VANTAGE
Financial Partners Limited

Focus On The Educators
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WILL TRS BE ENOUGH?

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Illinois' TRS (Teacher Retirement System) has been going through changes recently, some of which may affect the program in dramatic ways. From the incorporation of an updated pension calculation for new members, to changes in fund managers, it may be disconcerting to see so much volatility in a program that many teachers and administrators rely upon for their retirement income.

As an active member of TRS, you are currently required to contribute 9.4% of your earnings to help fund retirement, disability and survivor benefits. Of this 9.4%, approximately 7.5% is allocated to providing retirement benefits. While this is a high saving percentage, your final pension calculation is based on your years of service and final average earnings. But will this benefit be enough to meet your desired income needs?

While TRS may provide a large portion of your retirement benefits, the distribution rate is set and not variable based on your needs.

As a financial planning analyst, I recognize the need to educate and help individuals learn how to 'control the controllable.' Have you considered what control you will have if TRS is no longer available in 30 years? Is it important to regularly evaluate your complete financial situation without total reliance upon TRS to meet all of retirement needs? Yes it is.

While you may contribute 9.4% of your earnings to TRS, it is recommended that you save some money to other retirement (403b, IRA) and non-retirement (savings, brokerage) accounts. Even though TRS may provide a large portion of your retirement benefits, the distribution rate is set and not variable based on your needs. Therefore, if you experience a year of increased expenses, you cannot access additional funds through TRS. However, if you were to have other savings such as a personal savings account, you could use this to supplement your retirement needs. But which account type should you choose and how much should you save?

Determining the type of account largely depends on your age and current earnings. If you are early in your career and have a long period of time left until retirement, it is recommended that you consider a tax-deferred account, typically known as a 403b in the educational industry or sometimes called a Tax-Sheltered Annuity (TSA). This will allow you to accumulate tax deferred savings which will be taxed when the money is withdrawn, after retirement. If it is available, you may also want to consider using a Roth 403(b). In this program, your contributions are taxed but your earnings, growth and distributions are tax-free. This can be very beneficial to offset the tax liability of your TRS pension which is fully taxable after retirement.

For those closer to retirement with a higher wage base, it may be beneficial to save to a Traditional 403(b) to reduce your taxable income now which can help reduce your current tax liability. Then in retirement, when your income is typically lower, distributions will be taxed at your then current rate.

Another option is to save to a brokerage account. You will pay income taxes on any contributions going into these accounts, but currently there is a limit of tax liability on much of the earnings. These funds are available for any use without the limitations posed by many retirement accounts. Determination of which account(s) are right for you to help meet your retirement goals should be carefully assessed. Discussing your options with a Fee-Only Certified Financial Planner can help determine how to maximize the benefits these different accounts may offer.

How much should you allocate into each account type? This question is one that depends on a variety of factors and will result in a different answer for everyone. You need to take into consideration how much income you want in retirement, how much you already have saved, how long until retirement; also consider the longevity in your family and your comfort with the provisions through the TRS system. A general rule of thumb is that you should save 15% of your take-home pay, which equates to around 21% of gross earnings for someone in a 28% tax bracket. After TRS retirement contributions being 7.5% of your 9.4%, it is suggested that you consider saving an additional 12.5% of your gross earnings into retirement savings. While this may seem a high number, meeting your retirement goals may necessitate saving as much as possible.

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There is a high likelihood that TRS will be around to meet teacher's income and medical insurance needs in retirement. Additional savings can offer the flexibility for changes in your long-term plans and can assist with unexpected expenses and inflationary costs. Being prepared and independent can offer the most freedom in your retirement planning. The team at Vantage Financial Partners Limited would be honored to assist you in evaluating your current financial condition and work with you to develop the plan you need toward reaching your goals.

ABOUT THE AUTHOR

Dave is a financial planning analyst at Vantage Financial Partners Limited. As an analyst, Dave is responsible for many crucial facets in the development of the client's financial plan including mentoring the planning associates, reviewing client data and providing planning and investment recommendations to the relationship managers.

Dave's family includes several teachers in various stages of their careers. His wife, Sarah, is early in her teaching career so many of the changes taking place will affect their family directly. Dave seeks to serve teachers and administrators who feel they need to focus on 'controlling the controllable' and take an active approach to preparing for retirement. To contact Dave, either email him at dgrant@vantagefinancial.com or call 847-590-5555, ext. 104.