RETIREMENT PLANNING FOR EMPLOYEES OF

BURNS & McDONNELL

# 4 CRITICAL RETIREMENT CONSIDERATIONS

PRESENTED BY DWIGHT TWILLMAN, CFP®

THE RETIREMENT PLANNING GROUP

# WHY WE WROTE THIS PAPER

The Retirement Planning Group (TRPG) currently advises over $150,000,000* worth of assets for clients that are current employees or retirees of Burns & McDonnell.

Our clientele includes many different levels of staff within the organization, such as Project Managers, Officers, Principals, and Original Shareholders. While each person's financial situation is unique, certain commonalities exist amongst those sharing an employer and career.

This white paper identifies this group's shared attributes and provides advice regarding their retirement planning considerations.

*As of 05/08/2020

# WHAT SETS YOU APART?

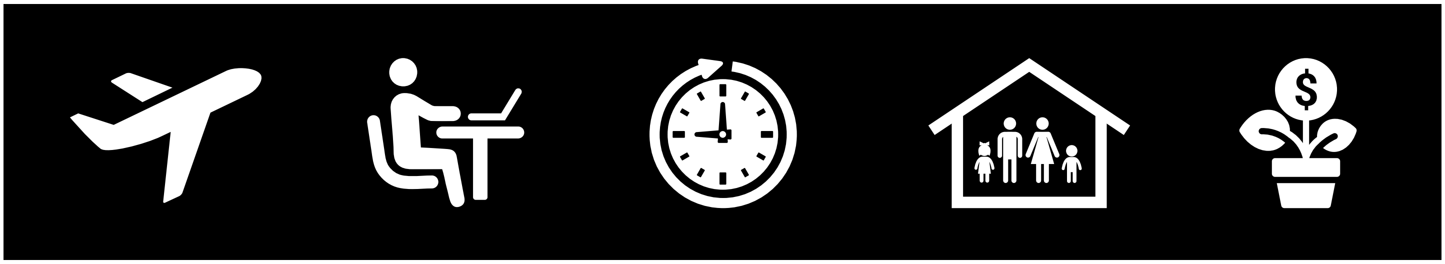
AS AN EMPLOYEE AT BURNS & MCDONNELL, YOU HAVE ACCESS TO EXCLUSIVE FINANCIAL OPPORTUNITIES TO HELP ENHANCE YOUR FUTURE.

**Your employment provides several unique financial considerations:** your 401(k) contributions and employer match, your bonus structure, ESOP dividends and stock ownership, being an employee-owner, and other exceptional benefits. All this has led to Burns & McDonnell's inclusion in Fortune magazine's best companies to work for and retire from, over the years.

WHILE AT BURNS & McDONNELL, YOU ARE UNIQUELY SITUATED TO BOTH ACCUMULATE AND PRESERVE WEALTH WITH RELATIVE EASE.

It is unlikely that you will continue to work at full capacity until the standard retirement age given the demanding nature of your job. Your income, combined with the growth of your Employee Stock Ownership Plan (ESOP), creates a period of increased saving potential that most careers do not see.


During this period, you are likely to be busier than ever before. Balancing work, deadlines, travel, family and outside commitments may take so much attention that your personal finances are not properly attended to. Given your ESOP's growth it can be easy to ignore your savings opportunities, never realizing their full potential.



Whether you maximize these opportunities or not, there is a good chance that eventually you will be able to attain financial independence. This is the point at which working full time is no longer necessary. This can present a situation where your life in retirement could be longer than your working career, potentially lasting over 35 years, which leads to your having financial planning needs that are unique to your situation.

ASSUMING YOU DO TAKE YOUR FOOT OFF THE GAS PEDAL AT SOME POINT BEFORE “NORMAL” RETIREMENT AGE, YOU COULD STILL HAVE A RETIREMENT THAT COULD LAST 35 YEARS OR MORE.

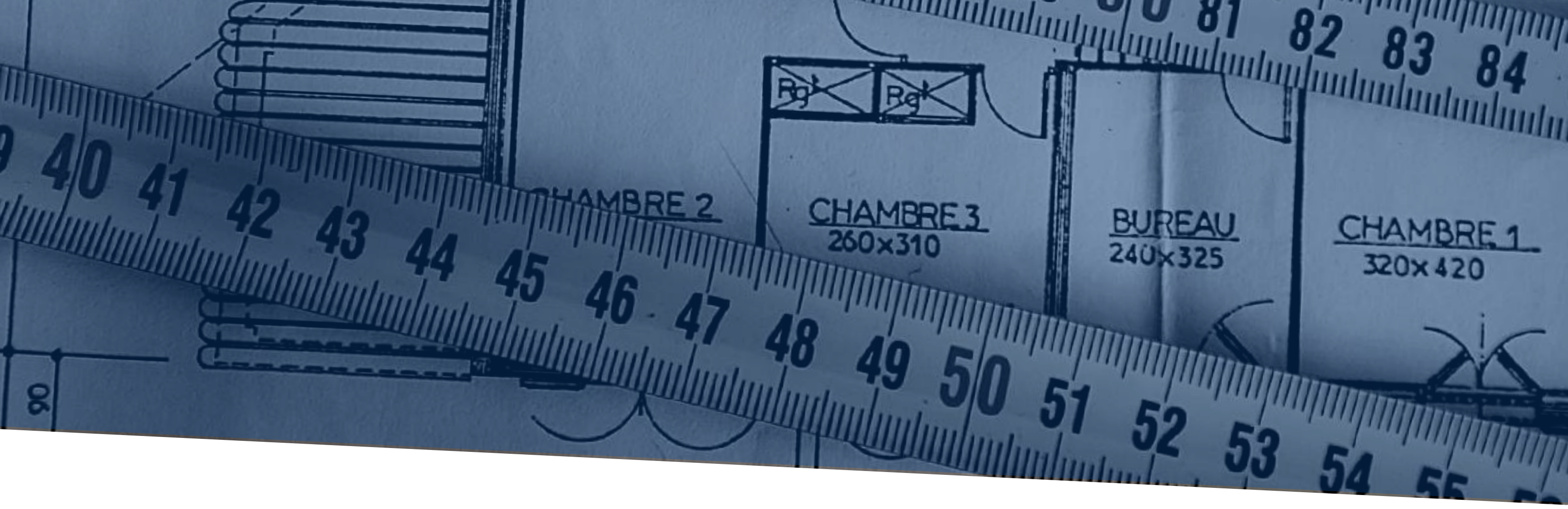
Given your education and experience, you likely have an above-average analytical capacity, which has both upsides and downsides.

Fortunately, your ability to analyze helps you understand the fundamentals of financial planning - such as building spreadsheets and running Monte Carlo analysis. You exercise due diligence for decisions that others may never consider attempting. In fact, when applied to financial planning, your critical-thinking skills are an advantage that can position you for a long and financially successful retirement.

However, it’s been said that overconfidence is an investor’s worst enemy, for it can result in making financial mistakes that cannot be easily fixed in retirement when you are no longer actively earning income.

Conventional financial wisdom, online tools and the media’s latest financial tips just aren’t applicable to you. Yet it is vital that you develop a retirement plan now. But how can you put the necessary time and thought into it, given your other responsibilities?

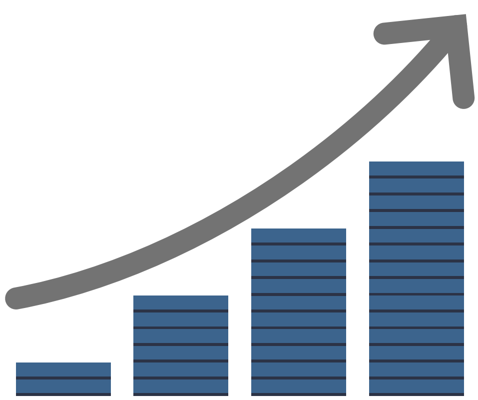
Read on, for we think we can help.




# 1 HOW MUCH IS ENOUGH?

"How much do I need to save so that I don't have to ever work again if I don't want to?" That question is one of the most frequently asked of us by Burns & McDonnell employees.

A general rule of thumb holds that the younger you are when you retire, the more you'll need to have saved. But this is just a general guidance. To more specifically address this question, you may use financial-planning software to project your retirement expenses.



Those expenses can be complicated and typically include health care, travel, big-ticket purchases like a boat or vacation home, education costs for children and/or grandchildren, and more. And don't forget to consider inflation, taxes and potential returns on investments.

However, understand the limitations of this method. The longer a model spans, the more time there is for variation, leading to inaccuracies. In the case of a 35+ year model, chances are high that the model and reality will look different.

That said, this model can still serve to provide valuable insight as these variations occur, in addition to providing a useful foundation for your financial planning. As major decision-making situations arise, think in the context of this framework to assess potential long-term impacts.

**For example, this framework can help you when:**

- Determining how much money you can afford to spend over what length of time in retirement, e.g., $5,000 per month for 32 years.
- Exploring the effect of upgrading (or downsizing) your house on your retirement plan.
- Assessing the viability of continuing your pre-retirement lifestyle after you finish working full-time.

When creating this framework, be sure not to include money needed for non-retirement goals in the plan. Such goals could include a new house, a vacation home, weddings and/or education expenses. In other words, expenses that will take place in retirement do need to be included in your retirement plan.

# 2 HOW CAN I ACCESS MY RETIREMENT SAVINGS?

Given the different buckets of the Burns & McDonnell retirement plan, which, includes the Burns & McDonnell 401(k) and the Burns & McDonnell ESOP (dividends and stock), the timing of when you are allowed to access them and how you do it is extremely important.

If you do not make the right decisions, they can be irrevocable, which can result in adverse tax consequences (tax penalties) that could cost you thousands upon thousands of dollars and reduce the ability to provide you the income necessary to pay for living expenses before age 59½ and after.

So, here is how the Burns & McDonnell plan works:

**RETIREMENT PLAN PAPERWORK**

Once you terminate employment, you will receive a packet of paperwork called **The Retirement Benefit Choices Guide** from the Principal, or you can download the paperwork from your portal to fill out and complete.

This paperwork will allow you to choose how your 401(K) and ESOP plan are distributed or rolled into an individual retirement account (IRA).

**Be careful here.** The Principal document is currently 44 pages with lots of boxes to check, signatures, and information to read.

This is where mistakes can happen that are irrevocable and could impact your retirement and cash flow planning. Also, if you live in a state where income taxes are voluntarily withheld, you will need to complete a form W-4P to make sure you withhold state income taxes, whether you choose to fill out the paperwork or complete it online.

**401(K) PLAN**

You will have access to your 401(k) plan when you terminate employment. You can request to have your retirement funds sent directly to an IRA account and/or receive as a single cash payment. If you chose one of these options, you will have to withdraw the entire portion — you cannot take systematic withdrawals. **If you decide to retire between the ages of 55 and 59½, you can take a cash withdrawal from your 401(k) and avoid the 10% tax penalty.** However, you will be subject to paying ordinary income taxes on the cash withdrawal. If some of your balance is in a Roth 401(k) it can be withdrawn tax free.

**THE CASH ACCOUNT PORTION OF YOUR ESOP**

This will be pulled out in one lump sum. The timing of when you can do this depends on the month that you retire. As an example, if you retire in January, you will have access to it around February 15. If you retire in February, you will have access to it around May 15. In the event you choose a month to retire and do not have access to your retirement assets as you thought, it will cause immediate cash flow problems.

## QUARTERLY DIVIDENDS OFF YOUR ESOP STOCK

You can take a cash distribution of some/all of the quarterly dividend payment of your stock and then rollover the balance to an IRA. The timing of when you have access to the dividends varies throughout the year.

**It is important to know when you have access to your dividends.** This should be included in a cash flow analysis prior to retiring so you know when and where your income is going to come from.

## ESOP STOCK

This will be pulled out in one lump sum. Former employees will have their shares of stock converted to cash based on the stock price as of the last day of their separation year. Once the stock value is known the following spring, shares will be converted into cash retroactively effective back to January 1. The cash will be held in the already existing ESOP Cash Account and will be subject to market fluctuation of the investments that make up the account.

If the value of the account is down from the first of the year, the amount of stock proceeds you receive will be reduced. This can be very tricky for planning since you have expectations of receiving a certain amount and you end up with something different. You will have access to the stock proceeds around May 15 of the year after you retire. You can take a cash distribution of some/all of the stock proceeds and then roll over the balance to an IRA.

# 3 HOW CAN I MINIMIZE MY TAX BURDEN?

**SCHEDULE OF WITHDRAWALS**

In the event, you decide to retire before age 59½, it will be essential to put together a schedule of withdrawals from the different buckets of retirement assets to help you fill in the income gap between retirement and age 59½ and avoid unnecessary tax penalties.

**DISTRIBUTION SCHEDULE**

For all retirees, it is important to figure out where your income is going to come from. The order in which you pull money from different buckets (tax deferred and non-tax deferred) is very important for tax planning purposes. It could include using a combination of savings, tax deferred, and non-tax deferred investments. If you can keep income from being taxed at a higher tax bracket, it could save you tens of thousands of dollars over your lifetime.

## ROTH CONVERSIONS

By converting an IRA to a Roth IRA, you will have assets that will not be taxed when withdrawn, potentially allowing you to better manage your tax planning during retirement. **Moving to a Roth also means you will not have to take required minimum distributions (RMDs) on your account when you reach age 72.**

From our experience in advising Burns & McDonnell employees, the largest amount of investible assets are tax deferred. This can create a tax bomb at age 72 when it's time to take RMDs and unintentionally put you in a higher tax bracket.

By doing Roth conversions early in retirement at possibly lower tax rates, this could reduce the amount of RMDs and income that are subject to taxes, allowing your money to grow tax deferred and — as long as you follow the Roth IRA guidelines — have tax free income.

## WORK WITH A TAX PROFESSIONAL

At this point, your situation is complex enough that outsourcing tax preparation to a CPA is probably wise. Your accountant should work closely with you and your financial advisor. The best tax advice happens when all of your advisors collaborate.

# 4 IS WORKING WITH AN ADVISOR RIGHT FOR YOU?

Admittedly, we may be a bit biased. Even so, we find we are uniquely positioned to help Burns & McDonnell employees answer this question, and will be as impartial as possible in doing so.

**Do-it-yourself versus hire-an-advisor is a complex comparison involving a variety of factors, but for Burns & McDonnell employees, one factor stands out from the rest:**

If you enjoy and are skilled at personal finance and investing and are passionate about managing the financial part of your life, then you should continue to do it yourself.

However, if you have neither the time nor the interest required to give your personal finances the active attention they need, then working with an advisor can decrease your stress levels while increasing your wealth.

The primary reason to hire an advisor is because you have come to believe that his/her advice will be a considerably greater benefit to you than its cost. Your time is better spent on other facets of your life, such as family, grandchildren, travel, volunteering, and hobbies.

THE IMPORTANCE OF FINDING THE RIGHT ADVISOR CANNOT BE UNDERSTATED.

As with engineers, a good advisor produces value far more than costs, and a bad one is probably worse than no advisor at all. The right advisor is a walking, talking insurance policy against one or another mistake that every investor is hard-wired to potentially make.

**How do you find a good advisor?**

Most advisors should be able to provide comparable base-level services. The difference lies in how well they align with you.

**When evaluating an advisor, consider these questions:**

- Is the advisor able to take care of the financial tasks that I don't want to do myself?
- Do the advisor and I have a similar working style and ethic?
- Do we have similar investment philosophies?
- Does the advisor understand my needs, given my unique situation and career?
- Can I see myself working with this advisor for many years?
- Do I like him/her?

# TAKE CONTROL OF YOUR FINANCIAL FUTURE

You've worked hard to get to where you are, and you have earned the financial rewards that come with it.

Your maturing career has been paralleled by a maturing financial situation, which may now be more complicated than you imagined when you began. Through comprehensive ongoing analysis coupled with focused efforts, you can ensure your finances are properly managed and the opportunities your profession brings you are maximized.

Life is a winding road with a lot of uncertainty. We hope this paper provides you with the information to make better decisions that will give you the best opportunity to meet your long-term goals and objectives both financially and personally.

The Retirement Planning Group provides comprehensive financial planning, money management, and in-house tax services.

We act as the financial quarterback for our clients. We do the heavy lifting for monitoring and managing a client's portfolio customized for their goals and risk tolerance. Our in-house tax services include tax preparation, filing, and tax consulting throughout the year. We also provide retirement income planning to help determine when you can retire, how much you can spend in retirement, and what legacy you would like to leave.

**Over 1,500 families* already trust us to guide them toward their ideal financial future. Our team of advisors consists of CERTIFIED FINANCIAL PLANNER™ professionals, CPAs, CRPC®s, or Chartered Financial Analyst® that are here to guide you.**

*As of 1/1/22

## Schedule a Meeting with Dwight Twillman, CFP®

Click here for more information, or give us a call at **(913) 498-8898**.

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