice Plus Network through United Healthcare.

• All claims incurred outside of the United States are paid at an out-of-network benefit level.

Duke Plus (In-Network Benefits) - 2017

• Doctor’s office visit, you pay ...
  – Primary Care Physician (PCP) - $20
  – Specialist $55
  – or less after Medicare payment

• Inpatient hospital admission, you pay ...
  – $600 co-pay per admission at Duke, Duke Regional or Duke Raleigh
  – $700 co-pay per admission for all others in-network

• Inpatient skilled nursing facilities, you pay...
  – $250 co-pay per admission
Pharmacy Benefits

• Retail Pharmacy
  – 34 day supply
• Home Delivery (mail order)
  – 90 day supply
• You can save money with:
  – Home delivery
  – Generics
  – Formulary

Maintaining your Retiree Health Insurance

• Your health and/or dental coverage will be terminated if you do not make a timely premium payment.
  o No need to worry - Premiums can be directly drafted from your bank account or deducted from your Employees’ Retirement Plan benefit
  o Medicare Part B premiums can be deducted from your social security retirement benefit

• Remember - You cannot re-enroll in retiree health and/or dental if you cancel coverage.
  o Exception: You may suspend health or dental coverage while employed and receiving benefits from a new employer (must re-enroll in Duke Plan within 30 days of loss of other employer’s coverage)

Retiree Health/Dental – Surviving Spouse

• Surviving Spouse is eligible to continue coverage until:
  – Death
  – Remarriage
  – Non-payment of premiums
Other Benefits

- Personal Casualty Insurance (MetPay)
- Personal Accident Insurance (Mutual of Omaha)
- Duke University Federal Credit Union
- University Athletic Facilities
- Duke University Retiree Association (DURA)
- Osher Lifelong Learning Institute at Duke (OLLI)
- Duke Libraries (paper resources)

Where will your money come from once you retire?

- Social Security
- Personal Savings
- Employer Retirement Plans

What’s Your Goal?

Financial experts estimate that you will need about 75% of your pre-retirement earnings to maintain your current lifestyle.

Consider This

- Will you have a house payment when you retire?
- What activities do you want to do when you retire? (i.e. – travel)
Duke Retirement Plans

• Non-exempt employees:
  – Employees’ Retirement Plan (ERP)
    • Fully funded by Duke
  – Faculty and Staff Retirement Plan
    • A 403(b) plan
    • Employee contributions

• Exempt employees:
  – Faculty and Staff Retirement Plan
    • A 403(b) plan
    • Employer contributions
    • Employee contributions

Did you transfer from one payroll to another?

Biweekly to Monthly or Monthly to Biweekly

• You may be entitled to a benefit under the Employees’ Retirement Plan (ERP) for employees paid biweekly
• If you are entitled to a benefit, this benefit is calculated using your years of service and annual earnings while you were paid biweekly
• An estimate of this benefit will appear on your annual benefits statement

How Your Benefits Grow

ERP
• Benefits vary according to:
  o Your pay
  o Years of service
  o Age at retirement

Faculty/Staff Plan
• Benefits rise and fall with investment performance
403(b) Retirement Plan

- You may contribute on a pre-tax basis, Roth after-tax basis or a combination of both
  - For pre-tax contributions, contributions and earnings are taxed when withdrawn
  - For Roth after-tax contributions, taxes are paid now and contributions and earnings may be tax-free at withdrawal
- You contribute by payroll deduction
- You choose where to invest contributions and how much to contribute

How much can you contribute?

- Minimum
  - 1% of salary per pay (biweekly or monthly)

- Maximum
  - 80% per pay period up to the IRS Limit of $18,000 for 2017
  - If you are over the age of 50 you may contribute an additional $6,000 into your 403(b) account for a total of $24,000
  - If you have more than 15 years of service you may be eligible to contribute an additional $3,000 into your 403(b) account for 2017 (Please consult Benefits at 919-684-5600 to inquire about eligibility for the 15-year special election)

Faculty & Staff Retirement Plan – 403(b) Plan (Exempt staff)

The 2017 Duke contribution is:

8.9% of the first $61,850 of salary and
13.2% of annual salary in excess of $61,850
Up to a statutory limit of $270,000

Example with $65,000 salary:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>8.9%</td>
<td>First $61,850</td>
<td>$5,504.65</td>
</tr>
<tr>
<td>13.2%</td>
<td>Remaining $3,150 of salary</td>
<td>$415.80</td>
</tr>
<tr>
<td></td>
<td>$65,000</td>
<td>$5,920.45</td>
</tr>
</tbody>
</table>
Learning More About Retirement Benefits at Duke

• Annual Personal Benefits Statement
• For 403b information, log on to Retirement Manager at: hr.duke.edu/retirementmanager
• Sign up for free Retirement Planning Workshops, offered monthly at: hr.duke.edu/403bseminar
• Estimate your pension benefit from the Employees’ Retirement Plan (ERP) at: hr.duke.edu/erpestimate
• One-on-one meeting with a representative from any of the four approved retirement plan investment carriers
• Quarterly statement from your 403b retirement plan investment carrier(s)
• Review “Retirement Planning Guide” on the Duke Human Resources website

To Do List …

• Review your personal retirement information
• Meet with your preferred retirement plan investment carrier(s)
• Review your retirement investment choices for diversification
• Consider increasing your contribution

Employees’ Retirement Plan (ERP)

• One of the retirement plans for biweekly employees
  – Duke pays the entire cost – you pay nothing
  – The retirement benefit is based on a defined formula
  – You are guaranteed a benefit from the plan after completing five years of continuous service
Definitions

• Continuous Service
  – Work 1,000 hours or more in a fiscal year
    (July 1 to June 30)
• Credited Service
  – Years of Continuous Service after becoming
    a Plan member

Eligibility

• You automatically become a plan member, if you:
  – Have reached age 21, and
  – Have worked at least 1,000 hours during
    your first year of employment or in any
    future fiscal year

How the Benefit is Determined

• ERP-Defined Formula
  – Salary (average final earnings)
  – Years of credited service
  – Age
  – Retirement option selected
ERP Formula

1.25% of average final compensation TIMES years of credited service up to 20 years
PLUS
1.66% of average final compensation TIMES years of credited service over 20

Additional Credited Service

• Must be paid on the biweekly payroll at the time of retirement
• Additional Credited Service based on this formula:
  Your unused sick or carry-over bank (COB) hours 2080

When can I start to receive a benefit?

• Normal Retirement
  – Age 65 – full benefit
• Early Retirement
  – Age 45 or older and 15 years of credited service
    • Reduced based on age at time benefit starts
• Deferred Retirement (working at Duke past age 65)
  – Additional 10% for extra credited service over age 65
What are my payment options?

- Single Life Annuity
- Joint and Survivor Annuity (50%, 75%, or 100%)
- Level Income age 62 or 65
- If lump sum value is less than $10,000 you may be eligible for a lump sum payment

Payments under the Employees’ Retirement Plan are considered taxable income

Example – Employee Retiring at Age 65

**ERP Income**

- Average final compensation $36,120
- 30 years of credited service

\[
\begin{align*}
1.25\% \times 20 \times 36,120 &= 9,030 \\
1.66\% \times 10 \times 36,120 &= 5,996 \\
\text{Annual benefit} &= 15,026 \\
\text{Monthly benefit} &= 1,253
\end{align*}
\]

Total Monthly Income $3,229
Replacement Ratio 97%

Example – Employee Retiring at Age 62

**ERP Income**

- Annual benefit at age 65 is $15,026
- Less 3% reduction for each year between age 62 & 65

\[
\begin{align*}
9\% \times 15,026 &= 1,352 \\
\text{Annual benefit} &= 13,674 \\
\text{Monthly benefit} &= 1,140
\end{align*}
\]

Total Monthly Income $2,730
Replacement Ratio 82%
Who do I call about my benefits at Duke?

Human Resource Information Center (HRIC) 919-684-5600

The HRIC offers you convenient access to answers and information regarding:

*Health, Dental and Vision Insurance, Employee Tuition Assistance, Employment Opportunities, Hiring Process, Policies, Personal Assistance Service and other HR topics*

Information is also available on the web at [hr.duke.edu/benefits](http://hr.duke.edu/benefits)

For your convenience you can email your benefit questions to [benefits@duke.edu](mailto:benefits@duke.edu)

<table>
<thead>
<tr>
<th>Benefit Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>Duke Select &amp; Duke Basic (administered by Aetna) 800-385-3636</td>
</tr>
<tr>
<td></td>
<td>Duke Options and Blue Care (administered by Blue Cross Blue Shield of NC) 877-224-3305</td>
</tr>
<tr>
<td>Dental Insurance</td>
<td>CIGNA Behavioral Health 888-253-8552</td>
</tr>
<tr>
<td>Pharmacy Benefits</td>
<td>Ameritas 800-487-5553</td>
</tr>
<tr>
<td>Vision Insurance</td>
<td>Express Scripts 800-717-6575</td>
</tr>
<tr>
<td>Reimbursement Accounts</td>
<td>UnitedHealthcare Vision 800-638-3120</td>
</tr>
<tr>
<td>Supplemental Life Insurance</td>
<td>WageWorks 877-924-3967</td>
</tr>
<tr>
<td>Universal Life Insurance</td>
<td>Mercer Voluntary Benefits 800-552-9670</td>
</tr>
<tr>
<td>Personal Accident Insurance</td>
<td>Holroyd Agency 919-755-8646</td>
</tr>
<tr>
<td>Personal Casualty Insurance</td>
<td>Mutual of Omaha 919-684-5600</td>
</tr>
<tr>
<td>Voluntary Disability Insurance</td>
<td>Mercer Voluntary Benefits 800-552-9670</td>
</tr>
<tr>
<td>COBRA Benefits</td>
<td>MGIS 800-969-6447 Ext. 175</td>
</tr>
<tr>
<td></td>
<td>ADP 800-526-2720</td>
</tr>
<tr>
<td>Faculty and Staff Retirement Plan</td>
<td>Fidelity 800-343-0860</td>
</tr>
<tr>
<td>403(b) Investment Carriers</td>
<td>TIAA 800-842-2252</td>
</tr>
<tr>
<td></td>
<td>VALIC 877-375-2424</td>
</tr>
<tr>
<td></td>
<td>Vanguard 800-523-1188</td>
</tr>
<tr>
<td>Other Benefits</td>
<td>Personal Assistance Service (PAS) 919-416-1727</td>
</tr>
<tr>
<td></td>
<td>PERQs/Employee Discounts 919-684-9040</td>
</tr>
<tr>
<td></td>
<td>Duke Card Office – University 919-684-5800</td>
</tr>
<tr>
<td></td>
<td>Duke Card Office – Medical Center 919-684-2273</td>
</tr>
</tbody>
</table>
# APPENDIX

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<td>Retirement Lifestyle Decisions</td>
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<td>Glossary</td>
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</table>
## INTERNET RESOURCES

<table>
<thead>
<tr>
<th>Internet Resources</th>
<th>Features</th>
</tr>
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<tbody>
<tr>
<td><strong><a href="http://www.aarp.com">www.aarp.com</a></strong></td>
<td>Information and advocacy for people over 50</td>
</tr>
<tr>
<td></td>
<td>• Health and wellness</td>
</tr>
<tr>
<td></td>
<td>• Policies and legislation</td>
</tr>
<tr>
<td></td>
<td>• Services and products</td>
</tr>
<tr>
<td><strong><a href="http://www.irs.gov">www.irs.gov</a></strong></td>
<td>Internal Revenue service</td>
</tr>
<tr>
<td></td>
<td>• Forms and publications</td>
</tr>
<tr>
<td></td>
<td>• Current tax rules</td>
</tr>
<tr>
<td><strong><a href="http://www.hellowallet.com">www.hellowallet.com</a></strong></td>
<td>Consumer personal money management websites</td>
</tr>
<tr>
<td><strong><a href="http://www.mint.com">www.mint.com</a></strong></td>
<td></td>
</tr>
<tr>
<td><strong><a href="http://www.ssa.gov">www.ssa.gov</a></strong></td>
<td>Social Security Administration</td>
</tr>
<tr>
<td><strong><a href="http://www.medicare.gov">www.medicare.gov</a></strong></td>
<td>• Benefits calculator</td>
</tr>
<tr>
<td></td>
<td>• Apply online</td>
</tr>
<tr>
<td><strong><a href="http://www.cfp.net">www.cfp.net</a></strong></td>
<td>Certified Financial Planners Board</td>
</tr>
<tr>
<td></td>
<td>• Search for local CFP</td>
</tr>
<tr>
<td></td>
<td>• Check history of CFP professional</td>
</tr>
<tr>
<td><strong><a href="http://www.wsj.com">www.wsj.com</a></strong></td>
<td>General Financial Interest Publications</td>
</tr>
<tr>
<td><strong><a href="http://www.money.cnn.com">www.money.cnn.com</a></strong></td>
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<td><strong><a href="http://www.bloomberg.com">www.bloomberg.com</a></strong></td>
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<td><strong><a href="http://www.businessweek.com">www.businessweek.com</a></strong></td>
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<tr>
<td><strong><a href="http://www.investors.com">www.investors.com</a></strong></td>
<td></td>
</tr>
<tr>
<td><strong><a href="http://www.morningstar.com">www.morningstar.com</a></strong></td>
<td>Investment information, personal finance</td>
</tr>
<tr>
<td><strong><a href="http://www.kiplinger.com">www.kiplinger.com</a></strong></td>
<td>• Mutual fund performance</td>
</tr>
<tr>
<td><strong><a href="http://www.investors.com">www.investors.com</a></strong></td>
<td>• Tutorials</td>
</tr>
<tr>
<td><strong><a href="http://www.aaii.com">www.aaii.com</a></strong></td>
<td>• General Financial Planning</td>
</tr>
<tr>
<td></td>
<td>• Retirement calculators</td>
</tr>
</tbody>
</table>

Notes:
RETIREMENT CHECKLIST

- Notify your Department of your pending retirement.
- Contact all Retirement Plan Investment Carriers to discuss distribution options.
- Review all options for retiree medical coverage available to you and any family members you wish to cover.
- Review other possible needs like Dental, Long Term Care and Life Insurance.
- Review Flexible Spending accounts and other reimbursement accounts for expenses incurred during the year you intend to retire.
- List all your anticipated expenses and estimate all your sources for income including a timetable showing your age or year when access to those sources becomes available.
- If you retire younger than age 65, 3 months before your 65th birthday, contact Social Security Administration 800-772-1213 to request Medicare.
- If you retire at 65 or older, enroll in Medicare with an effective date that coincides with your first day of retirement.
- Consider your needs for financial services and begin interviewing and assessing the financial professionals and companies in your area.
- Update Estate Plans and consider establishing Powers of Attorney.
## RETIREMENT LIFESTYLE DECISIONS

<table>
<thead>
<tr>
<th>What matters most to me?</th>
<th>Importance (high=1, low=20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proximity to family</td>
<td>_______________</td>
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<tr>
<td>Cost of living</td>
<td>_______________</td>
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<tr>
<td>Convenient shopping</td>
<td>_______________</td>
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<tr>
<td>Neighborhood and community qualities</td>
<td>_______________</td>
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<tr>
<td>Public transportation</td>
<td>_______________</td>
</tr>
<tr>
<td>Size of city or town</td>
<td>_______________</td>
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<tr>
<td>Places of worship</td>
<td>_______________</td>
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<tr>
<td>Taxes; property, income, estate, local</td>
<td>_______________</td>
</tr>
<tr>
<td>Scenic beauty</td>
<td>_______________</td>
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<tr>
<td>Recreational facilities</td>
<td>_______________</td>
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<tr>
<td>Public parks</td>
<td>_______________</td>
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<tr>
<td>Entertainment, cultural and sports facilities</td>
<td>_______________</td>
</tr>
<tr>
<td>Type of home or property</td>
<td>_______________</td>
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<tr>
<td>Proximity to friends</td>
<td>_______________</td>
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<tr>
<td>Social events</td>
<td>_______________</td>
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<tr>
<td>Healthcare and medical facilities</td>
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<tr>
<td>Senior community activities</td>
<td>_______________</td>
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<td>Educational opportunities</td>
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<tr>
<td>Employment opportunities</td>
<td>_______________</td>
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<tr>
<td>Climate</td>
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GLOSSARY

Financial and Investment Terms

With comments from Lynn Ball

Active Management – Money management and Mutual fund management that buys and/or sells securities frequently in an effort to take advantage of opportunities and maximize returns in the portfolio. LB: The opposite of Passive Management i.e.: indexing.

Aggressive Growth – A style of money management that focuses on equities that are expected to have strong growth of earnings. This management style aims for maximum appreciation and entails elevated risk over other styles of equity management. LB: Most often, a strategy recommended to young people as part of a long-term asset allocation strategy.

Amortization – The process of paying off a loan in regular installments over a period of time or a table showing the regular repayments of principle and interest on a loan over the full term of the loan until it is repaid.

Annuitant – a person receiving benefits from a pension or annuity contract.

Annuity – Periodic payments from a pension plan or from a private insurance contract over a period of time.

Annuitize – the process of making a series of payments from the accumulated value of a retirement plan or an annuity contract.

Annualized Return – The rate of return on an asset over a period of less than one year which is adjusted to cover the full-year period. For example an investment that returned 2.5% in a three month period, would pay a 10% annualized return.

Appreciation – growth in the value of an asset. Also called capital appreciation.

ARM – Adjustable Rate Mortgage – A mortgage with a rate that is subject to change over time. Adjustables usually have an initial rate that’s lower than a comparable fixed rate mortgage and that rate is locked for a period of time. After the initial period the rate (and your payment) may be adjusted based on an index.

Asset – Any material or intangible item that has economic value and is capable of being owned, or exchanged or controlled for value.

Asset Allocation – An investment technique that moderates risk and maximizes return by spreading money over a number of different asset classes. Results are achieved by eliminating the risks associated with trying to time markets or having “all your eggs in one basket.” LB: Studies have shown that asset allocation is the single most important factor in successful long-term investing. Why? Because certain asset classes have historically performed better than others over time, but they also have a history of greater risk. Asset allocation assures that in a given year you will have at least some money in higher performing investments and never have all of your money in the riskiest investments. Some mutual funds offer investors funds that allocate the assets for the investor – usually called “balanced funds” or “blended funds.”

Asset Allocation Fund – A mutual fund that spreads assets among major asset classes. The funds offer investors a blend of securities in specified percentages. LB: These funds can be a blessing for those of us who crave the simple life! The asset allocation mix is maintained by the fund manager and the manager may have flexibility to adjust the mix depending on market conditions. These funds are also called Blended Funds, or Balanced Funds.

Asset Class – a category of investment asset. Stocks, bonds and real estate are all asset classes. Generally, there are four basic types of investments: Stable Value investments, Fixed Income (Bonds), Equities (Stock) and Hard Assets.
Asset Management Account – An account at a brokerage house that combines a securities trading account with banking services like checking account, major credit card and ATM services.

Automatic Investment – A program of periodic withdrawal of a specified amount from a bank account to be transferred to an investment, usually a mutual fund. 
*LB: A great addition to automated payroll deposit programs. The paycheck is deposited; the savings amount is withdrawn and plunked into an investment/savings account.*

Average Annual Return – The Annualized return on an investment averaged over a specific period of time. In mutual funds the average annual return is stated after expenses.

Back-End Load – A sales load structure that charges no upfront sales charge, instead charging the investor when they redeem (sell) shares. Typically the redemption fee ranges from 1% to 6% and decreases over time. *LB: Common to see this fee structure in insurance products and mutual funds. (Redeem in year 1, pay 6%; year 2, pay 5%; year 3, 4%; etc. In mutual funds, beware the annual operating expenses that can be higher in Back-End Load funds than in funds with a Front-End Load.*

Balanced Budget – A plan for financial living in which the amount being spent does not exceed the amount of income.

Balanced Fund – A mutual fund that invests in stocks and bonds. See Asset Allocation.

Best’s Rating – A rating of insurance companies by A. M. Best Co. The rating is based on an insurance company’s ability to meet its policy obligations.

Beta – the measure of risk of an asset in comparison to the overall market. Generally, the overall market is the S&P 500 which has a beta of 1. A security with a beta of 1.5 is one and a half times more volatile than the S&P 500.

Blue Chip – Description of a big, well-known and creditworthy company or the stock of that company.

Bond – A debt issued by a company, the US Government or state or municipal governments for the purpose of raising money. When the investor buys a bond he or she is lending the issuer an amount (usually $1000 per bond.) In return, the issuer agrees to pay interest to the investor and repay the investor’s principle at the end of the loan’s term (the maturity date of the bond.)

Bond Mutual Fund – A mutual fund comprised of bonds. *LB: Be aware that all mutual funds will fluctuate in value – even funds of U.S. Government Bonds.*

Book-Entry Securities – Registered securities that have no certificate. *LB: The vast majority of securities today are book-entry, so if you want a certificate, speak up when you buy the security and be prepared to wait weeks to receive your certificate. Just as important – read your statements! Along with trade confirmations the statement is your proof of ownership.*

Breakpoint – a single purchase investment amount that entitles the investor to a discount on sales charges. *LB: This kind of discounting is very common at mutual fund companies.*

Broker – A financial professional who is paid a commission on transactions conducted on behalf of customers. Brokers must be registered with the exchanges where they conduct business and in the states where their customers reside. *LB: Be aware that the big firms often rename their brokers, giving them a title that doesn’t sound so much like a broker – Financial Consultant, Account Manager, Vice President, etc.*

Buy and Hold – An investing strategy that buys securities and holds them for long periods without selling (or with little selling.)
Call Feature – In bonds, the ability of the issuer to retire the debt early at a specified date and price.

Capital Gain – The difference between the net cost of purchasing an asset and the net selling price, when the asset is sold at a profit.

Capital Loss – The difference between the net cost of an asset and the net selling price, when the asset is sold at a loss.

Cash Equivalents – Assets that are virtually the same as cash because they can be converted to cash quickly with little loss in value.

CD – Certificate of Deposit – A certificate issued as receipt for a deposit of money at a bank for a specified period of time and for a specified interest rate. CD’s are usually offered in maturities of 3 months to 5 years.

Certified Financial Planner – A person who has passed examinations and met requirements of the Certified Financial Planner Board of Standards. This is a rigorous professional designation that prepares and certifies an individual to manage the personal finances of consumers.

Certified Public Accountant – An accountant who is licensed by a State as meeting certain requirements and standards including passing a state administered professional exam.

Churning – Excessive trading of securities in an account for the unethical purpose of creating greater sales commissions.

Close – The end of the trading day on an exchange.

Closed End Mutual Fund – A mutual fund based on a portfolio with a set number of shares. Even if demand goes up, no new shares will be created. LB: These funds are publicly traded, listed on a stock exchange and quoted at their net asset value. Unlike open-end mutual funds that redeem their own shares, closed-end funds are bought and sold like company stocks in the public market.

COBRA – Consolidated Omnibus Budget Reconciliation Act and the Health Portability Act. Passed in 1986, this legislation allows for the temporary extension of company group health insurance benefits after an employee has terminated employment. Spouses and dependents can also elect COBRA coverage because of divorce, death and some other specified conditions. COBRA premiums are typically more expensive than health coverage for active employees because companies pay part of the cost of coverage for active employers. COBRA participants pay the full amount of the premium.

Collectibles – Hard assets that are not securities or real estate. Art collections, antique furniture and cars, old coins baseball cards, antiquarian books and documents all fall into this category. LB: While many consider collectibles to be good investments, don’t believe everything you see on “Antiques Roadshow,” these investments are not always liquid and their value is a matter of the right buyer coming along at the right time. Collect it if you love it. Don’t stake your future on it.

Commission – An amount of money paid to a broker for execution of a transaction.

Commodity – A physical substance that is a food or food component, a metal or building supply or some raw material that manufacturers and producers buy and suppliers sell. Investors buy and sell and commodities for profit and to hedge against future price fluctuations. LB: Coffee beans, pork bellies, lumber, cotton, sugar, grain, cattle, gold – it’s a long list indeed. Commodities trading is for the pros – it’s risky.

Commodities Contract – Also known as a “commodities futures contract” – It’s an agreement to buy a specific amount of a commodity at a specified price on a specified date.
Common Stock -- the basic unit of equity or ownership in a company. Common stock ownership confers voting rights to the shareholder as well as the right to receive dividends if issued, and share in the profitability of the company in the form of capital appreciation – increase in share value.

Compound Growth – The process by which an asset’s growth increases, accumulating value over time. For example: An asset gains interest in the first year it is held. In each subsequent year, interest is paid not on the initial investment, but on the sum of the principle and interest from the prior year.

Constant Dollar Plan – The practice of purchasing securities in fixed amounts aver regular intervals. In so doing, the investor effectively buys more shares at lower prices and fewer shares at high prices. See Dollar Cost Averaging.

Corporate Bonds – debt securities issued by a corporation.

Cost basis – The price paid to purchase an asset. LB: CPA’s want to know your cost basis in order to compute capital gains. This is why you keep your confirms.

Coupon, Coupon Rate – the interest rate on a bond.

CPI – The Consumer Price Index – A monitor of the prices of common consumer goods and services published by the U.S. Department of Labor. The index is used to track the rate of inflation in the United States.

Credit Bureau – An agency that keeps records on the credit history of individual consumers. These agencies provide that information to potential lenders and creditors. LB: The biggest of these are Trans Union, Experian and Equifax. It's more important than ever to get a copy of your own credit report at least once a year. That way you can assure that all information is correct and that there has been no illegitimate use of your credit.

Currency – The money of a nation or a group of affiliated nations.

Currency Risk – when purchasing securities issued in a foreign country, investors are exposed to the risk of currency fluctuation in addition to market risk.

CUSIP – Committee on Uniform Securities Identification Procedures. This agency assigns a nine digit identifier to all securities.

Deductible – In insurance policies, an amount of money that must be paid out of pocket by the policyholder before payments will be made by the insurance companies.

Deductible Contribution – An IRA Contribution that also qualifies as an income tax deduction.

Defensive Stock – Stocks that are considered to be less volatile than the overall market. These are often dividend paying, old-line companies and utilities.

Deferred Compensation – Pay that is earned but not paid immediately. Instead, payment is made at a later date, typically as part of a retirement plan or tax- advantaged benefit plan.

Defined Benefit Plan – A retirement plan that explicitly states how the future benefit to a qualifying participant will be calculated. Most traditional pension plans fall into this category. See also Defined Contribution Plan.

Defined Contribution Plan – A retirement plan that defines how much money can be contributed to the plan, but the benefits paid out at a future date are assumed to be variable. 401(k) plans, 403(b) plans are examples of DC Plans.

Deflation – A decline in the prices of goods and services. The opposite of inflation.

Direct Rollover – The transfer of tax-deferred plan money from one custodian to another. LB: This is the best way to do a rollover. There is no taxable event, and all of the required reporting is taken care of by the custodians.
Diversification – The practice of dividing your money across a variety of investments. Diversification helps to reduce market risk because the investor’s success is not tied to how a single investment performs.

Dividend – A portion of the company’s profits that is paid to shareholders. Dividends may be paid to holders of common and preferred shares.

Dividend Reinvestment Plan – The automatic investment of paid dividends into more shares of the company stock. This is frequently offered without commission charges.

Dollar Cost Averaging – The practice of purchasing securities in fixed amounts over regular intervals. In so doing, the investor effectively buys more shares at lower prices and fewer shares at high prices.

EAFE – European Australian and Far East Index – an index of stocks in developed countries, excluding the U.S. and Canada.

Early Withdrawal Penalty – a tax penalty defined in the IRS tax code, usually pertaining to the conditions in which funds are withdrawn from tax-advantaged savings plans, Individual Retirement Accounts and other account structures that fall under ERISA laws (Employee Retirement Income Security Act.)

Earned Income – Money received as compensation from employment – wages, tips salary and bonus all fall into this category. Many retirement plans use earned income as the basis for the amount of money that is allowed to be set aside.

Economic Indicators – Statistics on aspects of the economy that indicate growth or decline in the economy. For example the unemployment rate and the number of new home starts are economic indicators.

ERISA – The Employee Retirement Income Security Act of 1974. – ERISA is a federal law that sets standards for pension plans and retirement plans in private industry.

Estate Planning – A plan for what will happen to a person’s assets after their death. Estate plans include a will and possibly other legal documents and contracts designed to carry out a person’s wishes. See Will, Trust, Living Will.

Executor – a person or organization with the responsibility of carrying out the terms of a will and settling a deceased person’s estate.

Expense Ratio – the percentage of the assets in a mutual fund that are charged for operational and management fees.

Family of Funds – A group of mutual funds with differing objectives being offered by the same company. LB: Typically if you invest in one fund that is in the family you can move money funds to another fund without further sales loads. A nominal fee may be charged for administration, however, usually under $25.

Fed Wire – An electronic funds transfer system operated by the Federal Reserve System.

Fees – A form of compensation paid to a financial advisor that is not a commission on transactions. Fees may be based on an hourly rate or a percentage of assets.

Fiduciary – A person with the responsibility of acting in the best interests of another person or persons or entity. See Prudent Man Rule

Fiduciary Responsibility – A term for the intelligent and reasoned action that is expected of persons and institutions acting as fiduciaries. See Prudent Man Rule.

Fixed Income – An asset that pays a fixed amount of interest such as a bond or a preferred stock.

Fixed Rate Loan or Mortgage – A loan or mortgage with a rate that is fixed at the same rate for the life of the loan.
Front-End Load – A sales load paid before investable assets are invested in a mutual fund. For example, an investor with $10,000 to invest might find a mutual fund with a 5% Front End Load. This investor would pay $500 in sales commissions and $9,500 would be invested in the fund.

Fund Family – See Family of Funds.

Fund of Funds – This is a mutual fund that is invested in other mutual funds. Pre-Asset Allocated and Target Dated Funds are often comprised of other “core asset” funds.

Fund Manager – The person or group responsible for making investment decisions and sometimes allocation decisions in a mutual fund. The fund manager is also responsible for adhering to the stated objectives of the fund, for achieving the fund return to investors and for managing the level of risk in the fund.

General Obligation Bond – A Municipal Bond that is backed by the full faith and credit of the issuer. LB: This means that the municipality is obligated to meet the interest payments on the bond from the general asset in Treasury. See Revenue Bond.

Global Fund – A mutual fund that invests in companies from anywhere in the world, including the United States. LB: International Funds generally do not invest in U.S. companies.

Government Bonds – Debt securities issued by the United States Treasury.

Government Obligations – securities that are backed by the U.S. Government. These securities are considered by definition to be the safest possible investments. They include U.S. Treasury Bills, Bonds, Notes and also U.S. Savings Bonds. LB: “Safest” is still a relative assessment of risk.

Growth Fund – A mutual fund that invests in growth stocks with capital appreciation as the primary objective.

Growth and Income Fund – A mutual fund that invests in stocks with a history of capital appreciation and consistent dividend payments.

Indexes and Averages – Representative groupings of securities used as indicators of the general movement and direction of the markets those groupings represent. Some commonly followed indexes include The Dow Jones Industrial Average (DJIA), the New York Stock Exchange Composite, the Standard and Poor’s 500 Index, the Wilshire 5000 Equity Index, and the NASDAQ-OTC Price Index.

Index Fund, Indexing – a mutual fund with holding identical to the securities in an index. LB: Indexing is also called “Passive Investing” because the managers simply replicate the appropriate index and hold.

Individual Retirement Account – These accounts are offered at banks and financial institutions as personal retirement savings plans for employed people. IRA accounts allow working people (and their non-working spouses) to set aside pre-tax earnings and to accumulate investment earnings on a tax-deferred basis until the funds are withdrawn at age 59 ½ or later (up to 70 ½). Some individuals also qualify to deduct the cost of their contribution from their income taxes.

Inflation – An economic condition in which the prices of goods and services is moving upward. LB: The inflation rate indicates how fast prices are rising.

Interest Rate Risk – A measure of how sensitive a security (most often bonds) might be to a change in interest rates.

Laddered Bond Portfolio – A bond portfolio featuring staggered maturities so that the investor receives interest payments on a predetermined schedule, creating an income stream.

Liquidity – the speed at which an investment can be redeemed, sold, or converted to cash.
Load – a sales commission on a mutual fund.

Market Risk – Risk that is inherent in the markets and cannot be removed by any investment technique or strategy.

Market Timing – The idea that an investor or money manager can forecast when one asset class will outperform another asset class and invest accordingly. *LB: Even Psychics admit that they can’t predict markets. Stick with asset allocation.*

Minimum Investment – The least amount that a mutual fund company will accept as a single purchase amount for shares in the fund.

Money Market Funds – A mutual fund comprised of cash and cash equivalents and short term debt.

Municipal Bonds – A debt security issued by a state, city, county or other municipal authority.

No-Load Fund – A mutual fund that has no sales commissions charged at purchase.

Passive Management – See Index Fund.

Prudent Man Rule – This is a common law standard held up as a guide for those who manage assets on behalf of others. The idea behind it is that those who manage money for others can’t be perfect, but their decisions and actions must reasonably be “what a Prudent Man might have done. See also Fiduciary.

Qualified Plan – A retirement plan whose structure and rules are defined or “qualified” in the U. S. Tax Code.

Risk – Simply stated, the chance that you could lose money. In investing there are many types of risk defined by the underlying cause of the risk. I.e.: Market Risk, Inflation Risk, Business Risk, Currency Risk, Liquidity Risk, Interest Rate Risk, Political Risk, etc.

Risk /Reward Relationship – Every investment has a capacity for returning a reward and a capacity for volatility and possible loss. Risk and Reward are the two faces of every investment and generally, the higher the potential reward, the higher the possibility of loss of value – especially in the short term.

Rollover – See Direct Rollover.

S&P 500 – An index of 500 large American companies

SEC - Securities Exchange Commission is the chief federal regulator and watchdog over investment markets and investment practices in the U.S.

SEP-IRA – A retirement account for small business owners and self-employed people.

Spousal Consent – A waiver of beneficiary rights to a spouse’s retirement plan. The signed form consents to a participant leaving retirement money to a person or entity other than their spouse or paying money from the plan in a manner other than the federal government default rules for these payments.

Stock – A unit of ownership in a company.

Stock Index – Groupings of stock that are used as indicators of general direction and movement of the markets represented by the group. See Index.

Stock Market – In general the public market or markets for buying and selling stocks.

Stock Split – An adjustment to the value of a stock. When a stock splits, both its value and the number of shares held are affected. *LB: Here’s the real reason we all took high school algebra. Let’s say you own 50 shares XYZ Corp*
and they are currently worth $99.66 per share. The company announces a 3 for 1 split. Here’s how to calculate your holding after the split:

1) 50 Shares XYZ = $99.66 per share before split  \[ \text{Total Value} \] $4,983.00
2) 50 XYZ x 3 = $99.66 / 3
3) 150 XYZ = $33.22 per share after split \[ \text{Total Value} \] $4,983.00

Survivor Benefit – Amounts paid to spouse and/or other beneficiaries by insurance policies, Social Security, pensions and retirement plans when the covered person dies.

Tax Deferred – An investment account or strategy which is founded in compounding earnings without present annual taxation, but with an obligation to pay the taxes at a later date when distributions or payments are taken.

TIPS – Treasury Inflation-Protected Securities – These U.S. Treasury Bonds are indexed to the inflation rate (Consumer Price Index.)

Treasury Bills – Short term United States government bonds. They mature in one year or less and they do not pay interest prior to their maturity date. T-Bills are purchased at a discount to their face value and at maturity pay the full face value to the investor.

Vest or Vesting – Ownership or meeting the requirements for ownership.