

# eNews About Your Plan

From the ICMA Retirement Corporation

[www.icmarc.org](http://www.icmarc.org)



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## INFO CORNER

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[www.icmarc.org](http://www.icmarc.org)

## MAKING THE MOST OF YOUR RETIREMENT NEST EGG<sup>1</sup>

These are difficult times for many retirement investors, especially if you are withdrawing money from your retirement accounts, or will be doing so soon. While declining markets may have caused you to rethink your assumptions about retirement, the decisions you are making now may have significant consequences in retirement.

No doubt the market's gyrations have caused you to focus on rebuilding your investments. But equally important at this stage is to take steps that will help you make the most of your retirement

assets. Our retirement planning specialists suggest two strategies for those who are about to retire or retired: (1) creating a tax-efficient withdrawal plan, and (2) developing an investment strategy that keeps your investments current for your changing circumstances.

### Strategy 1: Tax efficient withdrawal planning

If you have money in several types of accounts when you retire, it may be possible to continue the tax advantages of some accounts longer, reducing your income taxes.

<sup>1</sup> This information is intended for educational purposes only and is not to be construed as investment advice. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended here and should understand that statements regarding future prospects may not be realized. The ICMA Retirement Corporation does not offer specific tax or legal advice.

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## VANTAGEMONEY Q&A

This Quarter Topic: **Consolidation**

**Q: I have a 457 plan with ICMA-RC and a 401(k) and a roll-over IRA plan with another provider. Can I roll my other retirement plans' balances into my 457 account?**

**A:** Yes. Effective January, 2002, you would have been able to transfer your assets from another retirement plan, such as your 401(k), 403(b) or rollover IRA plan into your 457 plan account. Contact your local retirement plans specialist or visit our IRA Wizard at [www.icmarc.org](http://www.icmarc.org) to transfer your assets.

## mPower: On-line Advice

A new service has been launched on the ICMA-RC Web site ([www.icmarc.org](http://www.icmarc.org)) that may help investors answer that difficult question, "How should I invest my retirement savings"? With the new year underway, now may be an excellent time to take advantage of this new tool.

ICMA-RC recently introduced mPower, an Internet-based investment advisory service, for plan participants. mPower provides a sophisticated investment tool that analyzes fund options and determines appropriate investment allocations that are consistent with each investor's stated risk tolerance.

Included in the retirement education and asset allocation advisory services mPower<sup>1</sup> offers are:

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# Top Ten Tips For Investors

- 1 Always stay in charge of your money.** Beware of any financial professional who suggests putting your money into something you don't understand, or who promises to "take care of everything for you." Don't commit to an investment you don't understand.
- 2 Keep greed in check.** If the return on an investment sounds too good to be true, it probably is. A legitimate advisor should determine your financial needs and goals, as well as the level of risk you're comfortable with, and suggest a "suitable investment." Don't allow the promise of inflated returns to cloud your judgment.
- 3 Are you familiar with the conditions that apply if you withdraw from the investment?** Find out if there are any withdrawal or redemption restrictions or penalties that may apply to your ability to access your money. Look for words like; contingent deferred sales charge, surrender charge, back-end sales load or early withdrawal penalty. Keep in mind that assets from your 457 deferred compensation plan have no early withdrawal penalty. If you move this money to another type of account your money may acquire an early withdrawal penalty.
- 4 What is the cost of the investment?** Your mother always told you "nothing in life is free." Find out the *total* cost of an investment being proposed to you. Most registered investments are sold by prospectus that clearly explains all of the charges associated with the investment. These must be updated every 13 months. Ask for the most recent copy.
- 5 What is the cost to "buy in" to the investment?** Many investments have an upfront cost typically referred to as a front-end load. This is a sales charge is deducted from your money before it's invested. Find out if the investment being proposed to you has this charge. Also, consult the current prospectus for additional information on the total expenses charged.
- 6 What are the investment options available to you?** For some investors diversity is important when investing. Make sure you have many investments to choose from with a range of risk and volatility. You might also want to check that the investments available are from more than one mutual fund family.
- 7 Is there a charge for moving money from one investment to another?** Frequently called a transaction fee, these charges can impact the growth of your investments as you rebalance and manage your account.
- 8 Where is your "adviser" getting her information?** Most investment professionals use computer software to create their asset allocations. This same type of software is available to you from ICMA-RC. We've partnered with mPower<sup>2</sup>, an independent provider of investment advice not affiliated with ICMA-RC, to provide investment advice to all of our participants. And more importantly, this advice comes from an independent source, someone who is not motivated by commissions or charges to steer you toward one investment or another. In most plans you may have to pay a modest annual fee for this service.
- 9 Will you pay an annual maintenance fee for your investment?** Some investments charge you an additional "maintenance or account fee." Find out what this charge will be.
- 10 And finally, don't let embarrassment or fear keep you from asking questions.** It's your money and you have a right to understand and feel comfortable with the investments being proposed. If you don't feel right about it – don't invest.

**If you have additional questions** email your Retirement Plans Specialist, Tom Axline, at [taxline@icmarc.org](mailto:taxline@icmarc.org).

<sup>2</sup> mPower is an independent provider of investment advice not affiliated with the ICMA Retirement Corporation. Investment advice and analysis tools are offered to participants through the ICMA Retirement Corporation, a federally registered Investment Adviser. Please consult the current Vantagepoint Funds prospectus carefully prior to investing any money. Vantagepoint securities are distributed by ICMA RC Services LLC, a broker dealer affiliate of ICMA RC, member NASD/SIPC. ICMA Retirement Corporation, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400. [www.icmarc.org](http://www.icmarc.org).



Money in your savings account is not taxed when you make a withdrawal because it was taxed before you made the deposits, and earnings are taxed each year. Neither contributions nor earnings were taxed in your deferred compensation account nor were earnings on this account taxed, either. Therefore all withdrawals from these accounts will be taxed as ordinary income at your current tax bracket at the time of withdrawal. Withdrawals from other types of accounts have varying tax consequences.

A tax efficient withdrawal plan phases withdrawals from various types of accounts to delay or reduce income tax payments. Depending on your circumstances, a tax efficient withdrawal plan may disburse accounts in this order:

- Fully taxable accounts, such as savings, CDs and taxable money market accounts (leaving behind an adequate emergency fund).
- Tax-deferred accounts, such as non-qualified annuities.
- Tax-free accounts, such as municipal bonds or bond funds. (These investments are usually held by investors in the highest income tax brackets and may not be as advantageous to the retirement investor if in a lower tax bracket).
- Equity and other accounts are those that receive special capital gains treatment on the profit portion of the distribution or on which only a portion of the distribution will be taxable. These may include stocks, mutual funds, real estate, and after-tax contributions to a qualified retirement plan.
- Traditional IRAs when the contribution has been taxed but earnings have grown tax sheltered. Withdrawals prior to your age 59 1/2 are subject to an additional 10% excise tax.

- Qualified Retirement and Deferred Compensation accounts have had neither contributions nor earnings taxed, and distributions are taxed as ordinary income. Withdrawals from qualified retirement accounts may also be subject to an additional 10% excise tax before age 59 1/2 or 55 and separation from service.
- Roth IRAs, after five years and age 59 1/2, may have all earnings available tax free and should usually be left as long as possible to grow.

#### Strategy 2: Shift Investment Focus

As you approach the time when withdrawals will begin from your various invested accounts, your investment strategy may need to change. During the disbursement years, investing part of your account for your income needs should become a priority. Growth is still important for the rest of your account to meet longer-term needs.

A strategy useful to retirement investors as they shift from growth toward income investing is a “depletion order”. The amount you expect to withdraw within the next three-to-five years (more years from more conservative investors) is invested in a conservative fund, such as the PLUS Fund<sup>3</sup>, with safety and income goals. The rest of your account may be invested with longer-term growth more of a priority.

#### Develop a Plan

Finally, if you are uncomfortable with your retirement plans consider contacting your local ICMA-RC Retirement Plans Specialist Tom Axline for an individual appointment at 408-730-2585 or email at [taxline@icmarc.org](mailto:taxline@icmarc.org).

<sup>3</sup> Please consult both the current prospectus and *Making Sound Investment Decisions: A Retirement Investment Guide* carefully prior to investing any money. Vantagepoint securities are distributed by ICMA RC Services LLC, a broker dealer affiliate of ICMA RC, member NASD/SIPC. ICMA RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400.

- **Fund-specific quality investment advice** – mPower advises each participant on which mix of your plan’s investment options will best help you reach your retirement goals
- **Full integration and transaction capabilities** – The data from your ICMA-RC account is automatically entered in to the retirement advisor, saving you time and effort. In addition, you may choose to apply the mPower allocation recommendations directly to your account with just the click of a mouse! mPower is fully integrated in ICMA-RC’s record keeping system.
- **“What if” tools** – You can explore a wide range of possible retirement scenarios by experimenting with your retirement age, retirement goals and account contributions. You may also elect to incorporate any outside savings or investments in the advice modules.
- **Investment Communications** – In addition to the regular communications you receive from ICMA-RC, you will also receive ongoing information from mPower to help you keep your retirement savings on track.

To introduce yourself to the mPower service, just visit your deferred compensation Web site at [www.icmarc.org](http://www.icmarc.org). You can use the tool simply for asset allocation education on a complimentary basis. To take full advantage of mPower’s investment advisory capabilities you will need to enter through the password-protected Account Access area and have a modest fee deducted from your retirement account. The \$35 charge provides you with unlimited access to mPower advisory tools for one full year.

So, now is a great time to use the power of the Internet to evaluate your savings, and establish the confidence that you’ll be meeting your retirement goals.

<sup>4</sup> mPower is an independent provider of investment advice and is not affiliated with ICMA Retirement Corporation. Vantagepoint securities are distributed by ICMA RC Services, LLC, a controlled broker dealer affiliate of RC, member NASD/SIPC. ICMA Retirement Corporation, 777 North Capitol Street, N.E., Washington, DC 20002. 1-800-735-7202.

**Q: If I roll retirement assets between plans will I pay any tax or penalties?**

A: Not if the rollover is done directly between plans. A direct rollover, where the rollover check is made payable to the recipient plan (or the trustee) instead of to you, will allow you to avoid tax withholding and penalties at the time of the rollover.

However, if the distribution check is made payable to you, as the participant, mandatory federal income tax withholding of 20 percent of the total amount will be taken. State withholding may also apply.

Your distribution will not be taxed if you roll it over within 60 days of receipt. However, the mandatory withholding will apply. You can claim the withholding when you file your individual tax return for the year, and, depending on your overall tax situation, you may receive the withheld tax back as a refund. If you roll your distribution over within the 60 day period, you will not owe any penalties.

**Q: My spouse in the past few years has changed jobs and has several retirement accounts. Could she roll her 403(b), 401(k) and an existing Rollover IRA to an ICMA-RC rollover IRA, or is it only participants?**

A: There are certain restrictions that exist for individuals to invest in ICMA-RC. Our focus is, after all, on public sector employees. However, we have a "friends and family" rule which would allow your wife to roll her assets into an ICMA-RC IRA.



**Turning 50 never looked so good!**

**Are you already contributing the maximum to your 457 Deferred Compensation Plan? Think again!**

If you will be 50 or older by the end of this year, you may make "age 50 catch-up" contributions to your 457 plan. You may make additional contributions above the normal maximum contribution limit in effect for the year.

Year	Normal Contributions		Age 50 Contribution		Total Annual Deferral
2003	\$12,000	+	\$2,000	=	\$14,000
2004	\$13,000	+	\$3,000	=	\$16,000
2005	\$14,000	+	\$4,000	=	\$18,000
2006	\$15,000	+	\$5,000	=	\$20,000

\* After 2006 the limits will be indexed to inflate in \$500 increments. This additional contribution is not dependent on your prior years' deferrals to a 457 Deferred Compensation Plan.



**Visit VantageLink for the latest retirement planning information.**

**www.icmarc.org**