Intro to Retirement Planning for Jewish Clergy

Rabbis and Cantors Retirement Plan
May 2019 Webinars

Agenda

1. Why is beginning now, long before retirement really, really important?
2. What are your investment choices within the RCRP and what makes most sense for you?
3. How the Rabbis and Cantors plan compares to other non-clergy retirement plans?
4. What is the process of the RCRP? The nuts and bolts of the plan?
5. And finally, an honest and clear assessment of our fees.

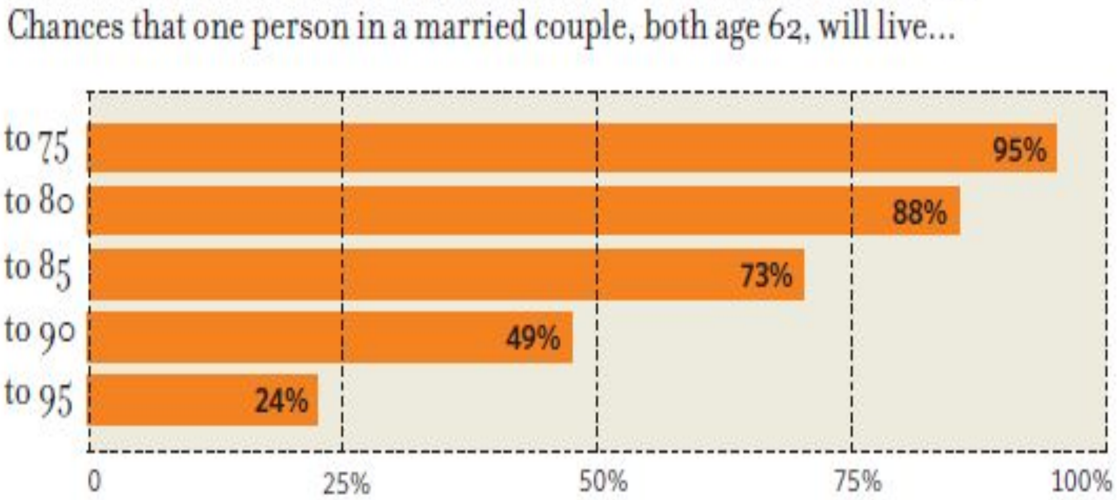
Retirement Fundamentals

- Plan on being retired for an extended period of time.
    - At age 65, at least one member of a couple with *average* longevity can expect to survive to age 89, and rabbis and cantors have above-average longevity. [figure *SS Claiming Guide*]

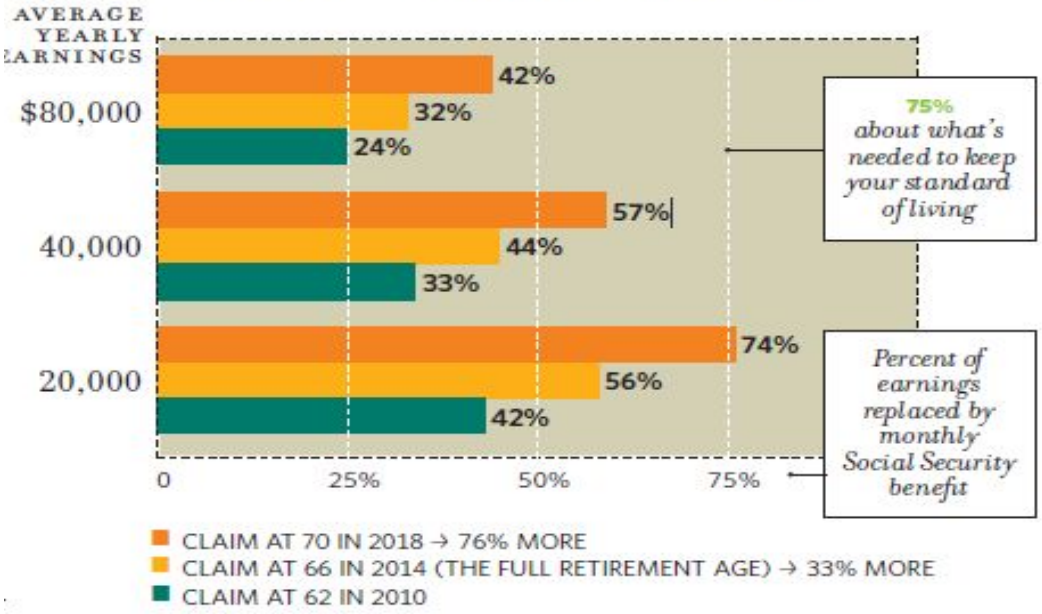
- You'll need *about* 75% of pre-retirement income to maintain living standards.
    - You need less because you won't pay payroll taxes or save for retirement; income taxes will be lower; and at some point your mortgage might be paid off.

- Income from Social Security and retirement savings
    - Social Security will likely cover only a small portion.
        - You can get **75% more** per month if you claim at 70 rather than 62. But even then, it won't be enough. [figure in *SS Claiming Guide]*
    - The "4% rule" says you can ***safely*** draw only 4% a year, rising with inflation, from age 65.
        - From $1,000,000 in savings, you could ***safely*** draw only $40,000 a year.
        - Due to the declining returns on savings, 4% is likely too optimistic.

Your Chances for a Very Long Life are Excellent



Social Security Won't Be Enough

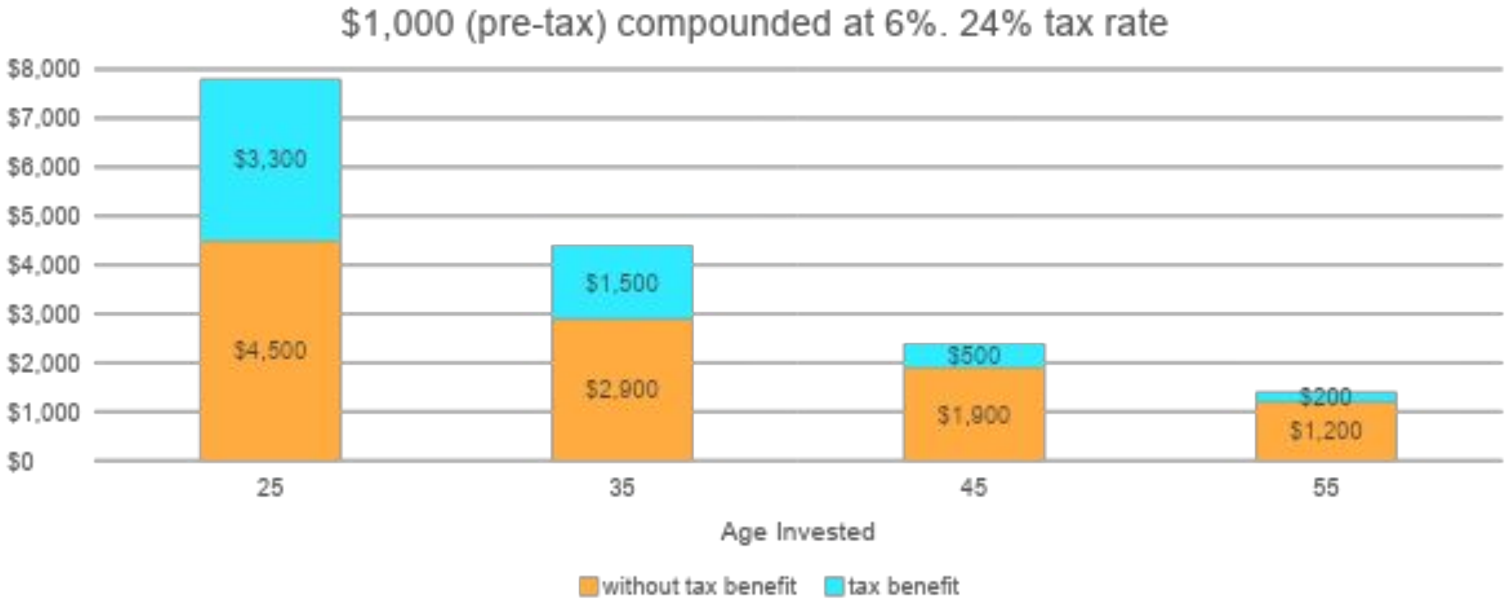


Retirement Plan Tax Benefits

- Federal law lets you save for retirement in a “qualified account,” with neither the amount saved nor the investment earnings taxed until withdrawn in retirement, when you are often in a lower tax bracket.
- Employers, as well as employees, can also contribute to these accounts [called (403 (b) funds or 401(k) funds]. Individuals can also create tax-deferred savings accounts (IRAs).
- Clergy can withdraw funds tax-free for housing allowances from “church 403b” plans like the RCRP.

Importance of Starting Now (or as early as possible)

To harness the power of tax-advantaged retirement saving



Delay and Its Implications

- You might delay to meet other needs, such as paying off debts, buying a house, or saving for your children’s education.
- If you delay and forgo the benefits of tax-free compounding you will need to save much more for retirement down the road.
- Other options
  - Work longer to save more, accumulate more investment earnings, and reduce the time in retirement savings need to support. (But you might not be able to work as long as you plan.)
  - Tap the savings in your house by downsizing or getting a reverse mortgage.

Investment Fundamentals

- Your savings need to grow…and they need to be safe
    - If you invest your savings in stocks, your money usually grows faster but can also fall sharply; if you invest your savings in bonds, your money is reasonably safe but will not grow quickly. [figures from *Why Target Date Funds*]

- You want to shift toward bonds as you age
    - You have fewer years of earnings and much more in retirement savings, so your finances increasingly depend on what you have in savings, and those savings need to be safer.
    - Your ability to offset financial downturns declines. The size of losses rises as the amount you have in savings grows. And as you have fewer years of work remaining, it’s much harder to offset losses by working more and saving more.

You Need to Balance Growth and Safety

SOURCE: IBBOTSON ASSOCIATES. 2009. IBBOTSON SBBI CLASSIC YEARBOOK

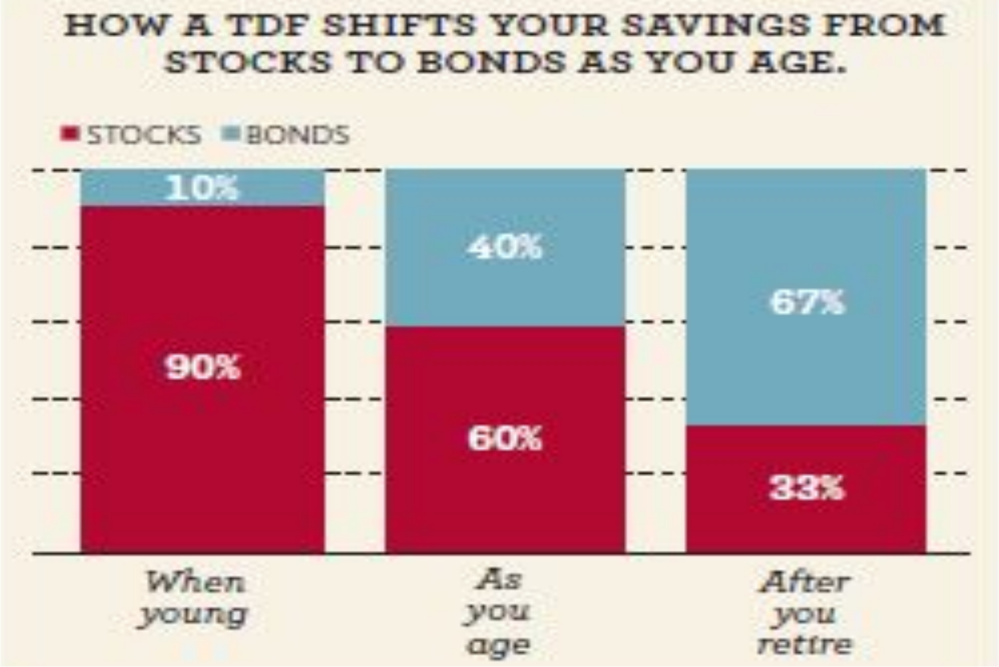
RCRP Investment Options

Tier	*Options*	*Fund fees*	*Rationale*
Target-Year Funds	**Fidelity Freedom Index Funds** For retirement dates 2005 to 2055	0.14%	Simplest option
Core Index Funds	**5 Core Asset Index Funds** US equity, International equity, US bonds, US inflation-linked bonds, and cash	0.015% to 0.06%	To customize your asset allocation
Socially Responsible Funds	**4 Calvert SRI funds** US and International stocks, US bonds and balanced fund	0.19% to 0.62%	To invest in a “socially responsible” way, with added cost
Additional Options	**Fidelity Funds//Brokerage Option** Allowing purchase of other Fidelity funds or non-Fidelity funds or individual stocks or bonds.	Various	For additional investment choices

Understand Your Options

- Target-Year Funds (TDFs), the primary RCRP option, is a US Department of Labor “safe-harbor” default, sufficient to hold ALL your retirement savings.
    - TDFs are broadly diversified with an age-appropriate balance b/w risk and return and a “glide path” toward holding more bonds as you age.
    - You can adjust risk/return balance by choosing a TDF with a target retirement date later (more risky) or sooner (less risky) than your actual target date. [figure from *Why Target Date Funds*]
- Balanced funds are the other Department of Labor “safe harbor” default.
    - Balanced funds maintain a target balance b/w risk and return.
    - One Tier 2 Calvert Fund SRI fund is a balanced fund (60% stock, 40% bonds).
- Factors that affect your ability to take risk.
    - Job security and budget flexibility (your ability to reduce your spending, if need be).
    - Other savings or debts, which affect your *overall* risk/return balance.

TDFs Shift Your Savings From Growth to Safety



RCRP “Church Plan” Benefits

- The Rabbis and Cantors Retirement Plan (RCRP) is a “church” 403(b)(9) plan that has special benefits for clergy.

- Clergy can take distributions in retirement as parsonage allowances
  - Similar rules apply as when you are working: the retirement plan will designate the funds, as your employer does while working.
  - Only tax-free (from federal income tax) to the extent spent on housing expenses.
  - After the clergy passes, the widow/er cannot continue claiming this benefit.

- Clergy who “exercise their ministry” outside synagogue employment can join RCRP directly (are considered own employer for retirement plan purposes)

RCRP Fee Structure

Fee	**Description**	**% of Assets**
Plan administration fee	Ranges from $0 to $700 depending on balance and whether participant is a member of a rabbinical association which subsidizes the cost	**0.08%** (on average)
Fidelity admin fee	$20/year	**0.01%** (on $250K in assets)
Mutual fund fee	Depends on investments; index fund options 0.015%-0.06%	**0.14%** (on Target Year Funds)
Total (this example)		**<u>0.23%</u>**

Fees: In-line with Lowest-Cost Large-Asset Plans

Percentile	**Plans with $500m to $1b in assets**
90th percentile plan costs (expensive plans)	0.59%
Average plan costs	0.43%
10th percentile plan costs (least expensive plans)	**0.21%**

RCRP Sign-up Process

1. Check your eligibility on the RCRP website.
   http://www.rabbisretirementplan.org/am-i-eligible/
2. Go to this page and follow the instructions (and find all forms needed)
   http://www.rabbisretirementplan.org/sign-up/

The key steps are:

- ❏ Complete an online form providing us your information
- ❏ Open an account online with Fidelity
- ❏ Have your synagogue employer (or else yourself) complete an adoption agreement
- ❏ Have your synagogue, or yourself, setup to submit contributions online
- ❏ Contact us to rollover funds from your previous retirement plans (as long as funds contributed while working as a clergy)

More Information

Looking for an introduction to RCRP and basic information about housing allowance and retirement? Check this memo answering basic questions, written by RCRP vice chair Rabbi Robert Tabak.
http://www.rabbisretirementplan.org/wp-content/uploads/2018/08/Retirement-Planning-For.pdf

Contact us for more information: administrator@rabbisretirementplan.org