

**RETIREMENT: PROTECTING YOUR FINANCIAL SECURITY.**

## **Oak Ridge 401 (k) Savings Program**

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*Education Specialist*

**Schwab Retirement Plan Services Company**



# Overview of today's presentation

- The Importance of Retirement Planning
- Social Security
- Medicare
- Distribution Basics
- Accessing Your Account
- Summary

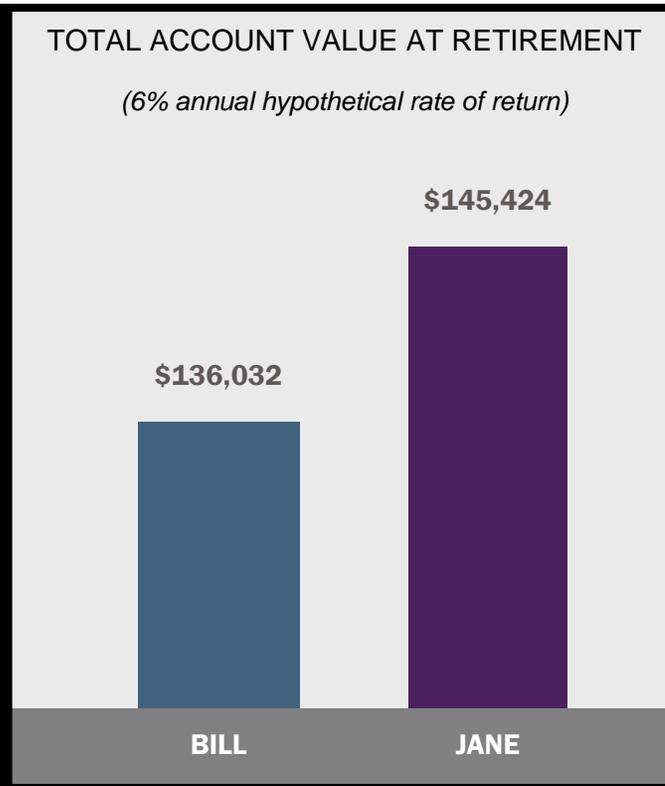
## Did you know....

25%	Workers have no retirement savings
25%	Retirees count on Social Security as their <b>only source</b> of income
\$1,153	The average monthly Social Security benefit in 2009

Sources: EBRI: The 2009 Retirement Confidence Survey, AARP, Social Security Administration

## The Impact of Saving Early

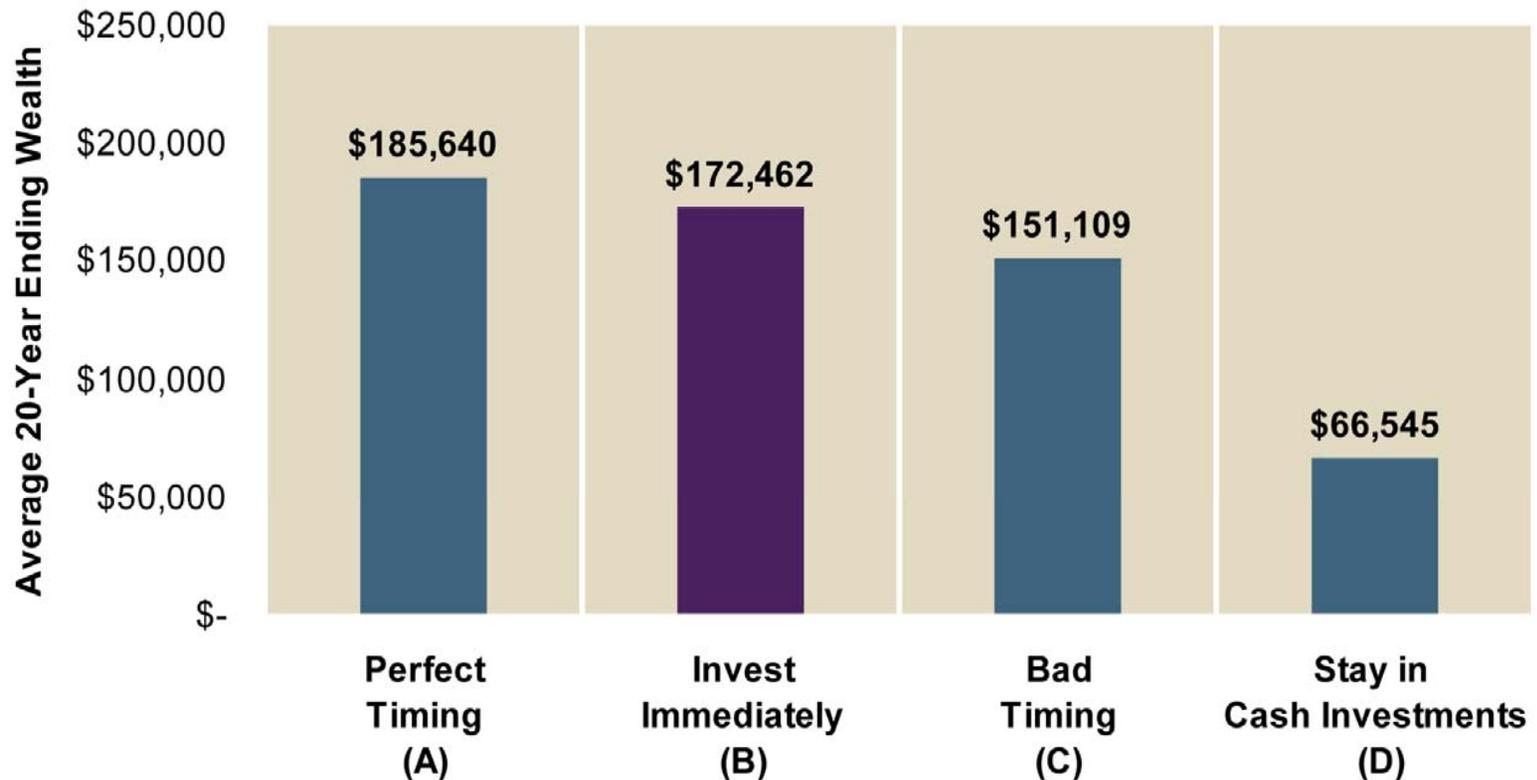
Bill didn't start saving in his company's retirement plan until he was 45 years old. He contributed \$300 a month to the plan for 20 years, a total of \$72,000. Jane, however, took advantage of her company's retirement plan beginning at age 25. She contributed only \$100 a month for 20 years, a total of \$24,000. Both Bill and Jane retired at age 65. Because Jane started early, she ended up with far more than Bill, even though he contributed three times as much per month. As you can see, it is important to start saving for retirement now.



Hypothetical for illustrative purposes only and are not intended to represent the past or future performance of any specific investment. The balances shown represent the amount contributed and the interest compounded annually. Assumes a hypothetical average rate of return of 6%, reinvestment of dividends and capital gains, and no current taxes paid on earnings in a retirement plan account. Schwab does not provide tax or legal advice.

### The Costs of Waiting to Invest

Ending wealth for four types of investors over all 20-year periods (1926-2009)



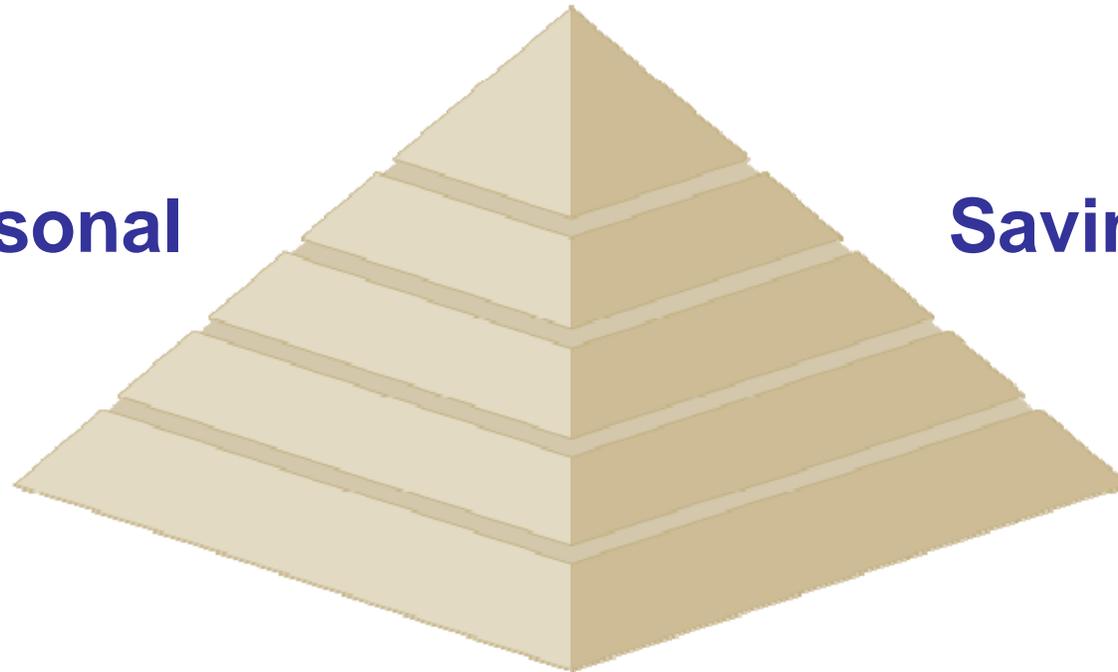
Source: Schwab Center for Financial Research. This chart shows the outcomes for four hypothetical investors who invested \$2,000 a year for 20 years. Investor A invested each year at the market trough. Investor B invested immediately on the first day of each year. Investor C invested each year at the market peak. Investor D never implemented the plan and stayed in T-bills. Investors A & C invested their yearly \$2,000 investments in T-bills while waiting to invest in stocks. Stocks are represented by the S&P 500 Index with all dividends invested. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Average results remained relatively unchanged when the study is extended to 12-month periods that begin with a month other than January. In the case of the 12-month period that goes from February to January, Investor B invested immediately on the first day of February each 12-month period for 20 years. **Past performance is no indication of future results.**

## Try to Protect Your Financial Security

- Employer retirement plans
- Social Security
- Outside investments
- Medicare
- Health and welfare plans
- Wills and trusts

# **Build A Solid Foundation Social Security**

**Personal**



**Savings**

**Retirement Plan at Work**

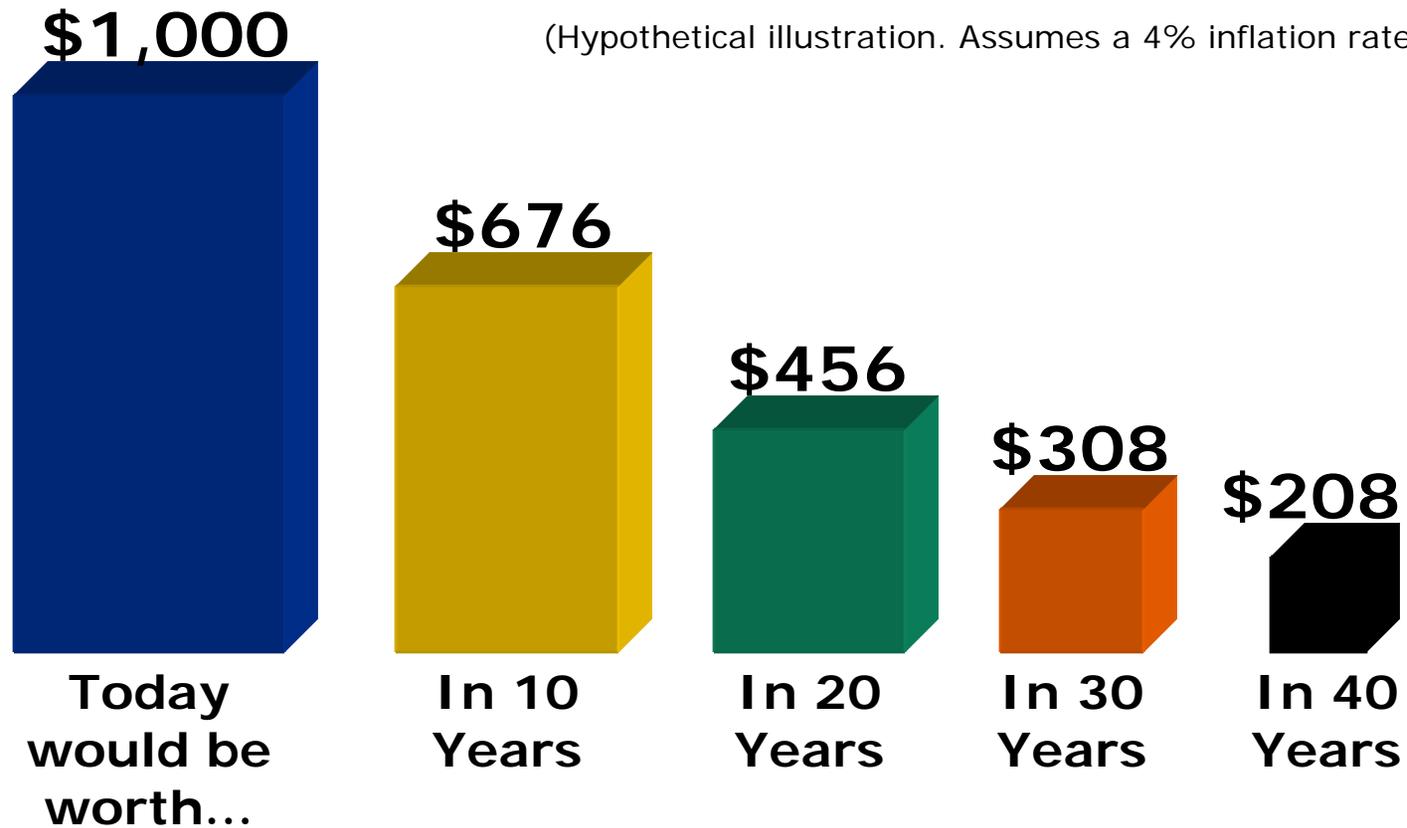
## Will Your Retirement Savings Last?

Points to Consider:

- Length of retirement (Your Longevity)
- Potential earnings on investments
- Annual income needed in retirement (Withdrawal rate)
- Inflation
- Healthcare Costs

**Time Versus Inflation**

Will today's dollar be worth the same tomorrow? Actually, the further you are away from retiring, the more impact inflation may have on your buying power:



Source: Standard & Poor's

## Can My Savings Support My Plans?

- Many experts recommend a replacement income of 80-90% of pre-retirement salary. 50% of retirees report spending as much or more as before retirement.\*
- Before you make the leap, make sure you have the financial capacity to live the life you want.
- Set attainable goals and review your plans periodically.
- Interesting Fact: According to a survey conducted by the Employee Benefits Research Institute, 54% of American workers have not calculated what they will need to retire.

\*EBRI (Employment Benefits Research Institute), May 2010

## What Costs Less After Retirement?

- Mortgage – most likely paid off
- Children – most likely done paying for education
- Car – most likely paid off and might be able to downsize to one car
- Clothing – spend less on business-type clothing and dry cleaning

## What Can Cost More After Retirement?

- Home – maintenance, property taxes and utility bills
- Insurance – home, long-term care and health insurance
- Medical expenses
- Travel expenses

## Be Conservative in Retirement

- Limit your initial portfolio withdrawal rate to just 3% or 4%\*, equal to \$3,000 or \$4,000 for every \$100,000 saved.
- This is below the 5% and 6% withdrawal rates that used to be advocated.
- You should shoot for a retirement portfolio approximately 25 times as large as your first-year withdrawal. This roughly translates into a 4% withdrawal rate in the first year of retirement. \*\*

\* Wall Street Journal Advises 3.5% March 2004

\*\* Schwab Investing Insights®, August 2006

**The ability to work in retirement assumes both you and the job market will remain healthy.**

- 47% of retirees left workforce earlier than planned due to: health problem, company downsizing and workplace closure\*

\*EBRI (Employment Benefits Research Institute), July 2009

## Risks of Spending Your Retirement Savings

- You don't know how long you will live
- You don't know what the inflation rate will be when you reach retirement age
- You have no way of knowing how financial markets will fare

### **Additional Contributions Allowed for Age 50 or Older**

“Catch-up contributions” up to \$5,500\* may be available to participants age 50 who maximize their contributions.

### **How do Catch-up Contributions Work?**

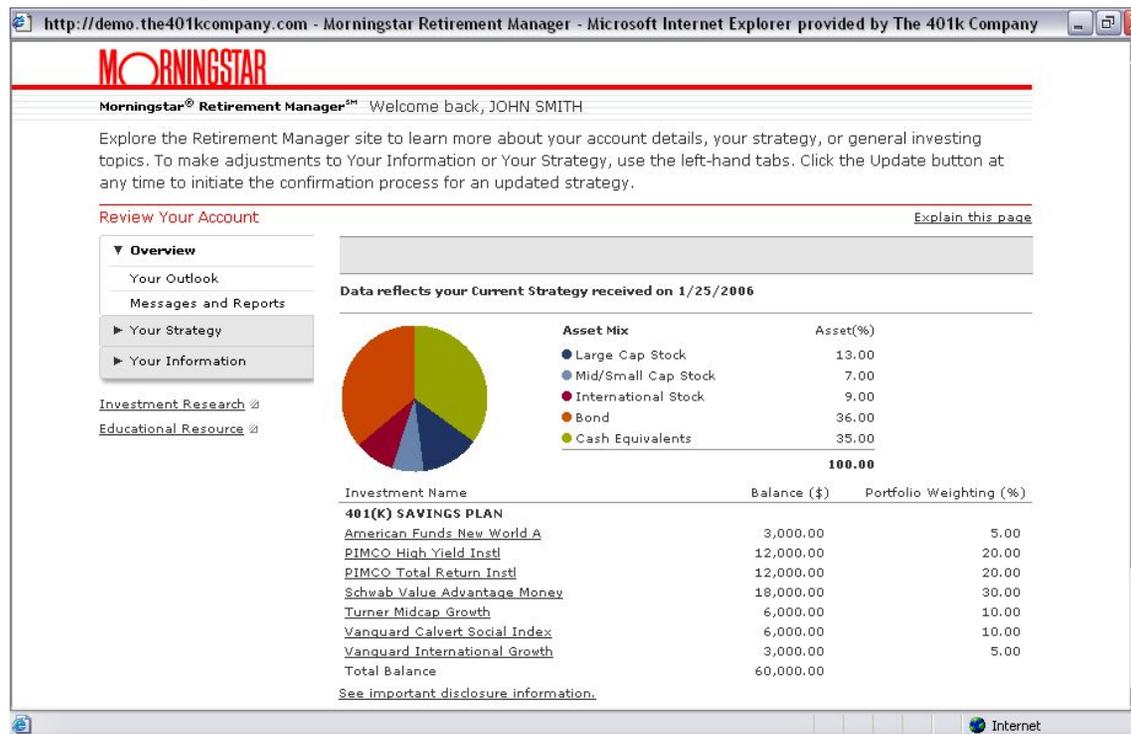
Contributions come out of your paycheck along with your regular salary deferral elections. That means you won't notice a big chunk out of your paycheck at the end of the year if you elect to make catch-up contributions.

It's important to realize that the only reason you would make a catch-up election is if you think you will reach the IRC limit (\$16,500 in 2010) with your regular deferral elections. With catch-up, you can contribute a total of \$22,000 to the Savings Program in 2010.

\*2010 limit, or as adjusted by the Internal Revenue Code. Certain highly compensated associates, as defined by the IRS, may have their contribution percentage capped at a lower rate.

## Online Retirement Plan Advice

Retirement plan advice powered by Morningstar® Retirement Manager<sup>SM</sup> is an easy-to-use, online service that can provide you with a personalized retirement strategy.



Retirement plan investment advice is formulated and provided by Morningstar® Retirement Manager<sup>SM</sup> (Morningstar), which is not affiliated with or an agent of Charles Schwab & Co., Inc. (CS&Co.), Schwab Retirement Plan Services Company (SRPS) or any of their affiliates. The Morningstar service is available to participants enrolled in plans that use the recordkeeping and related services of SRPS. Participant access to the Morningstar service is facilitated through CS&Co. Neither CS&Co, SRPS, nor their affiliates supervise, make recommendations with respect to, or take responsibility for monitoring the advice provided to participants by Morningstar.

# RETIREMENT PLANNING

# SAVINGS PROGRAM

## Other Sources on the Web

The image displays three overlapping web browser windows from April 26, 2007, showing financial data for the Hotchkis and Wiley Large Cap Value I (HWLIX) mutual fund.

- Yahoo! Finance (Top Left):** Shows the fund's current price at 27.11, a daily change of +0.32 (1.19%), and a YTD return of 1.38%. It includes a line chart of the fund's performance and a sidebar with navigation options like 'Quotes', 'Charts', and 'Fund Profile'.
- MSN Money (Top Right):** Provides a snapshot of the fund with a price of 26.79 and a daily change of -0.03 (-0.11%). It features a 'Fund Research' section with a Morningstar rating of four stars and a risk level of 'Above Average'.
- Morningstar.com (Bottom):** Offers a detailed 'Snapshot' of the fund, including a performance chart, key statistics (e.g., Assets of \$18,000, Expense Ratio of 0.98), and a list of fund managers: Sheldon J. Lieberman, George H. Davis, Stanley Magchar, Patricia McKenna, and David E. Green.

# RETIREMENT.

Will you be ready?



## Social Security

A program of public provision for the economic security and social welfare of the individual and his or her family established in 1935 to include old-age and survivors insurance, contributions to state and unemployment insurance and old-age assistance.

Source: Merriam-Webster Online

## Qualifying for Social Security

- **To receive retirement benefits from Social Security, you must have at least 40 credits (10 years of service).**
  - In the year 2010, you must earn \$1,120 in covered earnings to receive one Social Security credit and \$4,480 to receive the maximum four credits for the year
  - Credits are based upon your total wages and self-employment income during the year
- **You can request a Social Security statement by calling 1-800-772-1213 or logging on to [www.ssa.gov](http://www.ssa.gov)**

## Full Retirement Age

- Full retirement age is also called “normal retirement age.”
- Full retirement age is between 65 and 67, depending on the year you were born.
- A person can start receiving social security retirement benefits as early as age 62, but doing so may result in a reduction of as much as 30 percent.
- Starting to receive benefits after normal retirement age may result in larger benefits. With delayed retirement credits, a person can receive his or her largest benefit by retiring at age 70.

**When can you get your full Social Security benefit?**

If you were born in ...	Your "normal" retirement age is ...
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Source: [ssa.gov](http://ssa.gov)

## Social Security Income vs. Earned Income

- **If you are under full retirement age for the entire year**, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit.
- **In the year you reach full retirement age**, \$1 is deducted from your benefit payments for every \$3 you earn above the annual limit.
- **Starting with the month you reach full retirement age**, you may receive your benefit payments with no limit on your earnings.

## Annual Earning Limits Defined by Congress

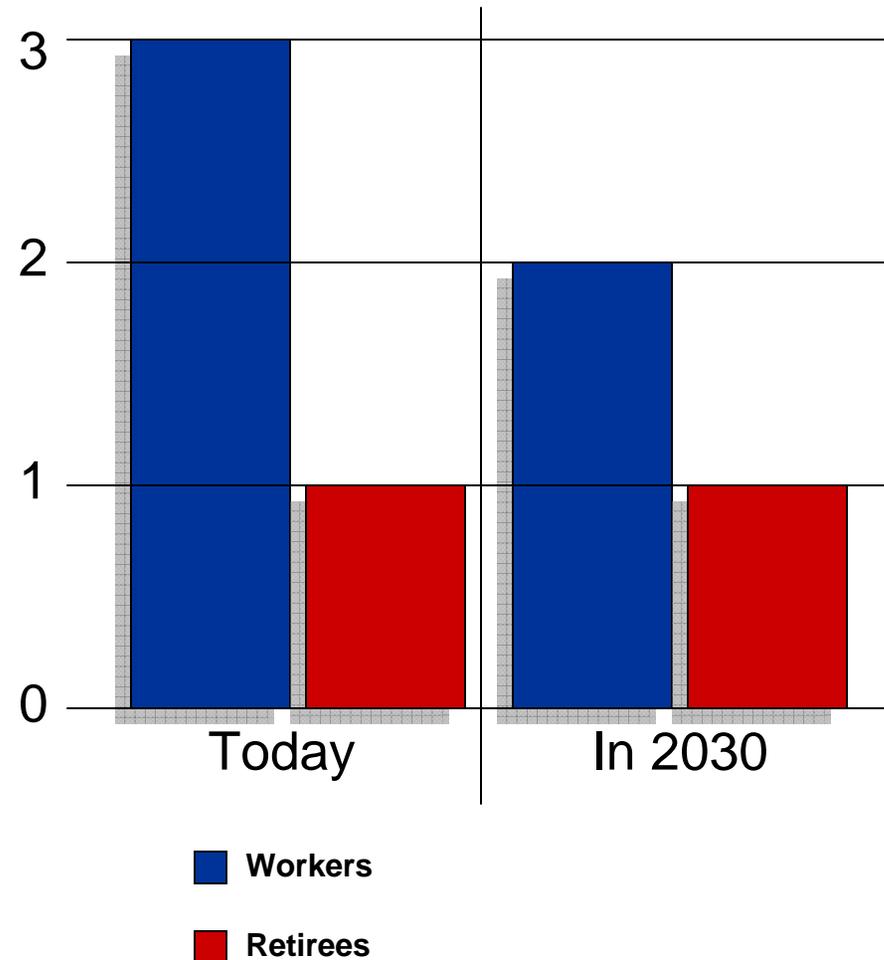
Your age	Maximum Earnings for Full Benefit *
Under full retirement age	\$14,160
The year you reach full retirement age	\$37,680
The month you reach your full retirement age	NO LIMIT

\*Please keep in mind these limits are effective for 2010, and will be adjusted annually.

Source: [socialsecurity.gov](http://socialsecurity.gov)

## The Facts About Social Security are Alarming

- **The American workforce that funds Social Security is shrinking:**
  - Today, there are three active workers contributing to Social Security for every retiree receiving benefits
  - In 2030, just two active workers will be contributing to Social Security for every retiree receiving benefits



Source: Social Security Administration

## What is Medicare?

Federal health insurance program for:

- People 65 years of age or older
- Certain younger people with disabilities
- People with permanent kidney failure or amyotrophic lateral sclerosis (Lou Gehrig's disease)

## Medicare has four parts

- **Hospital insurance (Part A)** that helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay), some home health care and hospice care.
- **Medical insurance (Part B)** that helps pay for doctors' services and many other medical services and supplies that are not covered by hospital insurance.
- **Medicare Advantage (Part C)** plans are available in many areas. People with Medicare Parts A and B can choose to receive all of their health care services through one of these provider organizations under Part C.
- **Prescription drug coverage (Part D)** that helps pay for medications doctors prescribe for treatment.

## **Additional Information**

- For more information on Social Security benefits, visit the website at [www.ssa.gov](http://www.ssa.gov) or call 1-800-772-1213.
- For more information on Medicare, visit the website at [www.medicare.gov](http://www.medicare.gov) or call 1-800-MEDICARE (1-800-633-4227).



## **RELAX.**

**The Savings Program provides you with options to take your money with you when you leave.**

## Ensure Your Future Wellbeing

In working to build a better future, you saved diligently to build up a retirement account through the Savings Program. Now that you're leaving, you have some important questions to answer regarding to your retirement account:

- **Should you take a distribution and spend the money?**
- **Can you leave your 401(k) account in the Savings Plan?**
- **Is it possible to defer taxes and early withdrawal penalties?**

## You Have Choices

Whatever your situation may be, make sure you are aware of all your options. As with any decision that has tax implications, be sure to consult with a qualified tax advisor.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, Financial Planner or Investment Manager.



## **Options for Keeping Your Money Tax-Deferred**

Your retirement account balance is portable. It can travel from work place to work place. To avoid potential tax ramifications, remember these options:

- Leave your money in the current Savings Program if your balance is \$1,000 or more
- Roll over your money into an IRA or another qualified retirement plan

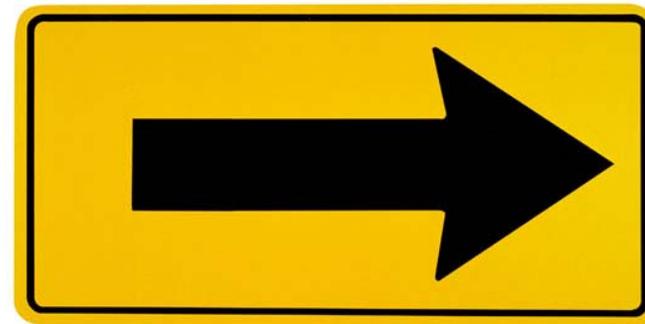
## Leave Your Money in the Savings Program

You may leave your money right where it is if your balance is \$1,000 or more. Your pre-tax savings will remain tax-deferred until you take a distribution. You'll continue to enjoy the many benefits the Savings Program offers. Benefits include:

- Cost effective investment options
- Continued potential tax-deferred compounding of your account
- Easy web access and educational tools
- Online retirement plan advice

## Roll Over Your Money into an IRA or Another Qualified Retirement Plan

You may choose to transfer your retirement account directly to a rollover Individual Retirement Account (IRA) or another qualified retirement plan. If you select one of these options, your pre-tax retirement savings and any earnings will remain tax-deferred until withdrawal.



### **Opting for an IRA**

You will need to consult with a tax advisor to determine if this option may be right for you.

To initiate a rollover, contact Participant Services at 1-800-777-4015. Representatives are available Monday through Friday, 8 a.m. to 10 p.m. Eastern time.

*Investors should consider carefully information contained in the prospectus, including investment objectives, risks, trading policies, charges and expenses. You can request a prospectus by calling Participant Services at 1-800-777-4015. You may also request a prospectus at [www.401kaccess.com/oakridge](http://www.401kaccess.com/oakridge). Please read the prospectus carefully before investing.*

## Roll over into Another Qualified Retirement Plan

You may have the option to roll your retirement account into another qualified retirement plan depending on that plan's provisions. You will need to contact your new employer to determine if you are eligible to roll over your balance into their retirement plan.



## Paying Off Your Loans

If you have an outstanding loan balance, you are required to pay it back in full – regardless if you elect to keep your money in the Savings Program. If you are unable to repay your loan, the loan becomes due and payable. The unpaid balance, plus accrued interest, will become a taxable distribution to you and be reported to the IRS on Form 1099-R. **If you are under age 59½, this distribution will also be subject to a 10% penalty.**



## Cash Out Your Savings

You may request a lump sum distribution of your retirement account.

If you elect to take a partial distribution (for those eligible), you will be required to pay a 20% federal withholding and any mandatory state tax withholding. Also, depending on the withdrawal amount and your tax bracket the 20% may NOT cover your entire tax liability. In addition, if you are under 59½, you may also have to pay an additional 10% excise tax for an early withdrawal.

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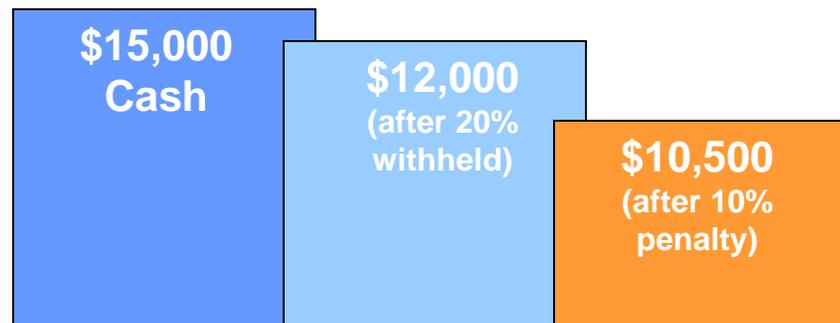
## Consequences of Taking a Distribution

Consider these consequences of taking a cash partial distribution:

- Lump-sum distributions trigger an automatic federal income-tax withholding rate of 20%.
- A 10% early withdrawal penalty tax is generally tacked on if you are younger than 59½.
- Depending on your tax bracket, you may have to pay additional federal income taxes on the money. For individuals in the 28% tax bracket, this can add as much as 8% to the cost of withdrawing money from the Savings Program.
- Altogether you could lose as much as 45% of your distribution to federal income taxes and penalties, and state and local taxes could take even more. Further, after paying a significant amount in taxes and penalties, you'll be more likely to spend what's left - rather than investing in your future. **Your money's future earnings potential could be the biggest loss of all.**

## Cash Now, Pay Later

- \$15,000 in Savings Program funds taken as a cash distribution may look tempting, but as you can see below, after the automatic 20% withholding and the 10% penalty, you may lose more than you think.



Depending on the withdrawal amount and your tax bracket the 20% may NOT cover your entire tax liability.

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**Distributions made across all sources:**

- Pre-87 After-tax Basis
- Post-86 After-Tax Basis & Earnings
- After-tax Rollover Basis & Earnings
- Pre-87 After-tax Earnings
- After-tax Match Basis & Earnings
- Pre-tax Contributions Basis & Earnings
- Pre-tax Catch-up Basis & Earnings
- Pre-tax Match Basis & Earnings
- Pre-tax Rollover Basis & Earnings
- Roth 401(k) Rollover Basis & Earnings
- Roth 401(k) Basis & Earnings
- Roth 401(k) Catch-up Basis & Earnings

### To Request a Distribution

- Log on to the Savings Program's website at [www.401kaccess.com/oakridge](http://www.401kaccess.com/oakridge) —Login ID and password required.
- Call the 24-hour Voice Response Unit at 1-800-777-4015 – Login ID and Personal Identification Number (PIN) required.
- Contact Participant Services at 1-800-777-4015. Representatives are available Monday through Friday 8 a.m. to 10 p.m. Eastern time – PIN and Login ID required.

Whatever you decide, you should consult with a qualified tax advisor to see which option might be best for your situation.



## **ACT.**

**Managing your account in the Savings Program may help you to achieve a secure future.**

## Ways to Access Your Account Ongoing:

- **Website:** You may access and make changes to your account 24/7 via [www.401kaccess.com/oakridge](http://www.401kaccess.com/oakridge). You'll need your Login ID and password.
- **Voice Response Unit:** Available 24 hours a day at 1-800-777-4015. You'll need your Login ID and Personal Identification Number [PIN].
- **Participant Services Representatives:** Personal assistance is available by calling 1-800-777-4015, from 8 a.m. to 10 p.m. Eastern time, Monday through Friday.
- Easy to understand **Quarterly Participant Statements.**

Access to Electronic Services may be limited or unavailable during periods of peak demand, market volatility, systems upgrade, maintenance, or for other reasons.

Schwab Retirement Plan Services, Inc. provides recordkeeping and related services with respect to retirement plans.

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