

INVESTING & RETIREMENT BASICS

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I WANT EVERYONE TO BE A MILLIONAIRE!

DISCLAIMER

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All information comes from reading, listening, research, and experience.

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NOBODY CARES MORE ABOUT YOUR MONEY THAN YOU DO

- except maybe the IRS!

SO TAKE CARE OF IT!

“Taxes are the price we pay for a civilized society”, Oliver Wendell Holmes

Pay your fair share, but not more

DEVELOP A BUDGET

- Determine monthly expenses
- Pay yourself first
- Build a 6-12 month cash reserve for emergencies
- Save for expenses (known and unknown)

INVESTMENT VEHICLES

- Checking Accounts
- Savings Accounts
- Money Market Accounts
- CD's (Certificates of Deposit)
- Savings Bonds
- Mutual Funds (and dividends)
- ETF's (Exchange Traded Funds)
- Stocks (and dividends)
- Bonds
- T-Bills

AVOID DEBT

Debt is bad...
...except when it is good

- Live debt-free
 - Save early, save often
 - Pay “cash” whenever possible
 - Pay total credit card balance every month
- Minimize debt load
 - Pay-down debt with highest interest rates first
 - Monthly housing expense shouldn't exceed 28% of gross monthly income; all payments (including housing) shouldn't exceed 36%
- Leverage debt
 - Invest when rate of return exceeds interest rate of debt
 - Pay off/down debt when debt rate exceeds investment rate of return
- Maintain cash-flow

POWER OF COMPOUNDING

Year	Early Funding		Late Funding		Continuous Funding	
	Amount Saved	Year-End at 8%	Amount Saved	Year-End at 8%	Amount Saved	Year-End at 8%
1	\$2,000	\$2,160.00			\$2,000	\$2,160.00
2	\$2,000	\$4,492.80			\$2,000	\$4,492.80
3	\$2,000	\$7,012.22			\$2,000	\$7,012.22
4	\$2,000	\$9,733.20			\$2,000	\$9,733.20
5	\$2,000	\$12,671.86			\$2,000	\$12,671.86
6	\$2,000	\$15,845.61			\$2,000	\$15,845.61
7	\$2,000	\$19,273.26			\$2,000	\$19,273.26
8	\$2,000	\$22,975.12			\$2,000	\$22,975.12
9	\$2,000	\$26,973.12			\$2,000	\$26,973.12
10	\$2,000	\$31,290.97			\$2,000	\$31,290.97
11		\$33,794.25	\$2,000	\$2,160.00	\$2,000	\$35,954.25
12		\$36,497.79	\$2,000	\$4,492.80	\$2,000	\$40,990.59
13		\$39,417.62	\$2,000	\$7,012.22	\$2,000	\$46,429.84
14		\$42,571.03	\$2,000	\$9,733.20	\$2,000	\$52,304.23
15		\$45,976.71	\$2,000	\$12,671.86	\$2,000	\$58,648.57
16		\$49,654.84	\$2,000	\$15,845.61	\$2,000	\$65,500.45
17		\$53,627.23	\$2,000	\$19,273.26	\$2,000	\$72,900.49
18		\$57,917.41	\$2,000	\$22,975.12	\$2,000	\$80,892.53
19		\$62,550.80	\$2,000	\$26,973.12	\$2,000	\$89,523.93
20		\$67,554.87	\$2,000	\$31,290.97	\$2,000	\$98,845.84
21		\$72,959.26	\$2,000	\$35,954.25	\$2,000	\$108,913.51
22		\$78,796.00	\$2,000	\$40,990.59	\$2,000	\$119,786.59
23		\$85,099.68	\$2,000	\$46,429.84	\$2,000	\$131,529.52
24		\$91,907.65	\$2,000	\$52,304.23	\$2,000	\$144,211.88
25		\$99,260.26	\$2,000	\$58,648.57	\$2,000	\$157,908.83
26		\$107,201.09	\$2,000	\$65,500.45	\$2,000	\$172,701.54
27		\$115,777.17	\$2,000	\$72,900.49	\$2,000	\$188,677.66
28		\$125,039.35	\$2,000	\$80,892.53	\$2,000	\$205,931.87
29		\$135,042.49	\$2,000	\$89,523.93	\$2,000	\$224,566.42
30		\$145,845.89	\$2,000	\$98,845.84	\$2,000	\$244,691.74
31		\$157,513.56	\$2,000	\$108,913.51	\$2,000	\$266,427.07
32		\$170,114.65	\$2,000	\$119,786.59	\$2,000	\$289,901.24
33		\$183,723.82	\$2,000	\$131,529.52	\$2,000	\$315,253.34
34		\$198,421.73	\$2,000	\$144,211.88	\$2,000	\$342,633.61
35		\$214,295.47	\$2,000	\$157,908.83	\$2,000	\$372,204.30
36		\$231,439.10	\$2,000	\$172,701.54	\$2,000	\$404,140.64
37		\$249,954.23	\$2,000	\$188,677.66	\$2,000	\$438,631.89
38		\$269,950.57	\$2,000	\$205,931.87	\$2,000	\$475,882.44
39		\$291,546.62	\$2,000	\$224,566.42	\$2,000	\$516,113.04
40		\$314,870.34	\$2,000	\$244,691.74	\$2,000	\$559,562.08

Invested:	\$20,000	\$60,000	\$80,000
Value:	\$314,870.34	\$244,691.74	\$559,562.08
Gain:	\$294,870.34	\$184,691.74	\$479,562.08

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2017 TAX BRACKETS

Single Income	Tax Rate	Married Income
<= \$9,325	10%	<= \$18,650
\$9,326 - \$37,950	15%	\$18,651 - \$75,900
\$37,951 - \$91,900	25%	\$75,901 - \$153,100
\$91,901 - \$191,650	28%	\$153,101 - \$233,350

Single, with gross income of \$95,000:

$\$932.50 + \$4,293.60 + \$13,487.25 + \$867.72 = \$19,581.07$
for effective tax rate of 20.61%

Married, with gross income of \$95,000:

$\$1,865 + \$8,587.35 + \$4,774.75 = \$15,227.10$
for effective tax rate of 16.03%

CAPITAL GAINS TAXES

Income type	Tax Rate
Short-term capital gain (≤ 12 months)	Ordinary tax rate
Long-term capital gain (> 12 months)	0% if up to 15% bracket; 15% otherwise
Dividends	Long-term gain rate

PRE-TAX VS POST-TAX

- Pre-Tax
money is invested prior to taxes being withheld. i.e. pay taxes later
types: 401(k), IRA
- Post-Tax
money is invested after taxes are withheld. i.e. pay taxes now
types: Roth IRA, Roth 401(k)
- Tax-free
Never pay taxes if allowable expense
Type: HSA

Example: Single, \$50k annual salary, 10% to 401(k), 28% withholding

Pre-Tax		Post-Tax	
\$50,000	Gross Pay	\$50,000	Gross Pay
\$5,000	401(k)	\$14,000	withholding
\$45,000	total	\$36,000	total
\$12,600	withholding	\$5,000	Roth 401(k)
\$32,400	Net Pay	\$31,000	Net Pay

INVESTMENT TYPES

401(K) & Roth 401(K) – through employer

- \$18,000 combined per year annual contribution limit
- Employer match is free money!
- When you leave, can be rolled over to next company or IRA or remain with previous employer
- Can withdraw company match to roll-over into IRA at any time
- Taxes are due (401k only) when money is withdrawn (NOT on roll-over)
- Money withdrawn prior to 59 ½ is subject to 10% penalty, unless separated at or after age 55
- After 70 ½ subject to Required Minimum Distribution (RMD)

INVESTMENT TYPES – CONT'D

Deductible IRA

- Subject to income limitations for tax deductibility
- Generally not used if you have access to 401(k)
- All investment and earnings are tax deferred
- Taxes are due when you withdraw money
- Money withdrawn prior to 59 ½ is subject to 10% penalty
- After 70 ½ subject to Required Minimum Distribution (RMD)

INVESTMENT TYPES – CONT'D 2

Non-Deductible IRA

- Major headache during distributions so generally don't do!
 - do a Roth IRA instead
 - Or contribute to 401k as after-tax contribution for mega back-door Roth (not discussed in this presentation)
- All earnings are tax deferred
- Taxes are due when you withdraw money
- Money withdrawn prior to 59 ½ is subject to 10% penalty
- After 70 ½ subject to Required Minimum Distribution (RMD)

INVESTMENT TYPES – CONT'D 3

Roth IRA

- \$5,500 per year contribution limit (\$6,500 if 50+)
- Contributions are not tax deductible since after-tax money is used
- All earnings are tax free after age 59.5
- Can withdraw *contributions* anytime after any Roth has existed for 5 tax years, tax and penalty free
- No RMD
- Can be passed to heirs inheritance tax-free and continues to grow tax-free
 - Different rules apply for inherited IRA's
- Early withdrawal penalty waived for first home (\$10k limit)
- 10% penalty if withdrawn before some Roth IRA exists for 5 years

INVESTMENT TYPES – CONT'D 4

Health Savings Account (HSA)

- \$6,500 per year contribution limit, including employer contribution
- All funds are tax free if used for allowable medical expenses
And tax free means no FICA, income tax, etc.

PRIORITY TO SAVE / INVEST

- 401(k)
 - Enough to get 100% of company match (many have 90% of first 5%)
\$50k salary; you contribute \$2,500, company contributes \$2,250
3 year vesting period
- HSA account (for high deductible health plans)
 - \$6,500 per year (including company contribution)
 - Don't withdraw money until retirement unless you have to
 - Let it continue to compound tax free! (keep good records!!)
- Roth IRA, even for short-term needs
- 401(k) and Roth 401(k)
 - Split between both to hedge bet on future tax rates
 - But, your tax rate will probably never be lower than it is currently
- Stock market (mid to long-term) – higher risk, higher reward
- Bonds (mid to long-term) – less risk, less reward
- General savings (near term) in CD's, MM accounts – no risk, no reward

INVESTMENT LIMITS - RECAP

401(k) & Roth 401(k)

- \$18,000 combined (or \$24,000 if 50+)

HSA account (for high deductible health plans)

- \$6,750 (\$3,400 single; additional \$1,000 if 55+)

Roth IRA

- \$5,500 (or \$6,500 if 50+)

After-tax contributions (use for back-door Roth):

Difference between total of all contributions and \$54,000

Total of \$30,250 per year before “regular” – post-tax – investing
(\$38,250 if 55+; \$37,250 if 50-54)

WITHDRAWAL RESTRICTIONS

- 401(k)
 - Age 55 & separated from company, or retirement
 - Must start withdrawals by age 70 ½
 - Taxable income for year withdrawn
- Roth 401(k)
 - Age 59 ½ and five calendar years after first contribution
- HSA account
 - As expenses are incurred or let compound until retirement to claim but you *must* maintain good records
- Roth IRA
 - Some Roth account must exist for 5 years before any withdrawals
 - Basis (deposits) withdrawn at any time after 5 year period
 - Growth, after age 59 ½
 - Exception, buying a house or paying for school (\$10k max) in which case it is taxable income that year
- IRA
 - After 59 ½
 - Must start withdrawals by age 70 ½
 - Taxable income for year withdrawn

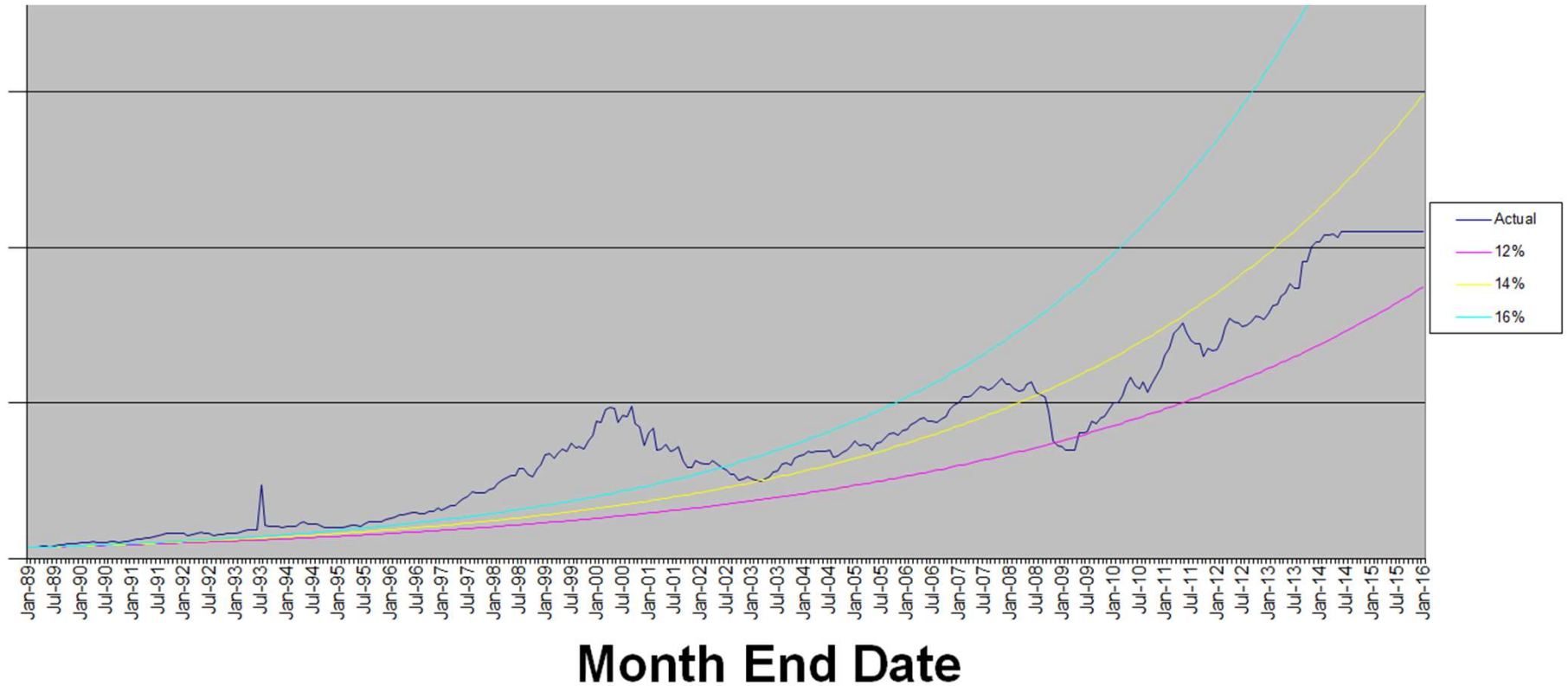
FUTURE ACTIONS

- If 59 ½ upon retirement immediately roll Roth 401(k) over to Roth IRA (consolidate accounts)
- If retiring early, don't roll over 401(k) into IRA because immediate withdrawals will not be allowed without 10% penalty
- Withdraw from 401(k) and IRA *only* up to tax bracket limits based on AGI; use HSA and ROTH withdrawals for remaining income needs.

WHAT TO INVEST IN

- Un-managed index funds
 - With lowest fees (expense ratios)
 - Typically Vanguard/Fidelity but others are catching up
- Total stock market index fund to get broad coverage
 - ETF is slightly preferred over mutual fund
 - Tickers (Vanguard examples) are
 - VTI (ETF) no minimum investment
 - VTSMX (MF) \$3k minimum
 - VTSAX (MF) \$10k minimum - admiral shares, lower fees
- Buy directly at Vanguard
- Buy stocks using any popular low-cost broker
 - eTrade
 - Scottrade
 - TDAmeritrade
 - Etc.

MONTHLY NET WORTH TRACKED OVER 25 YEARS



FINANCIAL BLOGGERS

- Financial Independence - www.MadFientist.com
- Mr. Money Mustache - www.MrMoneyMustache.com

Investing Clubs started at Ford but not restricted to Ford employees:

- Lunch Money Investment Club
 - www.Bivio.com/LMIC
- The Passive Club
 - www.Bivio.com/TPC