Basic Retirement Planning Beyond CalSTRS and CalPERS

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- Do your own due diligence
  - Confirm any and everything I say
- Not trying to sell you anything

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Outline

- Why STRS and PERS may not be not enough
- If you're saving, why you might want to save more
- If you're saving enough, are you choosing the right investments
- Why your investment advisor might be ripping you off
- Additional things to consider

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Options to Manage Your Money

- Do nothing
- Choose individual stocks yourself
- Have investment advisor choose for you
- Have robo-advisor choose for you
- Buy Life Cycle mutual fund invested in index funds

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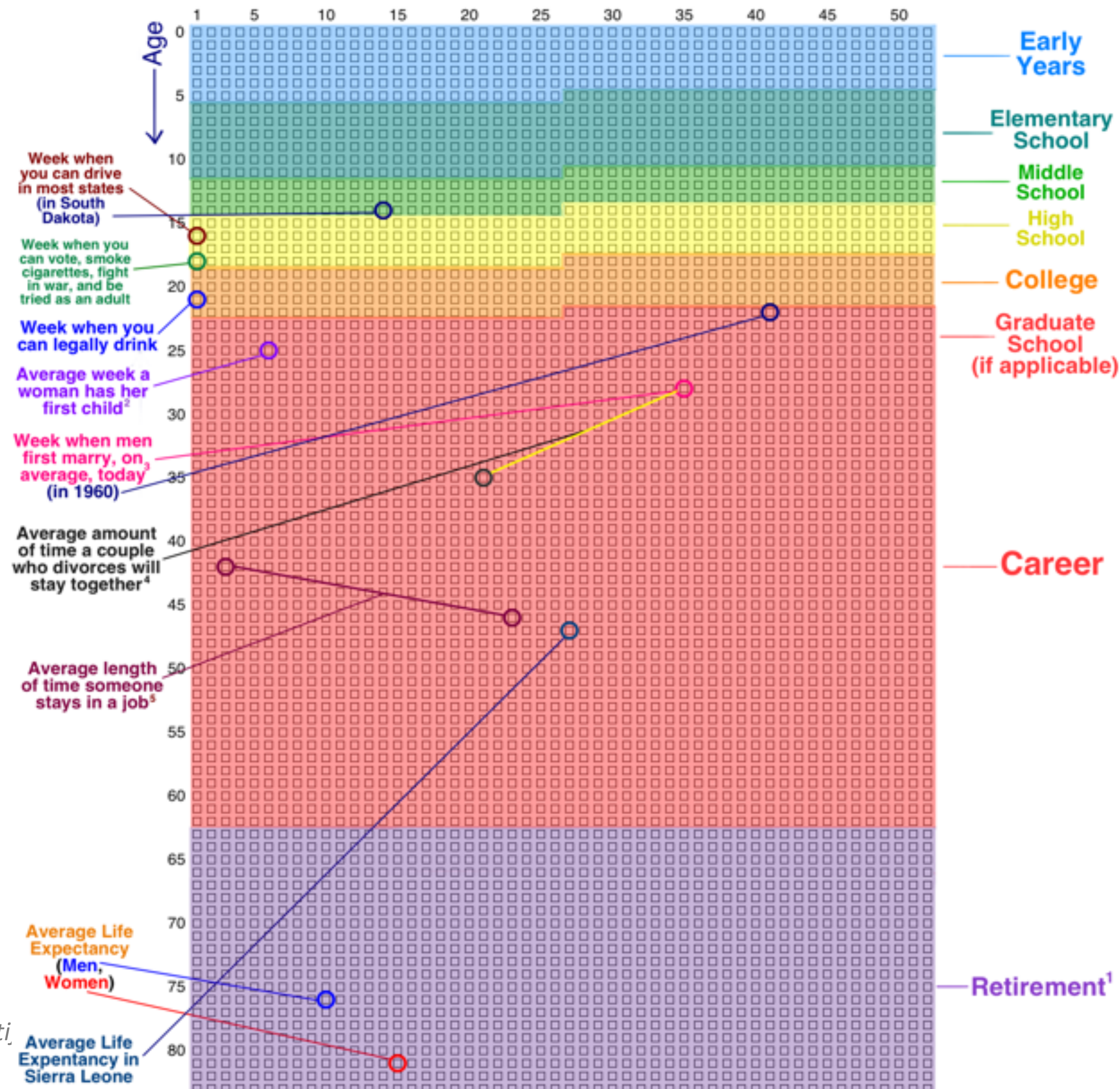
Typical American Life in Weeks



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The Coming Retirement Crisis

- 88% of Americans are worried about being able maintain a comfortable standard of living in retirement
- Outliving their savings is what 60% of older Americans fear the most
- 34% of American workers have <u>no savings</u> set aside specifically for retirement
  - 56% of all American workers have less than $10,000 saved for retirement
- 40% of Baby Boomers plan to "work until they drop”
  - However, 50% of 2015 retirees say they left the workforce earlier than they planned, for reasons such as health problems (60%), downsizing/closure of company (27%), caring for a spouse/family member (22%).
  - Only 31% of early retirees said they retired early because they could afford it.

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The Coming Retirement Crisis

- **New Research Finds 95 Percent of Millennials Not Saving Adequately For Retirement**
- Two-thirds (66.2%) of working Millennials have nothing saved for retirement. This situation is far worse for working Millennial Latinos as 83 percent have nothing saved for retirement.
- Even though two-thirds (66%) of Millennials work for an employer that offers a retirement plan, only slightly more than one-third (34.3%) of Millennials participate in their employer's plan.

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The Coming Retirement Crisis

- The average monthly Social Security benefit is $1,500 per month
  - Social Security makes up at least half of all income for 65% of retirees
  - SS income makes up more than 90% of income for 36% of retirees
- The latest Social Security Trustees' report forecasts that the trust funds will run out of money by 2034, at which point the system will only support <u>three-fourths of promised benefits</u>

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PERS/STRS may not be enough

- Need retirement income at least 70-85% of pre-retirement income
  - Obviously, more is better
- CalSTRS Benefit formula:

Service Credit x Age Factor x Final Comp

- Optimum age to retire is 63
- At 63, you earn 2.4% Final Comp per year of service
  - If 30 years service credit then 2.4% at age 61.5 with career factor enhancement
- If you are “2 at 62” then at 65, you earn 2.4% of average of last 3 years of final comp per year

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PERS/STRS may not be enough

- Need retirement income at least 70-85% of pre-retirement income
  - Obviously, more is better
- CalPERS Benefit formula:

Service Credit x Benefit Factor x Final Comp

- Optimum age to retire is 63
- At 63, you earn 2.5% Final Comp per year of service

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PERS/STRS may not be enough

- Faculty member retires at age 65 with 30 years of experience
- STRS benefit = 30 x 2.4% x Final Comp = 72% of Final Comp
  - Less if you choose a Survivor Benefit
- Faculty hired 2013 and later have “2 at 62” benefits
  - Essentially at least 10% lower benefits

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PERS/STRS may not be enough

- Member retires at age 65 with 30 years of experience
- PERS benefit = 30 x 2.5% x Final Comp = 75% of Final Comp
  - Less if you choose a Survivor Benefit
- Staff hired 2013 and later have "2 at 62" benefits
  - Essentially at least 10% lower benefits

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PERS/STRS may not be enough

- However, most faculty do not live off only their 10 month academic salary
- We typically take on overloads throughout the year
- With maximum overloads, STRS may only be covering 50% of your annual comp
  - Supplemental STRS benefit for overloads insufficient

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PERS/STRS may not be enough

- Spouse may not have a pension
- Benefit does not fully increase with inflation
- Retire early
- Money for emergencies and health care spending during a hopefully long retirement
- State can change our benefits

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Spousal income

- Working spouse may not have pension
- Need to save a lot to replace 85% of that income
- Low estimate is 8 times final salary

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PERS/STRS does not keep up with inflation

- PERS benefit is adjusted for inflation up to maximum of 2 percent per year
  - What if inflation is greater than 2%?
- STRS "Annual benefit adjustments are calculated at 2 percent of your initial benefit. <u>The increase is not compounded or tied to changes in the cost of living.</u>"
- What if inflation is greater than 2%?
- Even if inflation remains at 2%, after 20 years, prices have increased by a compounded 49% but our benefit has only increased by 40%

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Retire early

- Why retire at 65 if you can retire earlier?
  - You'll appreciate every year of retirement more because you'll know they're your last years
- Hypothetical member retires at age 60
  - STRS = 25 x 2.0 x Final Comp = 50% Final Comp
  - PERS = 25 x 2.314 x Final Comp = 58% Final Comp
- Will need additional savings to maintain lifestyle during longer retirement
- More importantly, most people retire earlier than they plan
  - Disability, downsizing, health

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Savings for emergencies

- At age 65 now, life expectancy of 87 for men, 89 for women
- Couple at 65, median life expectancy of surviving spouse is more than 90
- Health emergencies
  - Estimated over $200,000 needed for health care expenditures during retirement
  - Will get more expensive over time. Over 36 years, expenditures will rise to over $800,000
- Other emergencies

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What if the state changes the benefits formula?

- CalSTRS and CalPERS are under-funded
- Backlash against public employee pensions

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When to start supplemental saving for retirement?

- Power of compounding is the "most powerful force in the universe"
  – Interest earned on interest earned on interest, etc.
- Because of compounding, money becomes larger and larger over time
  – Starting early leads to enormous increases

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Timing is everything!

- $5,000 annually into a Roth IRA earning 10% per year
- Which will give you more money at age 65:

1. Save from ages 21 to 30 and never save again, a total of $50,000; or
2. Save **3 TIMES AS MUCH**: Save $5,000 annually from age 36 to 65, a total of $150,000?

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Timing is everything!

- Ages 36-65: 30 years of savings becomes <u>$822,000</u>
- Ages 21-30: only 10 years of savings becomes <u>$2.2 million</u>
- <u>$1.4 million extra!</u>
  - Even though you saved 3x as much
- <u>The extra money came from compound interest and not your own savings!</u>
- Warren Buffett haircuts

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What does this mean for your savings?

- How much does it take to save $1 million by the time you're 65 years old?
- Assuming rate of return = 0.10 (about the average return on stocks over the last century)
- If you start saving at age 50,
- Need to save $2400/month to get to $1 million at 65.

What does this mean for your savings?

- Start at age 50: need to save $2400/month to get to $1 million at age 65.
- Start at age 40: need to save $750/month.
- Start at age 30: need to save $260/month.
- Start at age 20: only need to save <u>$95/month</u> !!!

What does this mean for your savings?

- Start at age 20: only need to save $95/month !!!
- **Bottom line: start saving and investing as young as possible! (i.e. NOW)**
- **Save the maximum amount you can in IRAs, 401k plans, NOW!**

Why it's difficult to save

- Myopia: inability to see our future selves
  - Future self will regret not saving enough
  - Nobody ever retired wishing they saved less money
- Procrastination
  - "I never get around to it"
  - Seems too complicated so no action taken
- Lack discipline
  - Make savings automatic
- Lifestyle creep and keeping up with the Jones-es!
  - You will always want more
  - 10 hour work week
  - Save all your raises
- Saving helps you to live on less
  - Need less to retire so you can retire earlier
- <u>Best time to save is NOW!</u>
- <u>Saving A LOT leads to F.I.R.E.</u>

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R.I.V.A.L.

- Retirement Account- Roth IRA, 401k, 403b
- Index funds
- Vanguard
- Automatic contributions- 15%
- Leave it

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Simple steps to save for retirement

- Start Roth IRA, 401k, 403b, 457 plans
  - If you have a choice: choose Roth over Traditional
  - Use non-retirement general savings account if no taxable earnings
- Invest in Target Retirement Date mutual funds that use index funds
  - Vanguard Target Retirement Fund 2065
- Make savings automatic
  - Auto-invest at least 15% pre-tax salary
- Never try to time the market
  - Never sell. Ever.
  - Never stop buying. Ever.
- Don’t look at past performance to evaluate your funds

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How to open a Vanguard account

- www.vanguard.com
- Click on Personal Investors then click on Open an Account.
- If you have taxable earnings, open Roth IRA. If not, open non-retirement account. $1,000 minimum to start.
- You will need to choose a mutual fund. The Vanguard Target Retirement 2065 Fund (VTTSX) is a great investment. You might choose a different year like 2050 or 2060 depending on when you think you'll retire.
- Choose: Reinvest your dividends and capital gains
- **NOTE:** Set up an Automatic Investment Plan with Vanguard so that the money is auto-deducted from your checking account on your payday. As low as $25-50/mo.
- Auto-invest at least 15% of your income.
- Compounding works best if you are consistently contributing to your accounts every month
- Video showing you how to do this: https://youtu.be/RbIMsPELrZs

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How to start a 403b

- Fill out forms at Payroll:
  - Roth (Post-Tax) 403b or Traditional (Pre-Tax) 403b salary deduction authorization form
- Choose mutual fund company who will manage
  - Through company, choose investments
  - One suggestion is Vanguard and its "Vanguard Target Retirement Fund"
  - 403bcompare numbers: Vanguard=1102. Fidelity=1133.

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How to start a 457

- Payroll: CalPERS Supplemental Income 457 enrollment form
  - Choose Target Retirement Date Fund

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Book Recommendations

- The Elements of Investing by Malkiel
  - https://www.dropbox.com/s/r2e2rw9fr2ihb96/TheElementsofInvesting_1663.pdf?dl=0
- If You Can: How Millenials Can Get Rich Slowly (lessons apply to any aged investor)
  - https://www.dropbox.com/s/ti0zufw78uuev8n/If%20You%20Can-%20How%20Millenials%20Get%20Rich%20Slowly.pdf?dl=0
- Savings Fitness: A Guide to Your Money and Your Financial Future
  - https://www.dropbox.com/s/lytq3qm6vvgcpbk/DOL%20Savings%20Fitness.pdf?dl=0
- https://www.nytimes.com/guides/business/saving-money-for-retirement
- Entire Personal Finance Class at Stanford: https://cs007.blog/
- WoodysGamerTag: How to Be a Millionaire in 22 Years: https://www.youtube.com/watch?v=qgVg4hv10YM
- Financial Literacy for Millennials by Smith
- The Millionaire Next Door by Stanley
- How to Think About Money by Clements
- Common Sense on Mutual Funds by Bogel
- Why Smart People Make Big Money Mistakes by Belsky
- Jonathan Clements Money Guide

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Retirement Savings Checklist

- Do you have a Roth IRA, 403b, 457, or 401k?
- Are you saving enough?
- Are you paying too high fees?
- Are you choosing appropriate investments?
- Do you have any annuities?

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Are You Saving Enough?

- Open Roth IRA, 403b, 457, 401k
- If already contributing, contribute more
  - Minimum 15% pre-tax salary but max contribution is ideal
- Do you have this much saved up?
  - Age 30: 50% salary saved
  - Age 35: 1x salary saved
  - Age 40: 2x salary saved
  - Age 45: 3x salary saved
  - Age 50: 4x salary saved
  - Age 55: 5x salary saved
  - Retirement: 8x salary saved
- Even with pension, need at least $100k just for health care

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Are you paying too high fees?

- Are your accounts with Vanguard, Fidelity, T. Rowe Price, TIAA?
- Are you invested in <u>index</u> mutual funds?
- If not, you're paying too high fees
- Do you have a financial advisor who charges a % fee?
  - If so, you'll be surprised how much even a 1.0% fee adds up to
  - Often have major conflicts of interest

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Focus on low expenses

- Can’t control performance but can control expenses
- Average stock mutual fund expense ratio is 1.0%
- Average stock index mutual fund expense ratio is 0.20%
- This difference compounds over time
  - $100,000 over 30 years
  - With 1.0% expense ratio you will have $1.3 million
  - With 0.20% expense ratio you will have $1.65 million
- Very expensive to have a professional financial advisor who typically charge 1.0% per year in addition to all the mutual fund expense ratios

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Are you paying too high fees?

- Invest in Target Retirement Date mutual funds that use index funds
  - Vanguard Target Retirement Fund 2060
- Consider switching your current accounts to Vanguard
  - No fee to do a "rollover"

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Are you paying too high fees?

- Think Your Retirement Plan Is Bad? Talk to a Teacher
  - https://www.nytimes.com/2016/10/23/your-money/403-b-retirement-plans-fees-teachers.html?smid=fb-share

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If you want a financial advisor

- If want advisor, choose a "fee-only advisor" or one held to the "fiduciary standard"
  - National Association of Personal Financial Advisors
  - "The advisor does not receive a fee or other compensation from another party based on the referral of a client or client's business."
  - Fiduciary standard requires financial advisor acts solely in client's best interests
  - Certified Financial Planner certification
- If you just want professional money management
  - Vanguard Personal Advisor Services charge 0.30%
  - Wealthfront.com
  - Betterment.com

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Are You Choosing Appropriate Investments?

- Are you invested at least 60-90% in the stock market?
  - If not, you are not taking on enough risk
- Do you have any annuities?
  - If so, you are probably getting ripped off
- Never withdraw or take a loan from retirement plan
- Never try to time the market
  - Never sell. Ever.
  - Never stop buying. Ever.

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Annuities generally ripping you off

- How Annuities Rip off Teachers
- https://www.nytimes.com/2016/10/27/your-money/403-b-retirement-plans-teachers-brokers-fees.html?module=Promotron®ion=Body&action=click&pgtype=article
- https://www.nytimes.com/2016/10/29/your-money/403b-teachers-annuities.html?module=Promotron®ion=Body&action=click&pgtype=article

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What to invest in your 403b, 457, 401k, IRA?

- Compounding works best with high rates of return
- $100,000 invested for 40 years
  - At 10% rate of return: $4,500,000
  - At 6%: $1,000,000
  - At 4%: $480,000
  - At 2%: $220,000

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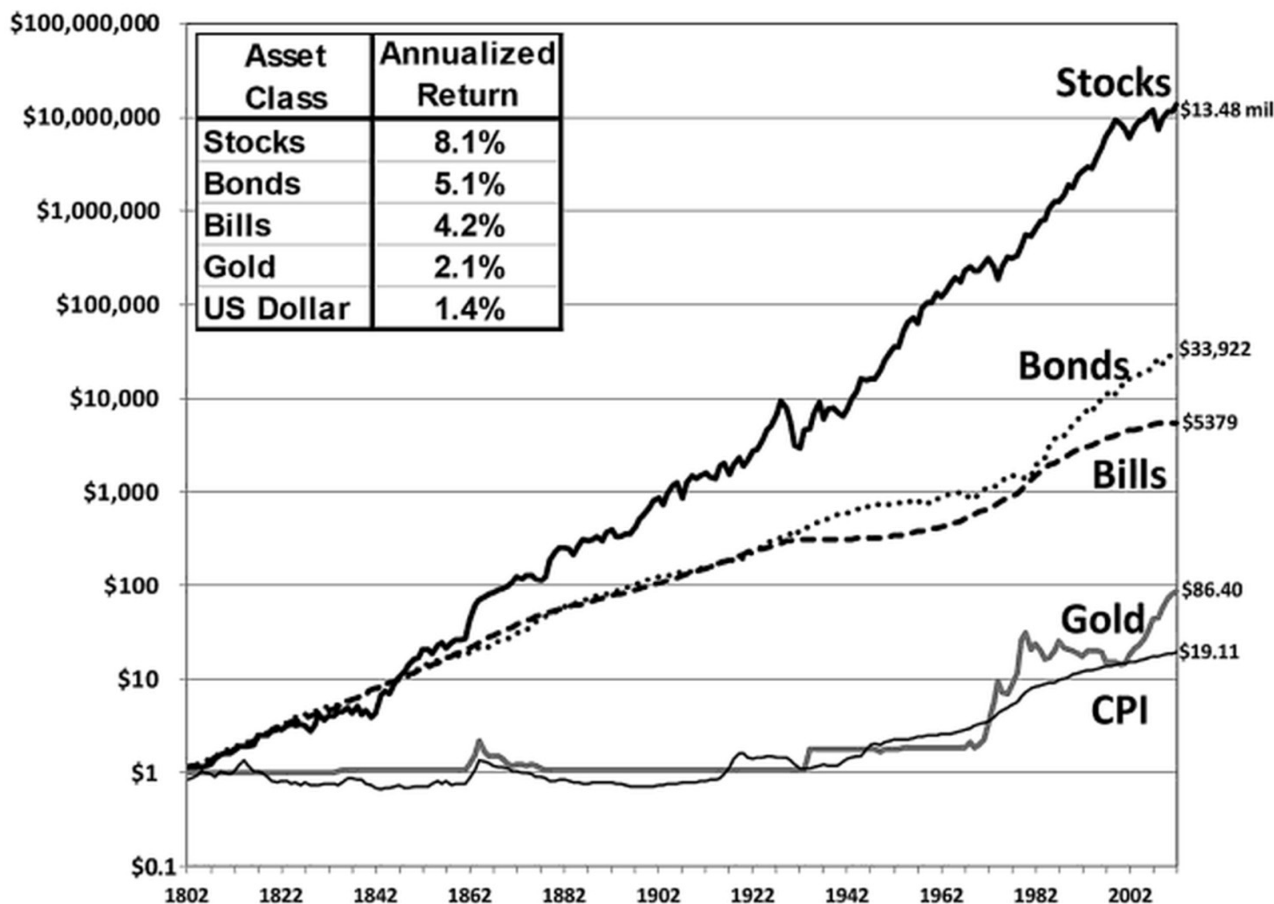
Growth of $1 from 1802-2012



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Yes, stock market crashed in 2007 but…

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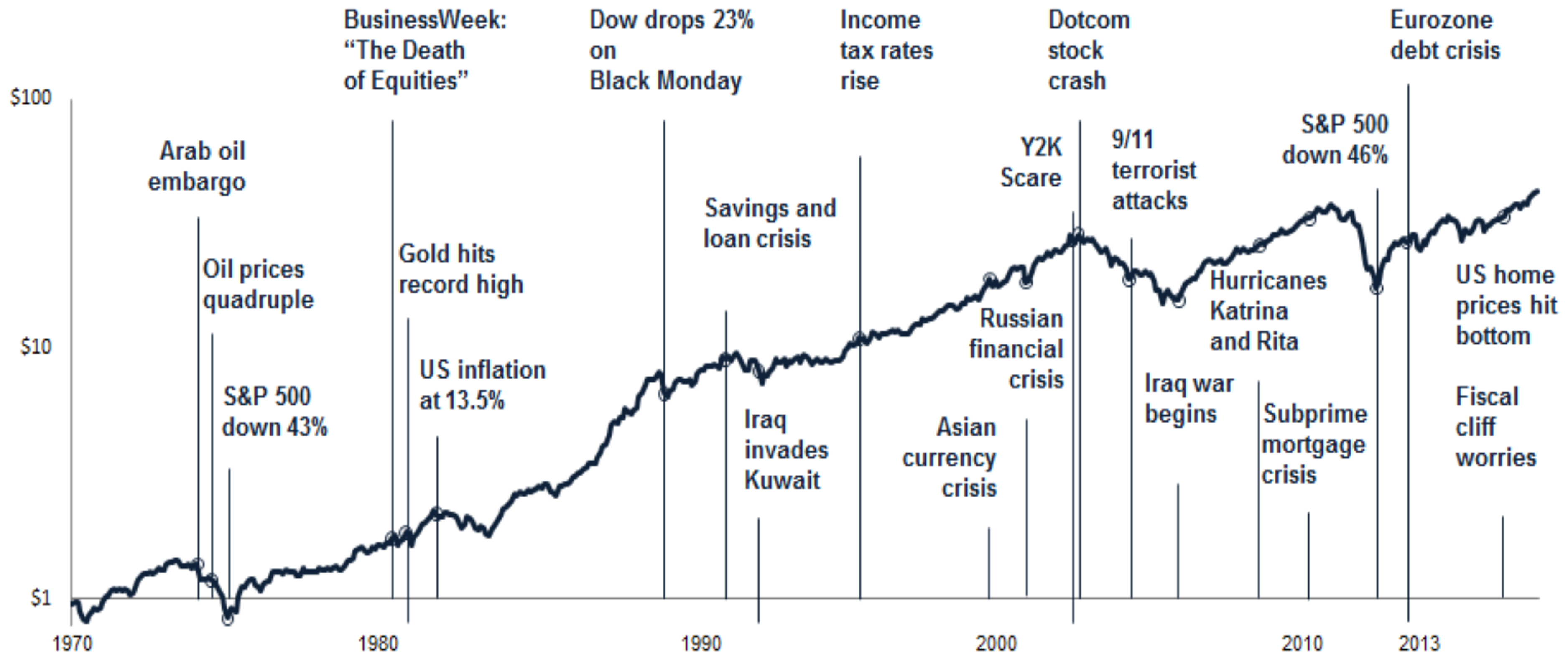
Markets Have Rewarded Discipline



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78 reasons not to invest in the stock market

History Revisited

78 Reasons Why People Did Not Invest in the Stock Market

1934 Depression
1935 Spanish Civil War
1936 Economy Still Struggling
1937 Recession
1938 War Clouds Gather
1939 War in Europe
1940 France Falls
1941 Pearl Harbor
1942 Wartime Price Controls
1943 Industry Mobilizes
1944 Consumer Goods Shortages
1945 Post-War Recession Predicted
1946 Dow Tops 20 - Market Too High
1947 Cold War Begins
1948 Berlin Blockade
1949 Russia Explodes A-Bomb
1950 Korean War
1951 Excess Profits Tax
1952 U.S. Seizes Steel Mill
1953 Russia Explodes H-bomb
1954 Dow Tops 360 - Market Too High
1955 Eisenhower Illness
1956 Suez Crisis
1957 Russia Launches Sputnik
1958 Recession
1959 Castro Seizes Power in Cuba
1960 Russia Downs U-2 Plane
1961 Berlin Wall Erected
1962 Cuban Missile Crisis
1963 Kennedy Assassinated
1964 Gulf of Tonkin
1965 Civil Rights Marches
1966 Vietnam War Escalates
1967 Newark Race Riots
1968 USS Pueblo Seized
1969 Money Tightens - Markets Fall
1970 Cambodia Invaded - Vietnam War Spreads
1971 Wage Price Freeze
1972 Largest U.S. Trade Deficit Ever
1973 Energy Crisis
1974 Watergate
1975 Resource Shortages
1976 Limit to Long-Term Growth
1977 Inflation Increases
1978 Interest Rates Rise
1979 Oil Prices Skyrocket
1980 Interest Rates at All-Time Highs
1981 Steep Recession Begins
1982 Worst Recession in 40 Years
1983 Market Hits New Highs
1984 Record Federal Deficits
1985 Economic Growth Slows
1986 Dow Nears 2000 - Market Too High
1987 Market Declines 20% in One Day
1988 Savings and Loan Crisis
1989 Bank Failures Increase
1990 Persian Gulf Crisis
1991 Dow Tops 3000 - Market Too High
1992 Global Recession
1993 Health Care Reform
1994 Mexican Peso Devaluation
1995 S&P 500 Index Tops 620 - Market Too High
1996 Greenspan Warns of "Irrational Exuberance"
1997 Asian Financial Crisis
1998 Russian Currency Devaluation
1999 Presidential Impeachment
2000 Dot-Com Meltdown
2001 Terrorist Attack on World Trade Center
2002 Corporate Malfeasance
2003 War in Iraq
2004 Decline of the Dollar
2005 Hurricane Katrina
2006 Rising Gas Prices
2007 Subprime Mortgage Crisis
2008 Credit Crunch
2009 Collapse of Financial Institutions
2010 European Crisis – Greece
2011 Downgrade of U.S. Debt
2012 Political Polarization in the U.S.

And *One* Good Reason Why They Should Have:

Bel Air Investment Advisors

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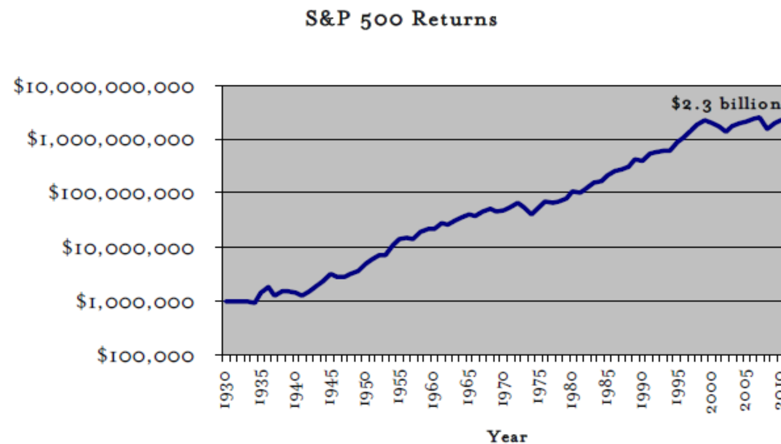
One reason to invest in the stock market

History Revisited

78 Reasons Why People Did Not Invest in the Stock Market

Year after year people think of reasons not to invest in the market. But if you had…

$1 million invested in the stock market (S&P 500 Index) at the beginning of 1934 would be worth over $2.3 billion at the end of 2011.



Data Source: Robert Shiller & Yahoo Finance. Annual Compound Interest Rate of 10.59%

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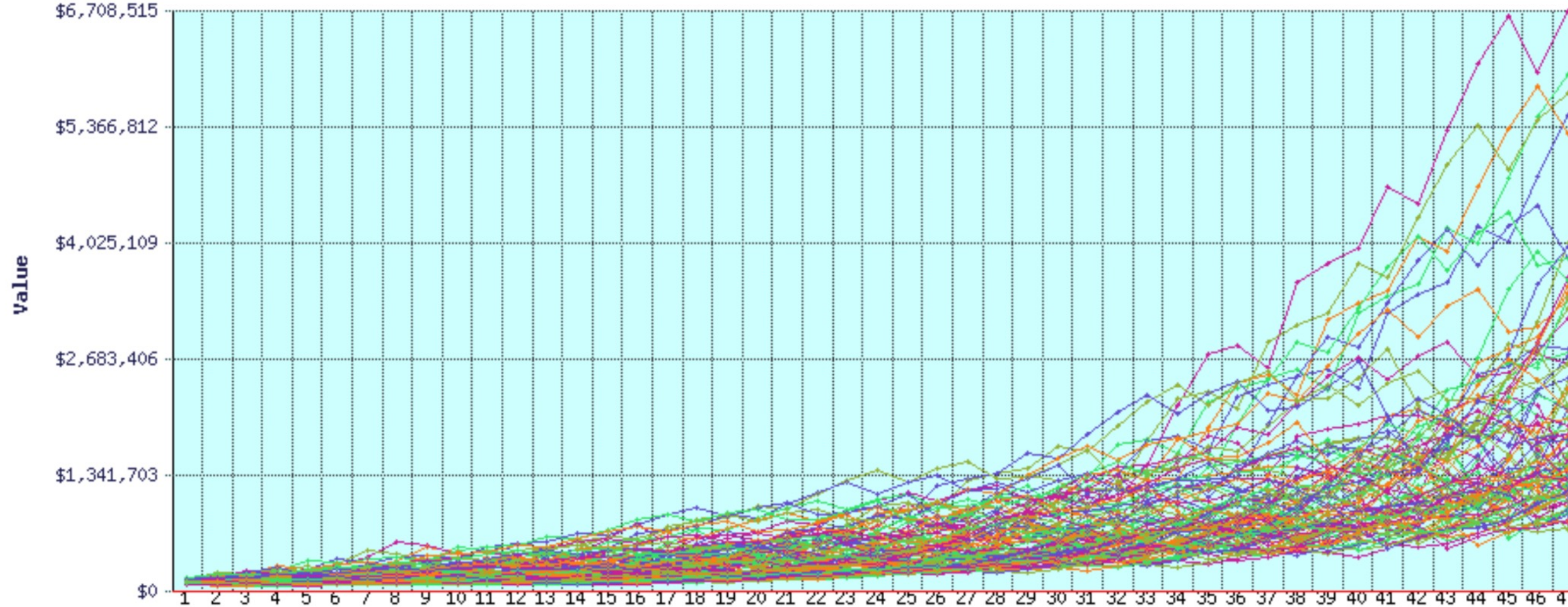
Here is how your portfolio would have fared in each of the 102 cycles. The lowest and highest portfolio balance at the end of your retirement was $100,000 to $6,708,510, with an average at the end of $1,948,797. (Note: this is looking at all the possible periods; values are in terms of the dollars as of the beginning of the retirement period for each cycle.)

For our purposes, failure means the portfolio was depleted before the end of the 47 years. FIRECalc found that 0 cycles failed, for a success rate of 100.0%.

Understanding the charts below: Don't try to follow any individual line -- with most scenarios, there are just too many of them. But if you look at the mass of lines, and the zero axis, you can get a clear visual representation of how frequently your strategy would have failed (dropped below zero) or succeeded. The objective of presenting the information this way is to allow you to get a "big picture" sense of the way your strategy would have performed historically.

Year-by-Year Portfolio Balances



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Firecalc- $3600/yr for 35 yrs

FIRECalc looked at the 114 possible 35 year periods in the available data, starting with a portfolio of $0 and spending your specified amounts each year thereafter.

Here is how your portfolio would have fared in each of the 114 cycles. The lowest and highest portfolio balance at the end of your retirement was $0 to $1,043,762, with an average at the end of $522,029. (Note: this is looking at all the possible periods; values are in terms of the dollars as of the beginning of the retirement period for each cycle.)

For our purposes, failure means the portfolio was depleted before the end of the 35 years. FIRECalc found that 0 cycles failed, for a success rate of 100.0%.

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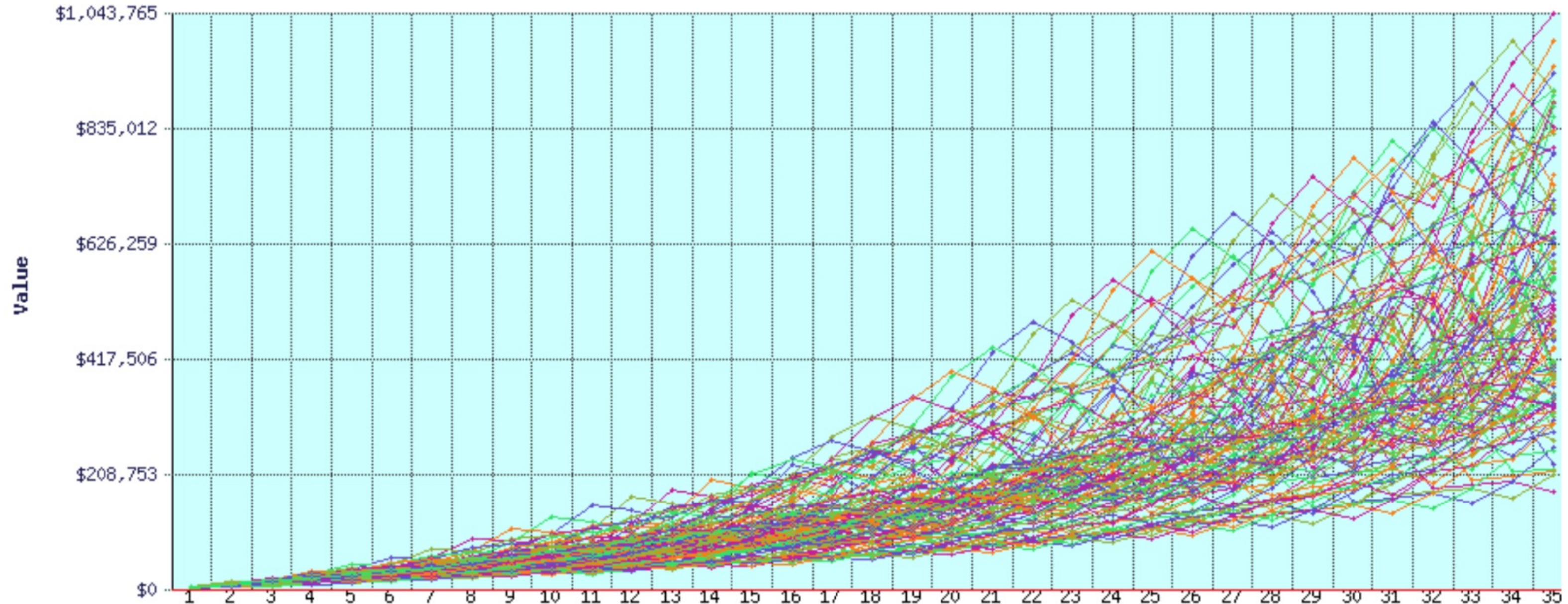

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Additional things to consider

- Can't save if you carry credit card balances
- Always have an emergency savings account
  - 6-12 months livings expenses in an FDIC-insured savings account
  - Additional savings for unexpected house maintenance or health event
  - This way you don't have to raid your retirement accounts in an emergency
- Make savings automatic through payroll deduction or automatic transfers from your bank account
- Participate in health and dependent care flex spending accounts

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Additional things to consider

- Rollover 401k plans to IRAs when you leave a job
- Consider converting traditional IRAs to Roth IRAs
- Don't withdraw or borrow from your retirement plans
- Can buy back service credit
- Delay claiming Social Security until 70
- 529 plans to save for children's college education
  - Use Nevada Vanguard plan not California plan

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Additional things to consider

- Life insurance
  - Term is typically cheaper than universal or whole life
- Umbrella liability insurance
- Long term care insurance when you're older
- Will
  - So young don't waste inheritance
- Power of attorney
- Advanced medical directive
- https://www.courts.ca.gov/documents/Advanced-HealthCare-Directive-Form_031620.pdf

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Additional things to consider

- Simple 50/20/30 budgeting rule
  - 50% Essentials (housing, transportation, utilities, grocery)
  - 20% Financial Priorities (retirement savings, emergency savings, debt, children's college)
  - 30% Lifestyle Choices (voluntary, fun spending)
- Youneedabudget.com
- Mint.com
- Focus on the large budget items and recurring expenses

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Choose Vanguard index funds

- Vanguard offer the lowest expense index funds in the industry
- Unless you own Berkshire Hathaway, I suggest you switch to Vanguard (“Rollover”)
  - No fee for switching 403b, IRA provider
- To justify your current higher expenses, they would have to show future performance substantially greater than index fund investing
  - Research has shown this to be very difficult to predict ahead of time and even more difficult to repeat
- Don’t chase performance

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You will need bond index mutual funds as you near retirement

- Bond mutual funds have lower risk and return than stock funds
- Typical recommendation:

110% - age is the % of your portfolio that should be in stocks

  - E.g. 30 year old should be 80% stocks, 20% bonds
  - 50 year old should be 60% stocks, 40 % bonds
  - Other rules of thumb are (100 – age) or (130 – age)
- Since we have PERS/STRS, we can handle more risk

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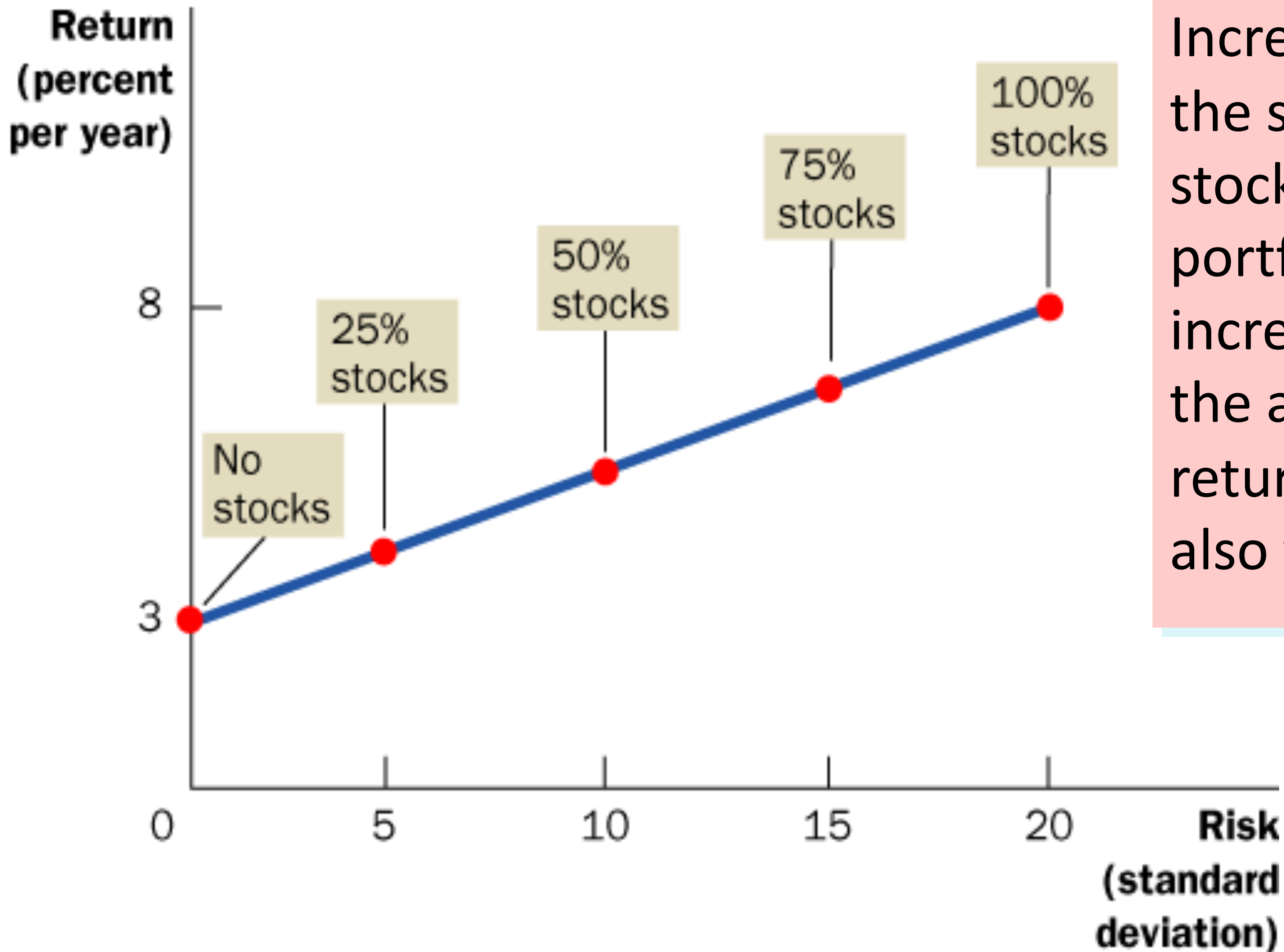
The Tradeoff Between Risk and Return



Increasing the share of stocks in the portfolio increases the average return but also the risk.

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If this all seems too complicated

- Don't pay an advisor
  - Very expensive to have a professional financial advisor who typically charge 1.0% per year in addition to all the mutual fund expense ratios
  - Conflicts of interest
- Choose target retirement date funds
  - Just choose the year you plan on retiring
  - Fund does all the rebalancing and movement towards bonds on its own (glide path)

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Choose target retirement date funds

- Vanguard Target Retirement 2060
  - 63% Total Stock Market Index
  - 27% Total International Stock Index
  - 8% Total Bond Market Index
  - 2% Total International Bond Index
- Vanguard Target Retirement 2030
  - 53% Total Stock
  - 22% Total International Stock
  - 20% Total Bond
  - 5% Total International Bond

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Choose target retirement date funds

- Vanguard Target Retirement 2020
  - 43% Total Stock
  - 18% Total International Stock
  - 31% Total Bond
  - 8% Total International Bond
- https://investor.vanguard.com/mutual-funds/target-retirement/#/

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How about variable annuities?

- "An insurance contract in which, at the end of the accumulation stage, the insurance company guarantees a minimum payment. The remaining income payments can vary depending on the performance of the managed portfolio."
- Very high expenses and sales loads
- Forbes magazine "The Great Annuity Rip-Off" article
- Annuities are not bought they are sold to you

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Alternative viewpoints to the “cult of equities”

- Past performance is no guarantee of future performance
- Future stock returns may not be 10% per year
- Economists estimate as low as 4-6%
- Sequence risk: retirement vulnerable to large stock market declines close to retirement
- Bottom line: we must save more to achieve our goals

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Bottom Line

- SAVE NOW, SAVE MORE
- Decide that you need to supplement PERS/STRS with a 403b, 457, or IRA
- Decide how much you'll need at retirement and save the amount that will get you there
  - 10-15% is a good starting point
  - Goal: get to maximum annual contribution

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Bottom Line

- Make savings automatic through payroll deduction or automatic transfers
- Decide your asset allocation between stocks and bonds or choose a Target Retirement Date mutual fund
  - Need to have some stock mutual fund investments
  - Be patient during downturns
- Focus on expenses, switch to Vanguard's index funds or Target Retirement Date funds

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Top mistakes with retirement savings

- Not participating in 403b, 457, IRAs
- Participating but not saving enough
- Poor investment choices
  - Not having enough stock exposure
  - Not using Vanguard index funds
- Taking withdrawals or loans before retirement

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What to do if you're close to retirement

- Make a retirement spending plan
  - Plan for initial high spending (activities, travel), low spending, then high spending (health care)
- Calculate your benefit
  - At 63, Benefit = 2.4-2.5 x Years of Service x Final Comp
- Determine retirement date
- Determine savings needed
  - $100,000 for future health care expenses
  - Every $4,000 annual withdrawal requires $100,000 savings
  - Emergency savings

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What to do if you're close to retirement

- Save from your pension
  - Even at age 65, still have 25 year life expectancy so you need to SAVE SAVE SAVE
  - At least 50% stock mutual funds even at 65
- Home equity
  - Relocate to cheaper state without income taxes
  - Downsize and cash out
  - Cash out refinance
  - Reverse mortgage

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Risks during retirement

- Sequence risk: nest egg will decline in value while you're withdrawing money from it
- Inflation risk: investments won't keep pace with the cost of living
- Longevity risk: you'll outlive your assets

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Strategies for withdrawing in retirement

- Create your own pension payments
  - Immediate fixed annuities
  - Longevity insurance to account for inflation risk
- Cash cushion approach:
  - 5 years living expenses in cash: savings accounts, CDs, Treasury Inflation Protected bonds
  - Rest invested in 80% stock/20% bond mutual funds
  - Use cash for expenses and replenish from investments in bull markets
  - Bear markets: do not sell investments
- Income stream approach:
  - Invest 60% stock/40% bond
  - Ensure living expenses covered by pension, interest, dividends, immediate annuities
  - Bear markets: live only on this income stream

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Book Recommendations

- The Elements of Investing by Malkiel
  - https://www.dropbox.com/s/r2e2rw9fr2ihb96/TheElementsofInvesting_1663.pdf?dl=0
- If You Can: How Millenials Can Get Rich Slowly (lessons apply to any aged investor)
  - https://dl.dropboxusercontent.com/u/29031758/If%20You%20Can.pdf
- Savings Fitness: A Guide to Your Money and Your Financial Future
  - https://www.dropbox.com/s/lytq3qm6vvgcpbk/DOL%20Savings%20Fitness.pdf?dl=0
- The Millionaire Next Door by Stanley
- Stop Acting Rich and Start Living Like a Real Millionaire by Stanley
- Common Sense on Mutual Funds by Bogel
- Why Smart People Make Big Money Mistakes by Belsky
- Jonathan Clements Money Guide
- http://realdealretirement.com/toolsresources/

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CalSTRS Service Credit

- Accumulated period in years, including partial years, for which you earned creditable compensation and made contributions under the Defined Benefit Program.
- You:
  - Earn service credit every day you work.
  - Earn service credit on paid leave.
  - Earn up to 1.0 service credit each full year you teach.
  - If you teach a partial year, you will receive less than 1.0 service credit.

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CalSTRS Age factor

- CalSTRS 2% at 60:
  The age factor at age 60 is 2 percent. The maximum age factor is 2.4 percent. The age factor gradually decreases to 1.4 percent at age 55 if you retire before age 60, and increases to a maximum 2.4 percent at age 63 if you retire after age 60.
- For example, if you retire at age 60 and have 20 years of service, you will receive 2 percent (your age factor at age 60) of your final compensation multiplied by the 20 years you worked, or 40 percent of your final compensation (2 percent x 20).
- CalSTRS 2% at 62:
  The age factor at age 62 is 2 percent. The age factor gradually decreases to 1.16 percent at age 55 if you retire before age 62 and increases to the maximum 2.4 percent at age 65 if you retire after age 62.
- If you a member under CalSTRS 2% at 60 and retire with 30 or more years of earned service credit, a career factor of 0.2 percent will be added to your age factor, up to the maximum combined age and career factor of 2.4 percent.
- If you are a member under CalSTRS 2% at 62, you are not eligible for the career factor enhancement.

- http://www.CalSTRS.com/calculators

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CalSTRS Age factor

Retirement Age	CalSTRS 2% at 60		Retirement Age	CalSTRS 2% at 62
55	1.40%		55	1.16%
56	1.52%		56	1.28%
57	1.64%		57	1.40%
58	1.76%		58	1.52%
59	1.88%		59	1.64%
60	2.00%		60	1.76%
61	2.13%		61	1.88%
62	2.27%		62	2.00%
63	2.40%		63	2.13%
64	2.40%		64	2.27%
65	2.40%		65	2.40%
66	2.40%		66	2.40%
67	2.40%		67	2.40%

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CalSTRS Final Compensation

- Final Compensation
- If you retire with 25 or more years of service credit under CalSTRS 2% at 60, CalSTRS uses
- your highest average annual compensation earnable during any 12 consecutive months as
- the final compensation component in your retirement calculation which for most people is one
- school year. Unused sick leave in excess of two-tenths of one year, nonqualified service credit
- and retirement incentive credit cannot be used to qualify for the 25 years.
- Eligible classroom teachers with fewer than 25 years of service credit may use one-year
- final compensation if it is included in a written collective bargaining agreement and all costs
- are paid by the employer or the employee, or both. One-year final compensation cannot be
- bargained beginning with any collective bargaining agreement that is entered into, renewed,
- amended or extended on or after January 1, 2014.
- If you have fewer than 25 years of service credit, your final compensation is based on your
- highest average compensation earnable during any period of three consecutive school years
- of paid employment covered by CalSTRS. CalSTRS will automatically determine your final
- compensation by searching your past 15 years of records.

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Interesting retirement facts

- A recent report from the Transamerica Center for Retirement Studies (TCRS) finds that 19% of Baby Boomers who are offered a 401(k) or similar plan do not participate in that plan. Furthermore, 23% of Boomers with retirement accounts such as a 401(k) or IRA have taken a loan and/or early withdrawal.
- Employment is no longer a taboo retirement activity. Sixty-five percent of Baby Boomer workers plan to work past age 65 or do not plan to retire at all. While a small handful of Boomers plan to keep working past age 65 or throughout retirement in order to stay involved, the majority need employment for financial reasons. In fact, 34% say they haven't saved enough, 19% want the income, and 9% need health benefits. Only 21% of respondents expect to immediately quit working when they retire.
- There can also be a rise in costs—namely, health care, said Victoria Fillet, a certified financial planner and the founder of Blueprint Financial Planning in Hoboken, N.J. In 2012, the Employee Benefit Research Institute estimated that a 65-year-old man would need at least $70,000 in savings, and a woman of that age, $93,000, to have even a 50 percent chance of having enough saved to cover health care expenses in retirement.

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Interesting retirement facts

- You need to know this number: $18,433.
- That's the median amount in a 401(k) savings account, according to a recent report by the Employee Benefit Research Institute. Almost 40% of employees have less than $10,000, even as the proportion of companies offering alternatives like defined benefit pensions continues to drop.
- Older workers do tend to have more savings. At Vanguard, for example, the median for savers aged 55 to 64 in 2013 was $76,381. But even at that level, millions of workers nearing retirement are on track to leave the workforce with savings that do not even approach what they will need for health care, let alone daily living. Not surprisingly, retirement is now Americans' top financial worry, according to a recent Gallup poll.
- To be sure, tax-advantaged 401(k) plans have provided a means for millions of retirement savers to build a nest egg. More than three-quarters of employers use such defined contribution plans as the main retirement income plan option for employees, and the vast majority of them offer matching contribution programs, which further enhance employees' ability to accumulate wealth.

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Interesting retirement facts

- Most employees also turned out to be less than terrific investors, making mistakes like selling low and buying high or shying away from optimal asset classes at the wrong time.
- Berkeley's Odean and others have studied the effect of investment choice on 401(k) savers, and found that when investors choose their asset class allocation, a retirement income shortfall is more likely. If they can also choose their stock investments, the odds of a shortfall rise further.
- "401(k)'s changed two things: you could choose not to participate, and you chose your own investments, which a lot of people, I think, screw up," Halperin said.
- Benna, who is often called the father of the 401(k), has argued that many plans offer far too many choices. " If I were starting over from scratch today with what we know, I'd blow up the existing structure and start over," he said in a 2013 interview.
- Another problem is that when 401(k) savers retire, they often opt to take their savings in a lump sum and roll the money into IRAs, which may entail higher fees and expose them to conflicted investment advice. A recent report by the Council of Economic Advisors found that savers receiving such advice, which may be suitable for them but not optimal, see investment returns reduced by a full percentage point, on average. Overall, the report found that conflicted investment advice costs savers $17 billion every year.
- The result of all these shortcomings? Some 52 percent of American households were at risk of being unable to maintain their standard of living as of 2013, a figure barely changed from a year earlier—even though a strong bull market should have pushed savings higher and the government gives up billions in tax revenue to subsidize the plans.
- In a hearing last September on retirement security, Sen. Ron Wyden, D-Ore., declared that "something is out of whack. The American taxpayer delivers $140 billion each year to subsidize retirement accounts, but still millions of Americans nearing retirement have little or nothing saved."
- **Retirement worries rise**
- As problems mount with 401(k)s, Americans' worries about retirement security are intensifying.
- A 2014 Harris poll found that 74 percent of Americans were worried about having enough income in retirement, and in a survey published recently by the National Institute on Retirement Security, 86 percent of respondents agree that the country is facing a retirement crisis, with that opinion strongest among high earners.
- Changes may come, but for now, 401(k) plans and their ilk remain Americans' predominant workplace retirement savings vehicle. They may be a historical accident, but for the millions of people now facing a potentially impoverished retirement, the fallout is grave indeed.
- As a former Treasury official, Halperin witnessed the creation of 401(k) accounts, But, "on balance, I don't think it was a big plus" that the accounts were created, he said. "I don't take credit for it. I try to avoid the blame."

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Interesting retirement facts

- Exactly how the funds stack up will depend on the precise measurements you use. If you use the definitions and updated results of a study that I reported on last month, actively managed stock funds as a group look quite weak. In fact, in the six years through March, they did worse than you would have expected if their managers had flipped coins instead of picking stocks.
- That study, "Does Past Performance Matter? The Persistence Scorecard," by S.&P. Dow Jones Indices, asked whether good performance in one year persisted in the years that followed. It generally didn't. Not a single actively managed fund finished in the top quarter in each of the six years through March.
- But, as many readers pointed out, there are other ways of evaluating mutual funds.
- Perhaps the most basic is to run a bake-off between actively managed funds and benchmark indexes to see which funds win. As it happens, S.&P. Dow Jones Indices, which ran the other study, has also run these contests regularly since 2002.
- In these matchups, actively managed domestic stock funds as a group often looked better than they did in the probability-based study in which they performed so miserably. But even in these contests with benchmark indexes, the overall picture isn't pretty.
- Most of the actively managed funds performed erratically. In some years, a majority beat their benchmarks, but they failed to do so over extended periods. Like the other studies, these contests seem to strengthen the case for investing in broad, low-cost index funds that don't try to beat the market, but merely try to match it.
- The S.&P. Dow Jones group calls its semiannual contest "The Spiva Scorecard." (Spiva is an abbreviation for S.&P. Indices Versus Active.) The latest report, released last month, showed that in six of 15 years since 2000, most actively managed mutual funds beat a broad benchmark, the Standard & Poor's 1,500-stock index, which serves as a proxy for the overall stock market in the United States. (The S.&P. 1,500 includes all the stocks in the S.&P. 500, S.&P. MidCap 400 and S.&P. SmallCap 600 indexes, representing companies of all types and sizes.)
- Strategies
- A collection of "Strategies" columns published in The New York Times.
- How Many Mutual Funds Routinely Rout the Market? ZeroMAR 14
- Warren Buffett's Awesome Feat at Berkshire Hathaway, RevisitedMAR 7
- Plenty of Noise, but Not Much Guidance From Fed or Company ReportsFEB 28
- Debt's Two Sides: Riches and MiseryFEB 21
- The Great American Dream, Still DeferredFEB 7
- See More »
- The actively managed funds came out on top as recently as 2013 and lost to the broad index in 2014. Based on the recent calendar-year returns alone, you might conclude that the actively managed funds have been holding their own.
- But the longer-term results are telling: Over the three years through December, the index beat 76.8 percent of the actively managed domestic stock funds. Over five years, it outdid 80.8 percent of them. Over 10 years, it beat 76.5 percent. Put simply, at least three-quarters of those actively managed mutual funds regularly failed to beat the broad market index over three, five and 10 years. This underperformance has persisted year after year.

Notes

Use a three-bucket approach. For his part,Brian Cohoon, a certified financial planner with Unified Trust Company in Louisville, Ky., says retirees face three main risks in retirement: sequence risk (the risk that your nest egg will decline in value while you're withdrawing money from it); inflation risk (the risk that your investments won't keep pace with the cost of living); and longevity risk (the risk that you'll outlive your assets).

"Each can prevent (someone) from enjoying a secure retirement," he says. "Our approach addresses these risks so they can have peace of mind knowing they have reliable income for life."

To address sequence risk, Cohoon recommends using a safe-income bucket that has two years of spending invested in safe and low-volatility investments that will weather market swings.

To address inflation risk, use a "balanced mix of stocks and bonds focusing on growth to outpace inflation over time," Cohoon says.

And to address longevity risk, Cohoon use a balanced mix of stocks and bonds and, for some individuals, guaranteed insurance products that take advantage of mortality credits and provides guaranteed income for life. Products that fit the bill include single premium immediate annuities (SPIAs) and deferred income annuities (DIAs).

Speaking of longevity risk, Bruns suggests using what's called "Monte Carlo" analysis to determine the odds of not outliving your money. "A success rate of 90% or greater is desirable," he says. But don't fret if your results are lower. Bruns says making slight changes to your variables — your retirement date, annual expenses, or when you claim Social Security for instance — can add years to your nest egg. Financial planning firms can run such analyses, or use Vanguard's free Monte Carlo analysis, which can be found at this website, When can I retire?

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The standard approach to withdrawing retirement funds usually follows this progression:
1. If you are older than 70½, take any required minimum distributions (RMDs) from your traditional IRA or 401(k)s. (Roth IRAs do not require withdrawals until after the death of the owner.) Calculate your RMD using your age, the year you turned 70½ and the value of your account.
2. Spend down funds from any investment portfolio that isn't part of a qualified retirement plan or tax-deferred annuity. Tapping these accounts first results in a lower total tax liability than if you withdrew funds from a retirement account or annuity. Note: Do this entire step first if you're younger than 70½.
3. Start withdrawing from tax-deferred accounts, such as your variable or fixed annuities or retirement plans such as a traditional IRA or 401(k), where your gains incur tax as ordinary income.
4. Finally, withdraw from tax-free accounts such as Roth IRAs and 401(k)s.

This strategy is a good start. Some additional factors to consider: your projected spending at various stages of retirement; your total projected income and tax liability; whether withdrawals from your various retirement accounts are taxable; and how much you expect your income to fluctuate over time.

It's important to pay attention to your tax bracket year by year. For example, suppose Liz and Frank expect their total 2015 taxable income from Social Security and investments to be slightly less than $60,000. This puts them in the 15% bracket, which for 2015 has a top limit of $74,900. It may make sense for our couple to fill that bracket. To do so, they can sell appreciated assets with a $15,000 gain (making the capital gains tax 0%) or withdraw another $15,000 from a traditional IRA and pay ordinary income taxes at the 15% rate. This makes an especially good idea if Frank and Liz expect their taxable income – and their tax bracket – to go up in 2016. Conversely, if they're in a higher tax bracket now and expect their taxable income to go down significantly in 2016, they might wait until next year to take money out of the traditional IRA.

Another strategy for a year when you're in a lower tax bracket: Convert some funds in your traditional IRA to a Roth IRA. You pay taxes on the withdrawal at the lower rate, and the future gains in the Roth are not taxed.

These are simplified and generic examples. Your withdrawal strategy must meet your specific needs, preferably with the help of a tax advisor. But the key is to plan ahead. Do a balance and tax estimate toward the end of each year so you have time to make advantageous withdrawals or conversions.

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Consider: Slightly more than 1 in 5 (21%) Americans who died at 85 or older had no financial assets left, and 1 in 10 (12%) had no assets at all, according to the Employee Benefit Research Institute (EBRI), a Washington, D.C.-based research firm.

What's more, singles who died at 85 or older were in even worse financial shape. Almost a quarter had no non-housing assets, and almost 17% had no assets, says EBRI. And, roughly 9% of singles in that age range also died with outstanding consumer debt, averaging $6,368.

And, those who died younger were generally worse off: Almost 30% of households that lost a family member ages 50 to 64 had no assets left, says EBRI.

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Notes

Variable drawdown strategies

http://www.kiplinger.com/article/retirement/T037-C000-S004-make-your-retirement-savings-last-a-lifetime.html?rid=EML-retire

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Retirement Savings Checklist

- Open Roth IRA, 403b, 457, 401k
- If already contributing, contribute more
  - Minimum 10-15% pre-tax salary but max contribution is ideal
  - Spouse without pension needs minimum retirement savings of 8 times salary at 65
  - Even with pension, need at least $100k just for health care
- Choose Vanguard Target Retirement Date Fund as “do-it-all-fund”
  - Or, choose individual mutual funds with 130 - age = % portfolio in stock funds, rest in bond funds
  - For stock portion: Vanguard Total Stock Market Index (70-85%) + Vanguard Total International Stock Market Index (15-30%)
- Switch current mutual fund provider to Vanguard
  - Called a “rollover” and will not cost a fee
  - Rollover past 403b/401k plans into Vanguard IRA
- Never withdraw or take a loan from retirement plan
- Consider converting traditional IRAs into Roth IRAs
- Delay taking Social Security until max benefit
- Can buy back lost PERS/STRS service credit

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Basic Personal Finance Checklist

- Always pay off credit card balances or don't use them
- Always have an emergency savings account
  - 6-12 months livings expenses in an FDIC-insured savings account
- Make savings automatic through payroll deduction or automatic transfers from your bank account
- Participate in health and dependent care flex spending accounts
- If want advisor, choose a "fee-only advisor"
  - National Association of Personal Financial Advisors
- Budgeting tools
  - Simple 50/20/30 budgeting rule
    - 50% Essentials (housing, transportation, utilities, grocery)
    - 20% Financial Priorities (retirement savings, emergency savings, debt, children's college)
    - 30% Lifestyle Choices (voluntary, fun spending)
  - Free tools: Youneedabudget.com or Mint.com
  - Focus on the large budget items and recurring expenses
- Stanford course on Personal Finance: cs007.blog/2020/10/06/cs-007-course-material-2020/

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If You Have a Family or Spouse

- Open 529 plans to save for children's college education
  - Use Nevada Vanguard plan not California plan
- Life insurance
  - Term is typically cheaper than universal or whole life
- Umbrella liability insurance
- Will
  - Don't pay out until heirs are older or pay out in installments so young don't waste inheritance
- Spouse needs Power of attorney
- Advanced medical directive
- Free templates you can use
  - www.sutterhealth.org/health/advance-health-directive.html
  - getyourshittogether.org
- At elderly age, consider long term care insurance

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How to save for retirement?

- 403b, 457, 401k, IRA plans (and their Roth versions) are defined contribution retirement plans
  - Almost 1 in 5 workers do not participate in their plan
  - Those that do, do not save enough
- Investments grow tax-deferred or tax-free

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Roth vs non-Roth?

- Contributions to Traditional 403b, 457, 401k (and IRAs within income limits) are tax-deductible
  - You do not pay income taxes on these contributions and they reduce your current taxable income
  - When you retire and withdraw the money, you are taxed at the income tax rate at that time
- Contributions to Roth 403b, 457, 401k, and IRAs are not tax deductible
  - When you withdraw the money, you are not taxed no matter how large the money has grown
- Which one to choose depends on whether you think your tax rate will be greater now or in the future

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403b vs 457 vs IRA

- 403b and 457 are through college payroll deduction
- 403b is managed by a mutual fund company, 457 by CalPERS
- Mutual fund company will be cheaper and better
- Vanguard is the least expensive of all mutual fund companies

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403b vs 457 vs IRA

- IRA is through a mutual fund company but no payroll deduction
  - Lower annual contribution limit than 403b, 457
  - Lower expenses than 403b, 457
  - You can set up automatic investment plan
- Suggestion: first Roth IRA with auto investment then 403b then 457

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Make savings automatic

- IMPORTANT: make the savings automatic
  - Automatic monthly transfers from checking account on payday
- You don't have to think about it and you don't see the money
- Dollar cost averaging

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Caveats of these plans

- Roth and Traditional 403b, 457, 401k annual contribution limits for 2015 are $18,000 each
  - $24,000 for ages 50+
  - You can contribute the limit to both a 403b and 457 (and spouse's 401k)
- Roth IRA and Traditional IRA annual limits are $5,500
  - Can contribute for tax year 2014 up to April 2015
  - Single must earn less than $114,000 to qualify
- There is a "back door" method of contributing to a Roth IRA even if you earn more than the limit

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Caveats of these plans

- Penalties if money is withdrawn before retirement
  - Some exceptions but you should be taking advantage of compounding and not touching the money until retirement
- Big mistake to do an early withdrawal or take out a loan from a 403b, 457, 401k, or IRA
  - 1 in 4 workers do so

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How much to save?

- Rule of thumb: Without pension (i.e. spouse), must save 10-15% pre-tax income into retirement plans if you started in your 20s
  - More if you start later
- My rule of thumb: contribute the maximum every year otherwise you're leaving money on the table

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How much to save?

- Fidelity estimates 8 times final salary necessary at age 67 to safely provide 85% income for next 25 years
- Savings milestones to achieve this:
  - Age 30: 50% salary saved
  - Age 35: 1x salary saved
  - Age 40: 2x salary saved
  - Age 45: 3x salary saved
  - Age 50: 4x salary saved
  - Age 55: 5x salary saved
  - Age 60: 6x salary saved
  - Age 67: 8x salary saved
- Unfortunately, many economists recommend saving 10-15x final salary to take into account risk, inflation

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Even with pension

- Need about $100,000 saved at age 65 just to cover future medical costs
- Also need emergency savings

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You have a 403b/457/401k already

- Are you contributing enough?
- Are you choosing the appropriate investments within your plans?
- Most public sector employees are too conservative with their investments

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What to invest in your 403b, 457, 401k, IRA?

- 403b, 457, 401k, IRAs are just accounts, think "boxes"
  - No interest rate or return is associated with them
- Anything can go inside the "box"
  - Stocks, bonds, money market mutual funds, gold, real estate, etc.

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What to invest in your 403b, 457, 401k, IRA?

- I suggest a large portion should be in stock mutual funds if you have at least 10 years until retirement
- Yes, there is risk but over the long run, investing in stocks is the best way to ensure growth that will exceed inflation
- Inflation severely reduces purchasing power over time
  - Average 4% inflation over 36 years: Everything costing $1 now will cost $4

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5 Effective Ways to Pay Off Credit Card Debt

- The five most effective ways to pay off credit card debt are:

1. Refinance with a balance transfer credit card.
2. Consolidate with a personal loan.

- You can use an unsecured personal loan from a credit union, online lender or bank to consolidate credit card or other types of debt. The loan should give you a lower APR on your debt or help you pay it off faster.
- Credit unions are not-for-profit lenders that may offer their members more flexible loan terms and lower rates than online lenders, especially for borrowers with fair or bad credit (689 or lower on the FICO scale). The maximum APR charged at federal credit unions is 18%.
- Online lenders typically let you pre-qualify for a credit card consolidation loan without affecting your credit score. Most will give you an estimated rate without a hard inquiry on your credit, unlike many banks and credit unions. The lowest rates offered by online lenders go to those with the best credit.
- Some online lenders may charge a one-time origination fee from 1% to 8% of the loan amount to cover the cost of underwriting the loan. That fee is included in the loan's APR.
- They may also offer direct payment to creditors, which means the lender sends your loan proceeds to your creditors for you, simplifying the credit card consolidation process.
- Bank loans provide competitive APRs for good-credit borrowers, and benefits for existing bank customers may include larger loan amounts and rate discounts. Applications may require an in-person visit to a branch.

1. Tap home equity.
2. Consider 401(k) savings.
3. Start a debt management plan.

4. https://www.nerdwallet.com/article/loans/personal-loans/consolidate-credit-card-debt-personal-loan?utm_campaign=ct_prod&utm_source=usatoday&utm_medium=mpsyn

5. https://www.usatoday.com/story/money/personalfinance/2020/09/12/need-relief-debt-heres-what-know-your-options/5757499002/

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How to Pay Off Debt

- With debt avalanche, you pay off the highest interest-rate debt first, which can lower the total interest you pay. The snowball method involves paying off debts from the smallest to the largest amount, regardless of interest rate. The short-term reward of knocking off a smaller debt or two can motivate you to keep going.
- Heavier debt: If your debt-to-income ratio is high — between 15% and 50% — then the snowball or avalanche method is less likely to cut it.

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Credit Counseling/Debt Management

- Many credit counseling companies and nonprofit agencies provide budgeting and other financial education help to consumers in need, for free.
  - In these latter programs, agencies negotiate with credit card companies and other creditors to lower interest rates on a consumer's debt, thereby also reducing payments and combining multiple payments into one.
- **Fees:** Credit counseling is offered for free, though fees apply on the debt management programs.
- **Impact on credit scores:** Usually doesn't result in lower credit scores
- **Suitable for:** People with modest financial stress who need an affordable payment plan featuring lower interest rates on credit card balances
- **Potential drawbacks:** As noted, debt management doesn't reduce the balance on debts, and the monthly payments still can be high. Consumers need income to pay down their obligations, and they must have the discipline to stick with these programs.

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Debt Settlement

- Debt settlement companies work on a consumer's behalf to lower principal balances owed. They encourage borrowers to stop making credit card or other payments. The idea is to divert this cash into a savings account that can be used to fund an eventual settlement. But the process can be nerve-wracking.
- "If you stop paying your bills, you will usually incur late fees, penalty interest and other charges, and creditors will likely step up their collection efforts against you," warned the federal Consumer Financial Protection Bureau, which oversees these businesses. "The period between initial delinquency and settlement often reflects a period of financial distress for consumers and uncertainty for creditors."
- Creditors, though, have incentive to work out a deal, as that's often better than writing off a debt as a loss. Consequently, they might agree to cut your debt. What you spend building up that settlement fund is often less than the minimum payments on credit cards or the monthly payment in a debt management plan
- The American Fair Credit Council is one place to look for reputable firms. Those like Freedom Debt Relief
- **Potential drawbacks:** Besides lower credit scores, higher fees and other drawbacks, some creditors might not agree to settle and, instead, could pursue legal action against a consumer for unpaid bills. Also, debt settlement programs require a lot of discipline.
- "It's an austerity program where you're forced to put money into the account, from which we'll make payments on your behalf while negotiating with creditors," Micheletti said.

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Bankruptcy

- Filings under Chapter 7 of the bankruptcy code eliminate most unsecured debts, though consumers can retain some protected or exempt assets such as a vehicle, necessary clothing, furnishings, appliances and other goods. Nonexempt assets subject to forfeiture include second homes, money in bank accounts and various investments (though generally not pension or retirement accounts). Nonprotected assets are sold, with proceeds distributed to pay off creditors.
- **Fees:** Court expenses run a bit more than $300 for both Chapter 7 and 13 filings. Attorney fees might cost another $1,500 to $2,500 or so for a Chapter 7 case or $4,000 to $6,000 for a Chapter 13, Drain estimated. Chapter 13 filings cost more because an attorney typically is involved for a lengthier period. (Attorney fees might be due upfront or handled in a repayment plan.)
- Impact on credit scores: A bankruptcy filing will damage your credit score, and the demerit with stay on your credit reports for seven years (for a Chapter 13) or 10 years (for a Chapter 7), according to credit bureau Experian. However, your borrowing ability might not be crimped all that much, for better or worse, because lenders realize you must wait eight more years to file another Chapter 7 and four years for a Chapter 13.
-
- **Potential drawbacks:** In addition to legal/court fees and a long-term negative credit-score impact, bankruptcy filings are a matter of public record, open to inspection. Nor will bankruptcy eliminate all types of debts, as noted, and debtors are limited as to how frequently they may file.

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