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# An Analysis of Financial Planning for Employees of East Tennessee State University.

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An Analysis of Financial Planning for Employees of  
East Tennessee State University

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A dissertation

presented to

the faculty of the Department of  
Educational Leadership and Policy Analysis  
East Tennessee State University

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In partial fulfillment

of the requirements for the degree

Doctor of Education

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by

Steven R. Campbell

May 2006

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Keywords: Financial Planning, Retirement Planning, Employee Benefits, Deferred  
Compensation, Supplemental Retirement Annuities

## ABSTRACT

### An Analysis of Financial Planning for Employees of East Tennessee State University

by

Steven R. Campbell

The purpose of this study was to determine if East Tennessee State University provides its employees appropriate financial planning services. In particular, it is unknown to what degree employees of East Tennessee State University have actively engaged in financial planning.

The research was conducted during June and July, 2005. Data were gathered by surveying faculty, staff, and retirees of the university. Ten percent of the population responded to the study. The survey instrument covered the areas of retirement, other financial planning services, and attitudes toward financial planning.

The results of the data analysis gave insight into what degree employees of East Tennessee State University have actively engaged in financial planning. For example, over 20% of the respondents encouraged employees to start early in order to achieve the benefit of time value of money. Fifteen percent of the respondents suggested financial planning workshops be offered on a more frequent basis. Approximately 10% of the respondents preferred an instructor to be independent, instead of a financial salesperson. The study provided an increase in the body of knowledge on financial planning for the ETSU employee and established a historical database for the various programs offered within the ETSU system.

## DEDICATION

To my wife, Rebecca Stykes Campbell, for 32 years of patience, understanding, and sacrifice that you made over the years in pursuing our dreams. With everything changing in our world, your love and commitment are the strongholds of my life.

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## CHAPTER 1

### INTRODUCTION

How many individuals know what they will do when they retire? Financial planning varies substantially among people nationwide. People have different approaches and concepts regarding retirement, estate planning, insurance, and job and location changes.. For the purposes of this study, the research will focus on employees of East Tennessee State University (ETSU). The university assists full-time employees in areas such as educational benefits, tax deferred benefit programs, and a fully funded retirement program.

ETSU employees are much like typical working people throughout the nation. In this regard, financial planning starts whenever all of the bills are paid. After the children are grown and the mortgage nearly paid, many individuals start calculating what their retirement needs will be and whether they are financially on track to meet those needs. This lack of planning results in having to work longer or to reduce spending more than desired (TIAA-CREF, 2003).

A popular question is: How much saving is sufficient for retirement? Without some kind of framework, it can be difficult to know what level of savings will be sufficient to maintain a comfortable lifestyle in retirement. Thomas G. Walsh of TIAA-CREF demonstrates that the higher the salary the individual earns, the larger the percentage of salary he or she ought to save to maintain a comfortable lifestyle in retirement. “The reason is that the affluent individual is going to need to accumulate a much larger nest egg to support a more expensive lifestyle than persons with low or moderate salaries” (TIAA-CREF, 2003).

To commence with the study, we should understand the background of the population of employees at ETSU and the culture that surrounds the area. East Tennessee State University is one of 47 institutions in the Tennessee Board of Regents system, the sixth largest system of higher education in the nation. The Tennessee Board of Regents is the governing board of this system that is comprised of 6 universities, 13 community colleges, and 28 area technology centers. The TBR system enrolls more than 80 % of all Tennessee students attending public institutions of higher education (East Tennessee State University, 2004).

ETSU opened its doors in 1911 initially to prepare teachers for the region's public schools and has evolved into a state-supported, comprehensive, regional university in the State University and Community College System of Tennessee, governed by the Tennessee Board of Regents. The University embraces its regional setting and proudly reflects its traditional roots through programs and activities that highlight its Appalachian heritage. The University acts on the belief that educational opportunities should be available to all eligible people without regard to age, sex, race, religion, national origin, disability, veteran status, or sexual orientation (East Tennessee State University, 2004).

ETSU has over 2000 employees and its main campus is located in Johnson City, Tennessee, in the mountain and lake country of the Tri-Cities Tennessee/Virginia region. Off campus centers include ETSU/University of Tennessee at Kingsport, the Marshall T. Nave Center in Elizabethton, and sites in Bristol and Greeneville. ETSU enrolls nearly 12,000 students and features over 100 degree programs, including the doctor of medicine degree

through the James H. Quillen College of Medicine. In addition to the College of Medicine, there are eight other colleges and schools at ETSU (East Tennessee State University, 2004).

The mission of East Tennessee State University is to serve the state, region, and nation: by helping students become responsible world citizens enlightened by liberal education and prepared for professional careers, by conducting scholarship that enhances the accumulated knowledge of civilization; by providing professional services to business, education, government, and health care providers; and by enhancing the cultural environment of the region (East Tennessee State University, 2004).

#### *Statement of the Problem*

It is unknown to what degree employees of East Tennessee State University have actively engaged in financial planning. It is the purpose of this study to determine if the University provides employees appropriate financial planning services.

#### *Significance of the Study*

It is important to study and project the economic conditions of the future so that adequate financial planning can commence early in the employee's life. The study will significantly increase the body of knowledge on financial planning for the ETSU employee and provide a historical database for the various programs offered within the ETSU system. Retirement could be frustrating if Social Security and the state- funded retirement programs were not sufficient for the employees to maintain their existing lifestyles. Plans for travel and entertainment might then need to be replaced by part-time jobs to supplement the retirement years. Employees, state plan administrators, university administrators, and the

various annuity companies to plan various financial instruments and/or concepts for ETSU employees can use results from this study.

### *Research Questions*

The research will be designed to answer the following research questions:

1. To what extent are ETSU employees engaged in financial planning?
2. What financial planning services are provided for ETSU employees?
3. What factors should ETSU employees consider in deciding between defined-benefit and defined-contribution retirement plans?
4. To what extent should ETSU employees supplement their financial planning?
5. To what extent are ETSU employees satisfied with ETSU financial planning services?
6. To what extent should the university enhance the financial planning services for ETSU employees?

### *Definitions and Explanation of Terms*

Retirement Plan: The Tennessee Board of Regents System had two retirement plans: the Tennessee Consolidated Retirement System (TCRS) and the Optional Retirement Plans, which includes TIAA-CREF, VALIC, and ING (East Tennessee State University, 2004).

401(k) Plan: This employer-sponsored, qualified plan permits employees to make pretax contributions from their salaries to a profit-sharing plan, a target benefit plan, or a stock bonus plan. The contributions and earnings grow tax deferred until withdrawn (Olson, 2004).

403(b) Plan: This tax-deferred annuity (TDA) plan that meets the requirement of Section 403(b) of the Internal Revenue Code. Only certain non-profit organizations which are described in Section 501(c)(3) of the Internal Revenue Code and public educational institutions qualify for the use of such plans. The plan allows an employee to contribute pretax dollars to a fixed or variable account. Because the employer pays no income tax, each individual employee benefiting from the plan is able to defer all contributions and interest or investment gains made on his or her behalf. This deferral includes either employer contributions and/or contributions required by the employee (VALIC, 2003).

Deferred Compensation: This is a contractual agreement between an organization and an employee wherein the organization makes an unsecured promise to defer employee compensation to some future date for services currently being performed. (Olson, 2004).

Defined Benefit Plan: This is a pension plan under which the benefit the employee is to receive in the future is predetermined. The amount of the required annual employer contributions depends on the level of benefits to be provided and the estimated number of years in the accumulation period (VALIC, 2003).

Defined Contribution Plan: This pension plan is determined by employee contributions, not by a predetermined formula. The amount of the employee's benefit equals the accumulated contributions plus earnings the fund will produce in terms of a retirement income or lump-sum payment (VALIC, 2003).

Dollar Cost Averaging: This features a system of buying securities at regular intervals with a fixed dollar amount, by the dollars worth rather than by the number of shares. If each investment is the same number of dollars, payments buy more

shares when the price is low and fewer when it increases. Periodic investment plans do not assure a profit or protect against loss in declining markets (Olson, 2004).

Estate Planning: This method incorporates planning for the orderly handling, disposition, and administration of an estate when the owner dies. Estate planning includes drawing up a will, setting up trusts, and minimizing estate taxes, perhaps by passing property to heirs before death or by setting up a testamentary trust (VALIC, 2003).

Financial Planning: The process of analyzing financial statements to project the effects of the operating plan on profits and losses (Brigham & Houston, 2000).

Funded Pension Plan: In this type of retirement plan, the employer puts aside enough money each year to cover the cost of currently promised pension benefits (VALIC, 2003).

Individual Retirement Account (IRA): This personal investment account may be established by any individual who has earned income. Annual contributions to an IRA are deductible from gross income in the calculation of federal and state income taxes and earnings on the account accumulate tax-free until withdrawal, when they are taxed as ordinary income. Moneys withdrawn prior to age 59 ½ are subject to a 10% penalty in addition to being taxed as ordinary income. IRAs are used to purchase stocks, bonds, mutual funds, limited partnership units, and annuities. Life insurance, collectibles, and any investments made on margin are prohibited (VALIC, 2003).

Lump-Sum Distribution: The entire balance of the retirement plan is received in a single tax year through this type of distribution (VALIC, 2003).

Mutual Fund: Established by an investment management company, this fund invests the pooled money of individual shareholders in a diversified portfolio of securities



selected to meet stated goals. New shares are sold and outstanding shares redeemed on demand; all transactions are made at the fund's net asset value, which fluctuates daily. Funds offer their shareholders diversification, liquidity, and professional management (VALIC, 2003).

Non-Qualified Annuity: A type of annuity offered outside of a tax-favored employer sponsored retirement plan to which contributions are made with after-tax dollars. Taxes on earnings and interest are deferred until withdrawal or when annuity payments begin, usually at retirement (VALIC, 2003).

Optional Retirement Plan: An annuity plan in which 10 % of the employee's salary up to the social security wage base (\$87,900) and 11 % on the salary above the social security wage base is sent to the annuity of the employee's choice. All regular full-time and regular part-time faculty and administrative employees are eligible for this plan. There are three vendors: ING, TIAA-CREF, and VALIC. The employee can participate in one, two, or all three and can transfer between companies (East Tennessee State University, 2004).

Qualified Retirement Plan: This plan meets the qualification requirements set out in detail in Internal Revenue Code sections 401 and 403(a), and as such, are plans established, operated, and supported by employers, which have been submitted to and formally approved and qualified by the Internal Revenue Service (VALIC, 2003).

Rebalancing: Adjusting a portfolio, through fund transfers or sales or purchases, to re-establish the initial allocation of assets (VALIC, 2003). This procedure would involve assigning percentages of the contributions to the various fund options.

Rollover: This transfers nontaxable assets from one qualified retirement plan to another, such as from a defined contribution plan to an IRA or nontransferable annuity (VALIC, 2003).

Tax-Deferred Annuity: For employees of qualifying organizations, this tax-favored plan permits an employee to set aside a portion of his or her earnings for retirement per an agreement with his or her employer. Income tax is deferred on the contributions, interest, and earnings, provided the amounts are used to purchase an annuity contract or regulated investment company's shares. Contribution amounts are limited by tax law and taxes are due on all contributions and interest and earnings upon withdrawal or when annuity payments begin, usually at retirement (VALIC, 2003).

Tennessee Consolidated Retirement System: Retirement benefits through this benefit plan are clearly defined and computed by the total years of experience and the highest five consecutive years' salary. All regular full-time and regular part-time employees are eligible for this plan (East Tennessee State University, 2004).

Time Horizon: The amount of time remaining until the investor will need his or her money (VALIC, 2003).

Volatility: Accepted by academics and financial planning practitioners as a representation of risk, volatility is expressed statistically as the standard deviation of stock price, which analyzes the fluctuation of returns of an investment around an average. It is also the tendency of a security or market to fluctuate in price (VALIC, 2003).

#### *Limitations and Delimitations*

The study is limited by the financial planning programs that are required to be approved by the Tennessee Board of Regents.

The study is delimited by surveying only ETSU employees.

### *Procedures*

The following procedures were employed in conducting the study:

1. Permission to conduct the study was requested from the President of East Tennessee State University.
2. A review of related literature was conducted.

This research investigated financial planning options at ETSU but differed from purely descriptive research by going beyond simple description to explain the situation and achieve understanding. The overall intention of this study was to give the reader an insight into future economic conditions facing the employee.

### *Organization of the Study*

The dissertation was organized into five chapters:

Chapter 1 consist of the introduction, the statement of the problem, significance of the study, the research questions, the definitions and explanation of terms, the limitations and delimitations, the procedures, and the organization of the study.

Chapter 2 contains the review of the literature, while Chapter 3 features the research methodology. Chapter 4 incorporates the findings and analysis of the data and Chapter 5 integrates the summary, conclusions, and recommendations for further research and improved practice.

## CHAPTER 2

### REVIEW OF THE LITERATURE

The review of the literature found in this section focuses on types of financial planning services available through ETSU, Tennessee Board of Regents, and outside retirement/annuity companies. The review of literature was categorized in three sections: General, Planning, and Technical literature.

#### *General*

A supplement to the *Chronicle of Higher Education* addressed the financial life of a faculty member. The text emphasized that unless one is a business professor with a specialization in personal finance, then the issues involved in investment planning can be a distraction from the core activity of his or her career. But the *Chronicle* neatly arranges the financial life of a faculty member as follows: tenure track, post-tenure, and retirement (Vineyard, 2004).

The first category ranges for a period of 6 to 7 years from the time an employee joins the tenure track until the point he or she receives tenure. Academics would not have to guess what amount of money they would receive because it was generally documented in their contract with the institution contributing a fixed percentage of their salary to their retirement. The faculty member can easily figure the present and future values of these contributions and, consequently, design a desirable nest egg. Academia differed from other occupations for which income is based on commissions earned and bonuses paid. Vineyard (2004) pointed out, "Most academics find this high predictability a source of comfort, although it can also be a kind of golden handcuff" (p.2).

During the working years, employees hope their investments are growing to the fullest extent. However, Vineyard revealed that as persons get older, they should shift some

of our portfolio away from equities and into less risky investments. “So if our hypothetical professor at age 58 has 80% of his pension holdings in stocks and the rest in bonds, it’s probably time to shift more of those holdings to bonds” (Vineyard, 2004, p.2).

Vineyard reminded that retirement is not the only thing that requires planning. There is also the matter of college costs for your children. Some people use their pension assets to help defray college costs, but it is probably best to earmark some savings specifically for education. “At a minimum, setting aside 2% of your salary a year for those costs seems realistic, but that figure depends on how many kids you have and any other resources they will be able to tap” (Vineyard, 2004, p.2).

Stage three is defined as the Retirement Stage, which usually occurs well before the date on which a person actually retires. If the individual waits until the actual time to retire, then many things may be locked in place. The retirement stage is the point at which most of the returns on careers are in, and it becomes possible to make a detailed retirement plan. A common beginning point for this stage is somewhere between 55 and 60 years of age, at which there is time to make changes in light of what one wishes to do with the remainder of his or her life (Vineyard, 2004, p.3).

After retirement there will be some additional choices, like rolling retirement funds into a self-managed or managed by a hired advisor. IRAs open up many investments that are naturally much wider than the list of mutual funds available through employer’s pension plans. Every person’s needs are different, but each needs to provide for some long-term growth after retirement. After age 70 ½, one should begin taking minimum distributions from all of his or her retirement funds (Vineyard, 2004, p.3).

A good way of looking at livable pension savings is to allow for a rate of spending that stays about 3% above the level of inflation. This method permits spending a portion of retirement savings while maintaining the purchasing power of the principal. Although it is

certainly not advisable to run out of money before running out of years, it is possible with a combination of a few bad choices and some bad luck. “Academics are well positioned by temperament and training to take advantage of second and third careers. The beginning of this stage is the time to plan your post-retirement career. Waiting until you step down is not” (Vineyard, 2004, p.3).

Americans are retiring younger. In 1965, for example, the average age at which Americans applied for social security benefits dropped to age 66 from age 70, the average 20 years earlier. By 1975, the retirement age leveled off at approximately 64, partly due to the gradual increases in the age of eligibility for full social security benefits. During the late 1990s, the average age at which state employees in TCRS retired dropped from age 62 to age 59 (State of Tennessee, 2004).

Americans are also living longer. In 1950, people over age 65 made up just eight percent of the total population in the United States. By 2000, they represented over 12 %, and by 2050, they are expected to make up 21% of the population. In 2000, the life expectancy for 65-year-old Americans had reached age 80.8 for men and age 83.9 for women (State of Tennessee, 2004).

A related article explores the perceptions of retirees regarding their preparation for retirement and the relationship between their planning activities and their psychosocial adjustment following retirement. The analysis focused on two groups – those who planned for retirement and those who reported no planning. The conclusions from this study revealed that the respondents’ post-retirement perceptions of retirement planning did not correspond with their pre-retirement preparation. Considerably more emphasis was placed not only on financial planning but also on the psychosocial adjustment to retirement and life after employment. From the sample taken, a significant increase in sedentary activities, such as

watching television but there was no significant change in social activities or exercise among the population studied (Rosenkoetter & Garris, 2001).

Contrary to public opinion, the study did not find any differences in the planning between men and women. The differences found in planning according to employment position, however, demonstrate the importance of developing pre-retirement programs that were individualized for the various types of workers (Rosenkoetter & Garris, 2001).

According to Glass and Kilpatrick (2002), the personal characteristics, economics, and certain psychosocial facts, attitudes and means of investing interacted either to enhance or inhibit the level of savings for retirement. Personal characteristics, economics, and psychosocial factors also affected the types of investments or savings vehicles that were selected. These factors were true for both males and females. Because baby boomers represented 71% of the respondents, the factors were representative of that middle age range group.

The good news for the baby boomers was that the majority were saving something. In general, the value of individual savings was \$50,000 or over, jumping to 32% of savings for both males and females in the age 30-39 group and continuing to increase with each additional decade. A second positive indicator was that the baby boomers had the most consistent pattern of diversification in high-risk savings vehicles. In other words, as their diversification increase, so did their level of savings (Glass & Kilpatrick, 2002).

Personal identity is strongly tied to work, and the decision to retire is also the decision to give up an important aspect of one's identity. Retirement tends to free large amounts of time and many people have difficulty using this time in enjoyable ways. Retirement also changes the shape of personal relationships, placing husbands and wives together with a frequency and intensity that they have rarely experienced. In addition, the decision to retire has a major financial impact. Even if retirees seek supplemental

employment, their salary will probably be a lot less than when they worked full time (Hershey & Walsh, 2002).

Most people are not good at estimating the balance between financial need and financial resources across the years of retirement. A general trend suggested that financial training and increased levels of financial knowledge were related to more accurate retirement decisions. But the improved accuracy associated with training and higher levels of financial knowledge were far from adequate for producing what could be considered accurate financial decisions (Hershey & Walsh, 2002).

“Sunshine and warm temperatures are not the only lures for retirees. They also want cheaper housing and some elbow room, and that has made places like Colorado, Idaho, Utah and New Mexico increasingly attractive to the over-65 set” (The Associated Press, March 10, 2004, p.5A).

California, by far the most populous state, has the largest number of people 65 and older, 3.8 million, up almost 5 % from 2000. It was followed by Florida and New York (The Associated Press, March 10, 2004, p.5A).

The most crucial retirement reality for baby boomers is the need for individuals to assume responsibility in preparing for their financial needs during retirement. Neither Social Security nor the employers can be depended upon to fund the retirement of baby boomers. With increasing numbers of women in the workforce and other demographic changes, it is important for women baby boomers to plan for retirement. Women typically do not have the same retirement resources that men do; thus, they are poorer in retirement, yet they prepare less. Reasons for women’s lack of planning for retirement security include: employment in settings that do not offer retirement benefits and services; interrupted career paths; women’s lower earnings; and pension issues (Glass & Kilpatrick, 2002).



Retirement can be thought of as a normal part of the life and work cycle. Individuals can expect to spend one fourth of their life span in retirement. Many workers admit looking forward to years of retirement leisure, while maintaining their current lifestyle and expanding it to include more leisure activities. However, the majority of workers know little about planning behaviors in midlife that will facilitate the lifestyle they desire as retirees (Turner, Bailey, & Scott, 1994).

Retirement planning behavior and attitude toward retirement are important in satisfactory adjustment to life after work. Researchers have found significant relationships between attitude toward retirement and retirement planning. Those with more positive attitudes toward retirement are more likely to be involved in a variety of retirement planning activities. Retirement planning indicates a more positive attitude toward retirement years (Turner et al., 1994).

Approximately 34 million persons in the United States are 65 years of age or older. According to the American Association of Retired Persons, this figure represents 12.7% of the total population. According to the U.S. Bureau of the Census, 23.6% of the older population lived in rural areas. As all have been warned, when the baby boomers hit retirement age, these numbers will mushroom. Projections indicated that by 2030, the number of persons 65 and over would rise to approximately 70 million, making up 20% of the total United States' population (Glass & Flynn, 2000).

According to The Associated Press (2004), the Senior Community Service Employment Program is a federally funded project that trains the growing number of older people who want jobs. The U.S. Bureau of Labor Statistics in Washington has reported that older workers are expected to make up a larger part of the labor force in the next 20 years.

Stanley Fish, the dean of the College of Liberal Arts and Sciences at the University of Illinois at Chicago, writes a monthly column for the Career Network on campus politics and

academic careers. In his recent article, “Letting Go – What do you do when you’re on your way out?”, Fish (2004) states the obvious wants during retirement.

What one wants are leisure and employment, security and opportunity, diminished responsibility and better space – all at the same time. It’s not a package anyone can deliver, and I invariably grow impatient as I listen to someone who wants to stop working but wants also to have an office ready whenever he has a mind to drop in, someone who is tired of teaching but wants the right to teach courses any time he likes at three times the compensation I would have to pay a younger, more energetic lecturer, someone who says he’s ready to pack it in but wants a guarantee that his favorite programs will be continued (Fish, 2004, p.C1).

According to Brigham and Houston (1995), published in *Fortune* magazine: (1) The United States savings rate was the lowest of any industrial nation; (2) The ratio of United States workers to retirees, which was 17 to 1 in 1950, was down to less than 2 to 1; (3) with so few people paying into the Social Security System, and so many drawing funds out, Social Security would soon be in serious trouble. The article concluded that even people making \$85,000 per year would have trouble maintaining a reasonable standard of living after they retire, and many of today’s college students would have to support their parents. A study of financial planning is very important in today’s economy. According to an associated press article reported in the *Johnson City Press*, a South Carolina investor lost a \$1.4 million nest egg when a South Carolina investment company folded in the largest bankruptcy in the state’s history. After decades of working nearly every day at his diner, the investor planned to retire months before the occurrence to spend some time with his family. In what was called a “little Enron,” many of the firm’s 8,000 investors found themselves out more than \$275 million, combined. Carolina Investors Inc. filed for bankruptcy in April 2003. Before

the bankruptcy, rates were paying 8.5 % on the investments. Although this was an appealing option, proper financial planning would steer an investor away from such options (The Associated Press, November 14, 2004, p.7D).

In the November 2004 *Business Journal*, an article stressed the point that becoming financially comfortable had nothing to do with earning big bucks. Most of all, it had nothing to do with luck. Most people recognize the need to provide for a secure retirement, and they know that Social Security and a company pension may not do it all. The problem is that many people simply never get around to saving money. They are busy raising children, paying for a home, and taking well-deserved vacations, etc. They may promise themselves that, after the bills are paid this month, they will put aside whatever is left for the future. There is only one problem. There is almost never anything left at the end of the month. Something unexpected always seems to come up: The storm door breaks, the carpets need cleaning, anniversaries or birthdays need to be celebrated. As a result, this method of saving what is left rarely works (Morris, 2004).

*Fortune* and other organizations conducted studies relating to the retirement issue. The general conclusion was that most Americans had their heads in the sand. Many ignored what was, almost certainly, going to be a huge personal and social problem (Brigham & Houston, 1995). Therefore, this research will endeavor to educate ETSU employees in order to avoid the trap of not having enough money with which to retire.

Concepts like demography of aging, biology of aging, family relationships, and social support do not seem to be a concern for financial planners. This assumption would be totally wrong. It is becoming obvious that interdisciplinary learning is essential for expert service. The next phase in the discipline of retirement planning, estate, and investment planning is a comprehensive understanding of the social sciences as they apply to senior living and older Americans (Tacchino, 2004).

Financial planners who are concerned about what will happen to stock prices and real estate values when the baby boomers retire and start to liquidate their portfolios and sell their homes can take heart that there are almost as many echo boomers as baby boomers. An echo boomer is a person born between 1977 and 1994. A baby boomer is classified as someone born between 1946 and 1964. With their collective existence, the baby boomer cohort has pushed markets, such as the housing market, into new territories plus new products and services (Tacchino, 2004).

Another important insight received from demography was that of females. Knowing that women have a longer life expectancy than men has implications for family financial planning. Single women and widows have the highest poverty rates among the aged. Because widowed women are less likely to remarry than widowed men, the financial planner must protect the client against the future with products such as join-and-survivor annuities, whole life products to insure husband's lives, and extra pre-retirement savings (Tacchino, 2004).

Another demographic concern centers on the current social programs. A population age structure that is influenced by fertility, mortality, and migration will have significant implications for Social Security, Medicare, and other government-sponsored programs. When the oldest of the baby boomers retire in the next decade, they will create the largest cohort of senior citizens in U.S. history. This in turn will necessitate changes in how government currently operates. The elderly dependency ratio is the number of persons aged 65 and older to working persons. Because this ratio is increasing, it will impact labor markets and redefine the government's obligation to its oldest citizens (Tacchino, 2004).

Financial planners must be prepared to deal with those clients who start to suffer from dementia, such as Alzheimer's disease. Durable powers of attorney, joint ownership of

property, and other products and services are only the beginning of what amounts to a complex client/planner/family-member relationship (Tacchino, 2004).

The Treasury Department took a significant step of progress in November 2004 when it released newly proposed regulations on the subject of phased retirement. The regulations would allow employees who are age 59 ½ to receive a pro rata portion of their pension annuity to the extent they choose to reduce their work as part of a phased retirement program (Caudill, 2005).

Both employers and employees have expressed interest in encouraging older, more experienced workers to stay in the workforce. One approach that some employers have taken is to offer employees the opportunities for phased retirement. The arrangements generally provide employees who are at or near eligibility for retirement with the opportunity for a reduced schedule or workload, thereby providing a smoother transition from full-time employment to retirement. These plans permit the employer to retain the services of an experienced employee and provide the employee with the opportunity to continue active employment at a level that also allows greater flexibility and time away from work (Caudill, 2005).

Phased retirement is defined under this proposal as an arrangement under which a non-key employee who has reached age 59 ½ is permitted to voluntarily receive a pro rata portion of his or her pension annuity, based on a reduction in work hours. In order to be considered phased retirement, the reduction in work hours must be at least 20%, based on actual hours worked. The arrangement must be in writing and adopted by the employer (Caudill, 2005).

The drawback of commencing a pension payout early is the potential for depletion of retirement funds or reduction of the employee's accrued benefit. The Treasury Department acknowledged the risk that early distributions could reduce employees' benefits at full

retirement, but phased retirement would be available only with respect to annuity distributions, which by definition cannot be outlived (Caudill, 2005).

### *Available Benefits at ETSU*

This study clearly states existing financial planning services available to ETSU employees. ETSU Personnel Policies lists the following benefits available to employees:

#### 1. Retirement Plans

ETSU provides two types of non-contributory retirement. The employee may choose the Tennessee Consolidated Retirement System that is a defined benefit plan. This plan uses the total years of experience and the highest 5 consecutive years' salary in the computation of the retirement benefit. It has a 5-year vesting requirement. All regular full-time and regular part-time employees are eligible for this plan.

The employee may also choose the Optional Retirement Plan, a defined contribution plan. According to this plan, 10 % of the employee's salary up to the social security wage base (\$87,900) and 11 % on the salary above the social security wage base are sent to the selected annuity. All regular full-time and regular part-time faculty and administrative employees are eligible for this plan. There are three vendors: ING, TIAA-CREF, and VALIC. The employee can participate in one, two, or all three and can transfer among companies.

#### 2. Insurance Programs

All employees working a minimum of 30 hours per week are eligible to participate in the State of Tennessee Group Insurance program -- the Blue Cross Blue Shield Preferred Provider Organization (PPO) option or John Deere Health Maintenance Organization (HMO) option or Point of Service (POS) option. The program provides health, basic term life, and

basic special accident insurance for the employee and his/her dependents. Eighty percent of the premiums are paid by ETSU and 20 % by the employee.

Additional optional plans include Dental Insurance, Optional Special Accident, Long Term Care, Optional Term Life, Optional Universal Life, cancer care, intensive care, and two long-term disability plans. A flexible benefits plan is provided.

### 3. Leave Programs

Twelve-month faculty and executive/professional/administrative staff earn two days annual (vacation) and one day of sick leave monthly. Regular full-time clerical and support personnel earn one day of sick leave monthly, and accrue annual leave (1-2 days monthly), based on years of service. Nine-month faculty earn sick leave. Participation in a faculty and/or non-faculty sick leave bank is optional. Additional information on leave programs is included in *ETSU Personnel Policies and Procedures*. These programs include: Adoptive Parents Leave, Annual Leave, Bereavement Leave, Civil Leave, Holidays, Leave of Absence, Maternity Leave, Military Leave, Sick Leave, Faculty Sick Leave Bank, Non-Faculty Sick Leave Bank, Family and Medical Leave, Transfer of Sick Leave between Employees, Voting Leave, Educational Leave, Disaster Relief Service Leave, and Paternity Leave.

### 4. Educational Benefits

ETSU is committed to the continued professional growth and development of staff and faculty. The specific educational programs available to employees include: Faculty and Administrative/Professional Staff Grant-in-Aid Program, Faculty or Administrative/Professional Staff Tuition or Maintenance Fee Reimbursement Program, Employee Audit Program, Clerical and Support Staff Maintenance Fee Payment Program, Request for State Employee Fee Waiver – PC191, Black Staff Development Program, Black Faculty Development Program, and Student Fee Discount for Spouses and Dependent Children of Employees.

#### 5. Longevity Pay Plan

A longevity pay plan is in place to reward ETSU employees for extended full-time service to the state, subject to yearly positive action by the State Legislature. Upon completion of 36 months of service, regular full-time employees are eligible to receive the current established rate of \$100 per year of service, not to exceed \$2,500.

#### 6. Basic Group Term Life and Special Accident Insurance

Employees who participate in the health insurance program also receive certain amounts of basic term and basic special accident life insurance coverage, depending on their age and salary level. The state provides, at no cost to the employee, \$20,000 of basic term life and \$40,000 of basic special accident coverage for those employees who elect health coverage, earn less than \$15,000 annually, and are under age 65. The amount of coverage increases as the employee's salary increases, with premiums for coverage above \$20,000/\$40,000 deducted from the employee's paycheck. The maximum amount of coverage is \$50,000 for term life and \$100,000 for accidental death and dismemberment. The face amount of coverage declines at ages above 65.

Eligible dependents, spouse and children, are covered for \$3,000 of basic dependent term life coverage. In addition, dependents are eligible for basic special accident insurance, with the amounts of coverage based on salary and family composition.

#### 7. Optional Life Insurance

Optional universal life and term life insurance are programs that are available on a contributory basis for employees and dependents whether or not they participate in health coverage. For guaranteed-issue coverage, the employee must enroll during the first full month of employment with the state. If optional life coverage is not elected at that time, the employee may only enroll during the annual enrollment transfer period by presenting evidence of insurability through a health questionnaire.



#### 8. Flexible Benefit Plans

Flexible benefit plans include medical premiums that are deducted pre-tax, dental premiums that are deducted pre-tax, medical spending account, and dependent day care.

#### 9. Long-term Care Insurance

Long-term care insurance is for individuals unable to take care of themselves without the assistance of others, due primarily to an injury, chronic illness, advanced age, or cognitive impairment. This insurance covers daily activities to maintain independence and control of their care. The individuals eligible to apply are spouses, eligible dependent children, parents, and parents-in-law. The premiums are based on the age at enrollment by the employee.

#### 10. Employee Funded Optional Deferred Compensation and Supplemental Retirement Options

The State of Tennessee's deferred compensation plan allows employees to set aside tax-deferred income for retirement purposes, of which the State will match a \$30 contribution. Participants can defer some of their annual income, up to an annual limit, and contributions and earnings are tax-deferred until withdrawal; however, taking a distribution of the funds before age 59 ½ will trigger a penalty tax. Contributions made to a 401(k) and 403(b) work in combination for the annual maximum allowed (East Tennessee State University, 2004).

A 457 plan is similar to a 401(k) plan, except there are never employer matching contributions and the Internal Revenue Service (IRS) does not consider it a qualified retirement plan. Participants can defer a limited amount of their annual income, and contributions and earnings are tax-deferred until withdrawal. However, taking a distribution of the funds before age 59 ½ triggers a penalty tax and the amounts cannot be transferred into an Individual Retirement Account (IRA).

Similar to a 401(k) plan, a 403(b) plan offers several advantages, such as: contributions lower taxable income, contributions and earnings can grow tax-deferred until withdrawal; at which time the money is taxed as ordinary income, and some plans allow loans. Participants can defer limited amounts of their annual income. Contributions made to a 403(b) and 401(k) work in combination for the annual maximum allowed.

The design of qualified pension and profit sharing plans is a very complex subject. Because of the great importance of these plans in an employer's benefit program and for individual financial and retirement planning, every planner should have a basic understanding of how these plans are structured, what they can do, and the rules for qualifying these plans (Leimberg & McFadden, 2003).

A qualified plan must cover a broad group of employees, not just key employees and business owners. Two types of rules must be satisfied: the age and service requirements, and the overall coverage and participation requirements (Leimberg & McFadden, 2003).

Frequently, minimum waiting periods and age requirements are included to avoid burdening the plan with employees who terminate after short periods of service. However, eligibility cannot exceed more than one year of service, and any employee who reaches the age of 21 must be allowed to enter the plan after meeting the waiting period requirement. As an alternative, the plan's waiting period can be up to 2 years if the plan provides immediate 100% vesting upon entry. No plan can impose a maximum age for entry. For eligibility purposes, a year of service means a 12-month period during which the employee has at least 1,000 hours of service (Leimberg & McFadden, 2003).

In addition to the rules restricting age and service related eligibility provisions, qualified plan coverage are further regulated through two alternative overall coverage tests. A qualified plan must satisfy one of the two following tests:

1. *Ratio percentage test.* The plan must cover a percentage of non-highly compensated employees that is at least 70% of the percentage of highly compensated employees covered.
2. *Average benefit test.* The plan must benefit a non-discriminatory classification of employees, and the average benefit, as a percentage of compensation, for all non-highly compensated employees of the employer must be at least 70% of that for highly compensated employees.

For a defined benefit plan to be qualified, it must cover, on each day of the plan year, the lesser of (1) 50 employees of the employer or (2) the greater of (a) 40% or more of all employees of the employer, or (b) two employees (or, if there is only one employee, that employee). This test is commonly known as the 50/40 test (Leimberg & McFadden, 2003).

Qualified plan benefit or contribution formulas can be integrated with Social Security. In an integrated plan, greater contributions or benefits generally are provided for higher paid employees whose compensation is greater than an amount based on the Social Security taxable wage base. The difference in contributions or benefits permitted under these rules is referred to as permitted disparity (Leimberg & McFadden, 2003).

Because most employees will receive Social Security benefits when they retire, a calculation of an employee's retirement needs must take these into account. Because Social Security benefits are effectively paid out of employer compensation costs, an employer is permitted by law to take Social Security benefits into account by integrating a qualified plan's benefit formula with Social Security benefits. Social Security integration is financially effective for employers because it reduces the cost of the qualified plan. Social Security provides a higher retirement income for lower paid employees and permits such plans to provide relatively greater benefits for highly compensated employees, which is often an employer objective (Leimberg & McFadden, 2003).

Workers age 25 and over receive an annual statement of Social Security benefits about three months before their birth month. The statement provides estimates of projected retirement, and survivors' and disability benefits. It also shows the worker's Social Security earnings history, providing an opportunity to correct any errors or omissions (Kopin & Hibscheiler, 2004).

Workers can also request an estimate of benefits at any time through the Social Security Administration Web site ([www.ssa.gov](http://www.ssa.gov)) or by mailing in form SSA-7004, which can be downloaded on the site. The advantage of making a separate request is that workers can provide an exact retirement age as well as an estimate of future earnings for use in making benefits projections. These projections may be more precise than those in the automatic annual statement (Kopin & Hibscheiler, 2004).

A nonqualified deferred compensation plan is any employer retirement, savings, or deferred compensation plan for employees that do not meet the tax and labor law requirements applicable to qualified pension and profit sharing plans. Nonqualified plans are usually used to provide retirement benefits to a select group of executives, or to provide such a select group with supplemental benefits beyond those provided in the employer's qualified retirement plans (Leimberg & McFadden, 2003).

Nonqualified plans do not provide the same type of tax benefit as qualified plans because, in the nonqualified plan, the employer's income tax deduction generally cannot be taken "up front." The employer must wait until the year in which the employee reports income from the deferred compensation plan to take a deduction. A nonqualified plan can provide tax deferral for the employee as well as meet employer and employee compensation and financial planning objectives. Informal financing of the plan through life insurance or some other type of employer-held asset reserve can increase the security of the plan to the employee almost to the level of a qualified plan (Leimberg & McFadden, 2003).

Amounts deferred under nonqualified deferred compensation plans are not subject to social security taxes until the year in which the employee no longer has any substantial risk of forfeiting the amount, provided the amounts are reasonably ascertainable. If the plan provides that benefits are payable at retirement, but the benefits become vested 5 years after they are earned, then the amounts deferred will enter into the social security tax base 5 years after they are earned. Note that this is neither the year in which they are not earned nor the year they are paid, a circumstance that complicates tax compliance in this situation (Leimberg & McFadden, 2003).

Tax savings and expenses should be considered in determining the balance between saving and investing in taxable and tax-deferred accounts. Contributions to tax-deferred accounts such as IRAs, 401(k), and 403(b) may give an immediate tax deduction and tax-deferred growth; however, future withdrawals will be taxed as ordinary income. One should consider the future consequences of having to pay taxes on withdrawals for living expenses if all assets are in such accounts. Flexibility may be limited because with current federal capital gains rate of 15%, the employee may be better off saving a portion in regular taxable accounts and managing the taxes through offsetting of capital gains and losses (Brezik, 2004).

Another consideration should be whether or not the funds are needed before age 59 ½. If assets are tied up in tax-deferred vehicles, the investor will either have to annuitize the account and take equal periodic payments or incur a 10% penalty on top of the ordinary income tax on withdrawals. There are restrictions once the investor annuitizes his or her account (Brezik, 2004).

Investing in annuities solely for tax advantages no longer may be attractive. Earnings/gains grow tax-deferred inside annuities; however, all earnings are then withdrawn

at an ordinary income tax rate. According to Breznik (2004), “Why convert potential capital gain income into ordinary income?” (p. 3).

During the booming bull market of the late 1990s and the subsequent bear market, many employees may have overreacted in deciding to adjust their investment allocations. As a result, policymakers and public advocates have recommended making professional investment advice available to retirement plan participants. “But how can these participants – or those looking after their financial well-being – ensure the quality or appropriateness of the investment advice?” (TIAA-CREF, 2004, p.5).

Advice begins as a two-way communication between the advisor and the advisee, with the advisor obtaining information from the advisee and giving information in return. The process bears some similarity to a doctor-patient relationship, which begins with an examination and diagnosis. Investment advice involves determining the best portfolio choices, given a household’s financial objectives and its tolerance for risk. It is important that those being advised, many of whom are seeking guidance on assets held in defined contribution retirement plans, have some assurance that the investment advice is suited to their particular circumstances (TIAA-CREF, 2004).

Anyone who has had money in the stock market is well aware of how volatile the markets can be. Periodic rebalancing is a sensible way to maintain allocations but it is not necessarily going to increase returns. According to William Heath, advice manager, Advice and Planning Services,

Rebalancing is all about reducing your overall risk. It gives you a built-in discipline – not just to ‘sell high’ and lock in gains, but also to ‘buy low.’ An investor might have an easier time making the decision to transfer funds when a particular asset class is performing well. But how many investors have the

discipline to transfer more money into asset classes when their performance is at its poorest. (TIAA-CREF, 2003, p.20)

It is a good idea to review portfolios regularly. Circumstances may change, and these life events may mean one should not simply rebalance but instead adjust the investment strategy. It is recommended to review your strategy every three to five years to see if changes need to be made (TIAA-CREF, 2003).

Historically, stocks outperformed all other investment classes. To realize the potential returns of equity investing, it is important that investors weather the storms and resist selling during downturns. It is almost impossible to predict the future direction of the markets. The best strategy for long-term investors may be to stay invested. Other cornerstones of investing include defining specific goals, diversifying among investment types, and periodically reviewing portfolios (UBS, 2003).

Another consideration is access to retirement funds before age 59 ½. If funds are accessed before that age, the investor will be penalized 10% for early withdrawals on top of the ordinary income tax on earnings withdrawn (Brezik, 2004).

Often, retirement planning occurs simultaneously with funding educational expenses for children. The most difficult issue about education funding is keeping up with inflation. The average inflation rate of college costs is much higher than the overall cost of living increases in the general economy. Historically, the rate averaged 7%. Not all colleges increase every few years. Examples of college funding accounts include: Uniform Gift to Minors Accounts, Coverdall Education Savings Accounts, 529 Accounts, etc. (Brezik, 2004).

The Coverdall Education Savings Account, previously called Education IRA, is grow tax-free as long as certain requirements are met. On the other hand, earned income is not required to make a contribution as with a Roth IRA. As with IRA contributions, the

individual can add funds to the account until April 15<sup>th</sup> of the subsequent year. Some portion of a Coverdell Education Saving account withdrawal may be taxable, even if it is used to pay college expenses. If one is also claiming a Hope or Lifetime Learning credit, or taking the deduction for tuition payments, the tax law will not allow claiming multiple tax breaks for the same expense (Brezik, 2004).

The 529 Plans are operated by a state or educational institution and designed to help families set aside funds for future college costs. Section 529 of the Internal Revenue Code offers special tax benefits with a few basic requirements. These plans are usually categorized as either prepaid or savings, although some have elements of both. It is up to each state to decide whether it will offer a 529 plan. Educational institutions have the option of offering a 529 prepaid plan without a 529 savings plan (Brezik, 2004).

There are two general types of 529 plans: prepaid programs and savings programs. The states offering prepaid tuition contracts covering in-state tuition can transfer the value of the contract to private and out-of-state schools. In other words, a 529 savings program can be used at any accredited college or university in the country (Brezik, 2004).

There are several different kinds of trusts that might be appropriate savings vehicles for a child's education. Gifts made to each of these trusts qualify for the annual \$11,000 gift-tax exclusion, even though the child may not have immediate access to, or full ownership of, the property. Among the most common trusts are 2503(c) Trusts and Crummey Trusts. As with custodial accounts, the investment income in a trust is subject to federal, state, and local income tax at various rates depending on the age of the child (UBS, 2003).

Recommendations from our Canadian neighbors reveal the following approaches: (1) Retirement planning, the earlier the better. Knowledge is power and knowing what is available helps to make the decision making much easier. (2) Ongoing financial monitoring, planning and budgeting so that the retirement decision can be made consciously with



awareness and control. (3) Consideration of all factors, emotional, physical as well as financial, and willingness to negotiate and face up to personality differences that can affect future decisions. (4) Remembering that this is an important time in one's life for stopping to savor and experience activities other than work that will lead to a more fulfilled and richer life (Butters, 2004).

### *Planning*

Retirees are living longer, more active lives. Retirement does not mean one has to spend the rest of his or her life sitting in a rocking chair. It could mean opening a business, moving to a different country, or buying a second home. However, a longer, more active retirement creates a challenge and must be planned for with a lot more savvy and foresight than ever before. In particular, to maintain a preferred lifestyle in retirement, one must create a comprehensive retirement income strategy that complements and sustains that lifestyle (Falcon, 2004).

Lifestyle goals that influence financial requirements should be considered. For example, moving to a smaller home could reduce housing expenses and income needs. Also, one may wish to travel for several months and work for several months, thus, requiring a more flexible income flow (Falcon, 2004).

The next step should be discovering some regular sources of retirement income in advance, such as Social Security, pensions, and payments from fixed annuities. Other sources, such as dividends, interest payments, and withdrawals from retirement plans, are variable and, thus, less predictable. Required cash flow should be compared with regular sources of income. If cash-flow needs exceed regular income sources, a strategy to create required cash flow from variable income sources must cover the gap (Falcon, 2004).

Asset allocation strategies and portfolio rebalancing should be performed periodically. If investments become heavily weighted in stocks because of market growth in this asset class, risk of substantial losses in a volatile market is increased. An overweight position in bonds or cash can reduce portfolio volatility, but returns may be too low to keep pace with inflation and projected income needs. Sustaining income for a lifetime requires having a plan that matches each unique vision of retirement, maximizes returns on investments, coordinates many sources of distributions and income tax efficiently, and perhaps even restructures mortgages and debts (Falcon, 2004).

In regards to financial planning, the starting point must be a full appreciation of what the tools and techniques at hand can actually accomplish for the employees. In the case of employee benefit plans, two fundamental results can be achieved, which are to:

1. Help employees meet needs that otherwise cannot be met. This is the fundamental reason for employee benefit plans, and planners should always keep it in focus. Examples of employee benefits include:
  - a) Health care expenses for a serious illness are too great for most people to meet out of pocket. Insurance is a necessity – and the least expensive and simplest form of health insurance or health plan is usually a group plan provided by an employer for a group of employees;
  - b) Retirement savings is difficult for most people; employer-sponsored plans not only promote retirement savings but provide leverage for such savings that the employee cannot obtain personally;
  - c) Family protection in the event of an employee's untimely death can be promoted by employer-sponsored plans that are an attractive supplement to private life insurance and, for some employees, are the only form of life insurance reasonably available.

2. Provide unique tax benefits. Even if an employee is able to meet health care, retirement, and other needs without the employer's help, which is a rare situation, there is a dollars-and-cents reason why an employee benefit plan is the best way to provide those needs. In many benefit plans, the employer's dollar is leveraged by what amounts to an additional contribution by the U.S. Treasury through tax benefits provided for employee benefit plans. This makes the employer's benefit dollar go further than a dollar expended for cash compensation. Examples include the following:

- a) In regards to qualified retirement plans, employers get an up front deduction for funding the plan. The employees do not pay taxes on the benefits until those funds are received. This tax deferral available under an employer plan substantially increases the benefits available at retirement, compared with equal amounts of non tax-deferred private savings by the employee.
- b) The employer costs for employee health care plans are fully deductible and the benefits are completely tax-free to employees, regardless of amount. Without the employer plan, employees would have to pay for insurance or health care with after-tax dollars, with a tax deduction available only if (1) the taxpayer itemizes deductions and (2) the medical expense for the year exceeds the substantial floor for medical expense deductions.
- c) Some other plans with substantial tax benefits include group-term life insurance plans, dependent care assistance plans, flexible spending accounts, incentive stock options, and disability plans (Leimberg & McFadden, 2003).

Financial service professionals and personal finance educators can help consumers plan better for their retirement and later life by learning the trade secrets of advertisers. Vitt (2004) describes how many people make financial decisions and what sparks their desire to become more financially savvy. Consumer financial decisions involve psychological, physical, and social values that are rooted in feelings and emotions. Vitt (2004) concludes the article with this quote: “Consumer behavior can appear as irrational and even irresponsible, except to marketers. But what if finance professionals and educators could tap into the same values channels that advertisers have been stimulating and mining for years” (pp. 68-69).

According to Bernstein (2003), a recent American Association of Retired Persons (AARP) report highlighted some major issues concerning the financial status and security of people over age 50. It concluded the traditional concept of retirement has changed and the risk of ensuring sufficient retirement income now rests increasingly on employees. The limitations of private pension and 401(k) plans and of the Social Security safety net have forced more people into the stock market to help them accumulate retirement capital. That means more Americans need to know about investing than ever before.

Stock market downturns are particularly difficult for retirees. In a survey of people ages 50 to 70, seventy percent said they had lost money in the market over the past 2 years. Over one third lost more than 25% of their portfolio. Additionally, the survey revealed that 67 % said they were changing their lifestyles as a result of their losses, including budgeting daily expenses more carefully and taking fewer vacations (Bernstein, 2003).

Since the Great Depression, there never have been four straight years of losses in the stock market. “As a financial planner you can help clients cope with investing in uncertain markets by getting them to spread their money among different types of assets that don’t all move in sync” (Bernstein, 2003, p. 23). For clients approaching retirement, some advisers

recommend a portfolio heavy on short-term bonds or money market funds. Historically, the long-term return from stocks has been about 11% annually, while bonds return just 5.2%. Over time that spread can make a huge difference in the earning power of savings. If clients put all their money in a liquid, safe stash such as money market funds or short-term bonds, the return they likely would earn over the long term will not exceed inflation by very much. And that margin will get even thinner, if it does not disappear entirely, after taxes on withdrawals. A client who follows the safer strategy will possibly miss out on a significant amount of asset accumulation. The conflict for investors over 50 is how to achieve simultaneous high return and low risk (Bernstein). Of course, the matter is simple: “Invest in an efficient market, which lessens risk and increase the likelihood of return” (Bernstein, p. 24).

The only way to protect a client is through diversification. While this strategy is important for all investors, it is particularly crucial for those over 50 because they have a shorter investment horizon than those in their 30s. Professionals should consider personal factors when recommending clients’ stock and bond allocations, including current and future income needs, tax brackets, and what return clients expect. Stocks are good for growth when clients need to increase their assets, but they need to be ready to ride out market fluctuations. Bonds are for income when clients need money to live on or to diversify. For clients who prefer low risk, money market funds and bonds lessen the vulnerability of a 100% stock portfolio. Diversification is as important in bond investing as in stocks. Some advisers say it is best to spread risk over a series of different maturities while maintaining an average maturity of what the client likes in the portfolio. The best way to do this is to set up a bond ladder, essentially a series of bonds with a range of maturities (Bernstein, 2003).

Another classic strategy is dollar-cost averaging, a form of diversification spread over time. The natural human tendency is to buy stock when prices are rising and to stop

buying when prices are on the downswing. Dollar-cost averaging forces investors to do the opposite by purchasing the most stock when prices are low. Many advisers recommend dollar-cost averaging for clients who want to move a large amount of money into the market, i.e., an inheritance or year-end bonus.) The idea is to protect them from investing everything at once and having the market crash days or weeks later. It is true that if the market moves sharply higher, the clients have missed an opportunity, but in volatile times that risk can be worthwhile (Bernstein, 2003).

Value fund managers look for stocks that are undervalued in price and expected eventually to have their worth recognized by the market. Value companies typically share their profits with their shareholders through dividends. Value managers pay attention to traditional valuation measures, such as the stock's price to book ratio, price/earnings ratio, and yield. In comparison, growth fund managers look for companies expected to show high levels of profit growth. Growth companies typically put their profits back into the company's development rather than issuing dividend payments to shareholders. Finally, a blend fund invests in both growth and value stock (The State of Tennessee, 2000).

When dealing with financial planning, many couples combine their assets, paying bills from joint accounts and pooling resources for future needs. According to the *TIAA-CREF Participant*, some couples will keep their finances separate. "We only have our house in common and divide other expenses between us," says Dr. Millie Myers, principal lecturer in Management Communication at the Graduate School of Industrial Administration at Carnegie Mellon University in Pittsburgh, Pennsylvania (TIAA-CREF, 2002).

Retirement can be thought of as one of the major crises of life. Because of this representation, retirement requires adequate preparation. Some data suggest that planning plays a large part in determining the degree of satisfaction experienced during retirement. Some suggested that employees who received comprehensive pre-retirement training were

more likely to retire earlier, and that advance preparation, plus the emotional and social support of retirement counseling and training, assisted in adjusting to retirement. Some authors found that workers who did not want to retire had no real plans for their retirement lifestyle. They struggled to hold onto their working identity and lifestyle. These workers retired as angry, frustrated, and role-less people. Other findings were that the strongest predictors of anxiety and depression among pre-retirees were a low sense of self-efficacy about being able to handle retirement, plus a low level of planning for retirement (Sharpley & Layton, 1998).

In looking to the future, we are seeing the “Age of the Aged.” The world of 2025 is a world dominated by adults. Unlike the youth-oriented cultures that defined the 20<sup>th</sup> century since the 1960s, the first quarter of the 21<sup>st</sup> century is grown-up oriented. More than one third of the U.S. population is over 50 years old and almost 60 % is over 30. The number of individuals aged 85 or more is twice what it was in 1996 and growing fast (Buzalka, 2000).

Still exerting great influence in this Age of the Aged is the baby boom generation, which has controlled the levers of power since the late 20<sup>th</sup> century. While their sheer numbers are not as dominant as they were earlier, their imprint on the culture of 2025 remains the most palpable of any of the living generations. (Buzalka, 2000)

Advocates for the elderly will have the most powerful voice in Congress in 2025. Those over 60 will not only comprise almost a quarter of the population as a whole but will represent close to one third of potential voters. As with previous generations, they will vote in much greater proportion than the other age-based demographic groups. The 60-something and 70-something baby boomers will remain active participants in all sectors of society, and many key positions will stay in their hands. Boomers will also head many large corporations, leading educational institutions, and major national organizations. Of course, not all boomers

will be full-time workers; many will be part-timers who find a lucrative niche in the economy doing recreational work, primarily in the form of consulting services offered through electronic hookups (Buzalka, 2000).

Each generation alive in 2025 will have its own lifestyle, but all will emphasize leisure activities to a greater extent than ever before. “Reasons include the increasing blur between work time and leisure time, which has a tendency to favor the latter: the influence brought on the traditional American ‘Protestant Work Ethic’ by the many recent immigrants from other cultures with different attitudes toward work and leisure. With their accumulated wealth and increased free time, it is those boomers who will be kicking back the most. In 2025, boomers will be having the time of their lives” (Buzalka, 2000).

In the early years of the 21<sup>st</sup> century, the average life expectancy was 80 for men and 84 for women, although it was predicted that a healthy 50 year old today could live until age 120. According to Korn (2002), Stewart Welch III, a financial planner in Birmingham, Alabama, predicted that many people will have to invest aggressively even after retirement or run the risk of outliving their money. Asset allocation changed dramatically for Welch’s elderly clients. “We’re not depleting assets by age 100, in our projections, because there may be an ongoing need. Thus, we aim to create a perpetual fund and we encourage clients to review the projections each year, to keep them current” (Korn, 2002, p. 2).

Even with the new life expectancies, some clients have an old mindset when it comes to investments, according to Carol Pankros, a financial planner in Palatine, Ill. They think that retirement equals old equals bonds in the portfolio. Instead, I encourage them to maintain their asset allocation, which might include not only a substantial allocation to equities, but also some exposure to small-cap and international stocks, even though I’ve heard from client, I’m too old for small-caps. If you’re going to be



retired for 30 years, you're likely to overcome any short-term volatility in the stock market (Korn, 2002).

A lesson about bond investing was displayed in AIG-VALIC's *Viewpoints* for the third quarter 2003. A bond fund's price or net asset value could be inversely related to interest rates. As interest rates rise, the price of the individual bonds in the bond fund fell. This was one of the main reasons the average bond fund performed so well in the last few years. In a rising rate environment, owners of bond funds could see a loss of their principal (VALIC, 2003).

“Choosing a place to live during a long retirement likely will be a financial issue, so Carol Pankros may help clients choose retirement communities and evaluate the financial details. One of my clients just moved into a community at age 85, after spending years trying to make up her mind. Generally, I recommend that people move into such communities sooner rather than later. When you're still healthy you can make friends playing bridge or even shopping at the store nearby, and that can make for a better quality of life. Later on, after you become frail, it may become difficult to make new friends” (Korn, 2002, p. 3).

Investment plans need to be maintained in mid-career. In mid-career one might have only a few years left on a mortgage, have children in college, and have paid down most debts. In this stage of life, asset building can begin by targeting a total savings rate of 25% of one's gross annual income and more closely review investment progress to begin the countdown to retirement. The author recommended starting by calculating net worth. Debt management could be essential at this point, depending on what conditions net worth revealed. Mid-career investors should establish an emergency fund that equals approximately 6 months worth of expenses. In mid-career an employee probably faces high expenses for a mortgage, childcare costs, or funding children's college savings. In addition, a review of insurance coverage is appropriate at this time to re-evaluate life insurance and disability insurance. The author

stressed the point that estate plan, such as a will, power of attorney, and a living will or health care proxy, should be updated as well as assessing retirement accumulation and investing more toward that goal. To summarize, employees need to start investing early in their career, do it regularly, and avoid starting and stopping their program (TIAA-CREF, 2003).

A regional bank provided its customers with seven lessons to guide their financial plan for life. They suggested that the balance between spending and saving can mean either a successful financial plan or living from paycheck to paycheck. They suggested keeping a monthly, detailed listing of expenses to assess spending habits. One should separate expenses into essential or discretionary, add up the money directed to savings goals and total income (First Tennessee, 2002).

The seven lessons to guide your financial planning are:

1. Sensible Borrowing – Interest is tax-deductible if investing in a home.  
Borrowing for education pays off if it improves earning potential and student loan interest is tax-deductible.
2. Keep Debt Manageable – One should maintain a budget that outlines monthly expenses and income.
3. Home Equity Loans – Home equity loans can finance vehicles, pay off high rate credit cards, or make structural improvements. The interest on home equity loans is tax-deductible.
4. Teach Children About Money – Having their own money to manage can help children learn real-world skills such as budgeting and setting priorities.
5. Solid Portfolios Use Sound Strategies - Sound strategies include dollar-cost averaging, diversification, and mutual fund investing.
6. Step into a Secure Retirement – Estimating needed income, starting early retirement savings, researching saving options, investing for growth, and

monitoring plans are recommended.

7. When Financial Aid Falls Short – Federal and private loans, as well as state-sponsored 529 savings plans, can help make college tuition manageable (First Tennessee, 2002).

According to Crutsinger (2004), Federal Reserve Chairman Alan Greenspan testified before the House Budget Committee on Capitol Hill urging Congress to deal with the country's escalating budget deficit by cutting benefits for future Social Security retirees. Greenspan warned that if action were not taken, financial markets in coming years would begin to push up long-term interest rates. He asserted that the country can not afford the benefits currently promised to the baby boom generation.

In identifying specifics on trimming Social Security, Greenspan told the House Budget Committee that one possibility would be to switch to an alternative measure of inflation for annual cost-of-living adjustments. Instead of relying on the Consumer Price Index (CPI), he suggested switching to a new chain-weighted CPI that gives lower inflation readings, thus, smaller payment increases (Crutsinger, 2004).

In his testimony before the Budget Committee, Greenspan said the current deficit situation, with projected record red ink of \$521 billion in 2005, would worsen dramatically once the 77 million members of the baby boom generation become eligible for Social Security benefits. He added projections show the country will go from having just over three workers supporting each retiree to 2.25 workers for every retiree by 2025 (Crutsinger, 2004).

According to Crutsinger (2004),

Greenspan said, at some point the country needed to face the fact that the government has promised more in entitlement benefits than it can afford to pay. He said the problem was even worse for Medicare because it was impossible to estimate what

types of costly medical advances will be available in coming years (Crutsinger, 2004, p.1D).

The Associated Press (2003) cited Patti Brennan, a certified financial planner in West Chester, Pennsylvania., as saying, “One of the biggest challenges is that people are living longer so they have more retirement years to fund ... In the mid-1980s, we used to fund a financial plan out to age 85 ... At this point, we run it at least out to 95” (p. 8D).

A study by the Congressional Research Service found the average value of workers’ company-sponsored retirement accounts was about \$46,000 in 2000. For households, the average value was \$71,040. Among workers aged 55 to 64, the average value of the accounts was about \$72,000 and \$107,040 for the entire household (The Associated Press, 2003).

An October 2003 seminar by, “The Accounting Continuing Professional Education Network,” in cooperation with the Tennessee State Board of Accountancy, stressed the challenges facing elderly individuals. As medical advances continue, people are living longer after they have stopped working, and many individuals end up with overburdening medical expenses and other services. It is evident that these clients have common objectives:

1. Protecting the option of staying in their home for as long as possible;
2. Protecting their ability to choose where they will live;
3. Protecting their comfort, enjoyment, and quality of care whether they age at home, move to assisted living, or move to a nursing home; and
4. Protecting them from never ending up in a nursing home alone and without funds for comfort items (Lovelace, 2003).

Seminar facilitators suggested having the following in place before reaching an advanced age: 1) A Will and Power of Attorney; 2) Medical Power of Attorney; 3) Directive to Physicians and Family or Surrogates; 4) Designation of Guardian

Before Need Arises; and 5) Declaration for Mental Health Treatment (Lovelace, 2003).

According to Lovelace, some people think paying for elder care means parking grandma in a nursing home on Medicaid after she gives all her money to her kids and grandkids. “But if one’s objective is to age with dignity in the most comfortable and enjoyable surroundings possible, then such a parking+ Medicaid scenario may be the result of a terrible failure to plan and seize opportunities. To obtain the best return on elder care dollars, think of the classic three-legged stool where the legs are (1) sources of funds, (2) uses of funds, and (3) avoiding avoidable costs” (Lovelace, 2003, p. 3).

Sources of funds might include: the individual’s income, savings, long-term care insurance, family contributions, Medicare, Medicaid, and VA benefits. This is not a complete list of sources of funds but probably covers the majority of income items for the elderly client.

An interesting concept on the power of compound interest was published in the textbook, *Fundamentals of Financial Management*.

You are 21 years old and have just graduated from college. After reading the introduction to this chapter, you decide to start saving immediately for your retirement. Your goal is to have \$1 million when you retire at age 65. Assuming you earn a 10 percent annual rate on your savings, how much must you save at the end of each year in order to reach your goal. (Brigham & Houston, 1995, p. 180)

The answer is \$1,532.24, but this amount depends critically on the rate earned on savings. If rates drop to 8 %, the required annual savings would rise to \$2,801.52, while if rates rose to 12 %, one would need to put away only \$825.21 (Brigham & Houston, 1995).

If one waits until later to worry about retirement, for example at age 40, he or she

would need to save \$10,168 per year to reach a \$1 million goal, assuming interest is 10 %, and \$13,679 if interest is only 8 %. If one waits until age 50 and then earns 8 %, required savings would be \$36,830 per year (Brigham & Houston, 1995).

While a million dollars might seem like a great deal of money, it will not be at retirement. If inflation averages 5% a year over the next 44 years, that \$1 million nest egg would be worth only \$116,861. At an 8% rate of return, assuming one lives for 20 years after retirement, his or her annual retirement income would be \$11,903 before taxes. So after celebrating graduation and the new job start saving (Brigham & Houston, 1995).

The preceding analysis was written before the year 2000. Several changes have taken place since the turn of the century that have affected the downward turn of interest rates and those must be considered before projecting future interest rates. A flexible spending account, or FSA, is a type of cafeteria plan – a plan under which employees can choose between cash and specified benefits – that is funded through salary reductions elected by employees each year. Where the costs of an employee benefit plan, such as health insurance, have increased and the employer must impose additional employee cost sharing in the form of (a) deductible, or (b) coinsurance, the FSA approach minimizes employee outlay because the FSA converts after-tax employee expenditures to before-tax expenditures. Because of administrative costs, FSAs are usually impractical for businesses with only a few employees. Most FSAs involve firms with 25 or more employees, but the plan could be considered for as few as 10 employees (Leimberg & McFadden, 2003).

FSA plans provide employees with some degree of choice as to whether to receive compensation in cash or benefits and what form those benefits will take. The FSA is funded through employee salary reductions, which means that no extra outlay by the employer, except for administrative costs, is required. Salary reductions elected by employees to fund nontaxable benefits under the plan are not subject to federal income taxes. Finally, the list of

potential nontaxable benefits available from the plan is large and includes many benefits that employers might not otherwise provide to employees – for example, dependent care (Leimberg & McFadden, 2003).

An FSA must meet all of the complex nondiscrimination requirements for cafeteria plans, which could be a disadvantage. Monitoring compliance with these rules raises administrative costs. FSAs require employees to evaluate their personal and family benefit situations yearly and to file a timely election form. They must estimate – at the end of each year – the amount that will be required for covered expenses in the following year. This is sometimes both confusing and difficult, and some employees may not fully use the plan because of the perceived complexity or paperwork involved. Other may not want to risk the forfeiture required of any funds left in the account at the end of the year (Leimberg & McFadden, 2003).

The employer decides what benefits are to be provided in the FSA and adopts written plans to provide these benefits. The employer advises employees to review their benefit needs toward the end of each year and estimate their next year's expenses for items covered in the plan. Before the end of the calendar year, employees file with the employer a written election to reduce their salary by an amount they choose and allocate it among the benefits in the plan. The chosen salary reduction goes into a benefit account. The benefit account is a book account; it is not actually funded by the employer in most cases. Each employee keeps a record of expenses in each benefit category and makes a claim on the plan for reimbursement. Claims are usually made on a quarterly basis for administrative convenience. The employer issues checks to employees for reimbursement free of income tax. At the end of the year, if anything is left in the employee's benefit account, it is forfeited. It cannot be carried over to the next year. This feature requires careful planning by the employee (Leimberg & McFadden, 2003).

In the November 2004 *Business Journal*, a plan was presented for accumulating wealth. The concept was simple: pay-yourself-first and use the following suggestions:

1. Practice consistency

Decide how much you can set aside each month and do it. Investors call this “dollar cost averaging.” Regardless of other circumstances and factors, the designated amount of money is put aside each and every month. It is a bill you must pay each month; the only difference is that it is a bill you pay yourself.

2. Capitalize on compound interest

“Money begets money, and it is the rate of return that determines how fast your money will grow. Look for financial vehicles that provide a competitive rate of return in line with the level of safety with which you are comfortable.”

3. Remember that time is money

“Few people become affluent overnight. It can take years of thrift and self-discipline. But the odds have always favored the tortoise over the hare. Example: If you are 25 years old and save \$50 a month, you can have \$100,000 waiting for you at age 65 (based on an average return of just 6%, compounded monthly). Most of that growth takes place in the later years, as earnings compound and compound again” (Morris, 2004, p.24).

A publication from the State of Tennessee stressed three basics of retirement planning: (1) *Know yourself* – The state recommended that the employee create an asset allocation by identifying his/her investor type. Investing is not about making a few guesses and wishing for some magic. It is about taking the time and making the effort to get to know oneself as an investor. Many people fail to realize that this is critical to developing an investment strategy. (2) *Know the risks and how to manage them* – The state recommended the employee create an investment strategy that addressed all the potential risks. Knowing



what kind of investor one is would help make decision about comfortable investments. But an investment plan can get off course quickly if one does not identify all the potential risks involved with investing and formulate a strategy to deal with them. There are five common types of investment risks and practical strategies to minimize each: business risk, market risk, inflation risk, interest rate risk, and international risk. (3) *Know Needs vs. Wants* – The state recommended that taking early cash distribution may do more harm than good. Cashing out – or taking a full distribution from a retirement savings plan account – was considered one of the biggest mistakes individuals make with their retirement savings. Cashing out of a withdrawal from the 401(k) plan could carry a 10% penalty tax for those under age 59 ½ at the time of withdrawal (State of Tennessee, 2004).

Financial planning might also include a charitable gift annuity (CGA). This is a contract under which a charity, in return for a transfer of cash, marketable securities, or other assets, agrees to pay a fixed sum of money (payments) for a period measured by one or two lives. The CGA provides the donor(s) with a fixed, certain income for life. A portion of the annuity payments is free of income tax (East Tennessee State University, 2004).

In regards to financial planning, some retirees are concerned about the financial challenges that are ahead. MacBean (2004) illustrates four major areas of concern: (1) What will I live on when I no longer can or want to work for a living? (2) How will I pay for medical care and chronic drug therapies, if necessary? (3) How will I pay for required care and support in the event I become frail? (4) What will happen to my money, and to those individuals or institutions that depend on my money, or others for whom I wish to create a financial legacy, when I die. The response to the first question is normally referred to as retirement (income) planning. The answer to the second is typically limited to Medicare, and either Medicare Supplement insurance or employer-sponsored postretirement health coverage. MacBean (2004) defined the answer to the third as frailty planning, a proactive

process for determining and communicating the desirable scope and setting of potentially necessary care and funding the costs. The response to the fourth is estate planning, or sometimes called legacy planning.

Partial annuitization involves applying a portion of a new or existing deferred annuity to provide annuity payments while preserving the remainder for potential future income needs. If a retiree decides to work part-time, then he/she can annuitize an existing deferred annuity contract securing the remainder to be annuitized upon full retirement (Adney, 2004).

### *Technical*

The University provides two types of non-contributory (no contributions by the employee) retirement to choose from: (a) The Tennessee Consolidated Retirement System is a defined benefit plan where the total years of experience and the highest 5 consecutive years' salary are used in the computation of the retirement benefit. It has a 5 year vesting requirement. All regular full-time and regular part-time employees are eligible for this plan. (b) The Optional Retirement Plan is an annuity plan in which 10% of the employee's salary up to the social security wage base (\$87,900) and 11% on the salary above the social security wage base is sent to an annuity of choice. All regular full-time and regular part-time faculty and administrative employees are eligible for this plan. There are three vendors ING, TIAA-CREF, and VALIC. The employee can participate in one, two, or all three and can transfer among companies (Tennessee Board of Regents, 2004).

On the ETSU website: <http://www.etsu.edu/HUMANRES/benefits.htm>, one can calculate future social security benefits, TCRS benefits, and Deferred Compensation benefits for 401(k) and 457 plans. In addition to these calculators, each of the three programs will automatically mail a benefit projection statement once a year. TCRS mails in October,

Deferred Compensation mails in February, and Social Security mails in the month two months prior to their birthday of workers over age 25 (Tennessee Board of Regents, 2004).

All regular full-time employees of the Tennessee Board of Regents and of institutions and technology centers governed by the Tennessee Board of Regents shall be members of a state-supported retirement system, subject to the eligibility provisions of Title 8, Chapter 35, Tennessee Code Annotated, as amended. Regular part-time employees are eligible to become members of a state-supported retirement system, but such membership is not mandatory. Regular academic, executive, administrative, and professional employees of the Board and institutions shall have the option of becoming members of either the Tennessee Consolidated Retirement System or the Board of Regents Optional Retirement Program, pursuant to Tenn. Code Ann. 8-35-101 *et seq.* and policies and guidelines of the Board (Tennessee Board of Regents, 2004).

Employees who are members of the Tennessee Consolidated Retirement System are eligible to retire upon attainment of age 60 or upon completion of 30 years of creditable service. Employees who are members of the optional retirement program may retire at any time permissible under the provisions of the annuity contracts purchased from the designated carrier of the program (Tennessee Board of Regents, 2004).

Members of the Tennessee Consolidated Retirement System should be assured that the benefits that have been promised will be paid. TCRS is considered one of the strongest funded pension plans in the nation. TCRS has received an AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's, the highest possible ratings issued by this nationally recognized rating agency. The actuarial valuation for July 1, 2003 offered significant challenges when considering the difficult investment environment that was experienced (State of Tennessee Treasury Department, 2004).

The Tennessee Board of Regents has designated optional retirement programs for regular academic, executive, administrative, and professional employees of the Board of Regents' institutions and has approved the contracts offered by optional retirement program vendors. Employees of the area vocational technical schools are not eligible to participate in the optional retirement programs (Tennessee Board of Regents, 2004).

After July 1, 1992, employees who participate in the ORP may direct employer contributions made on their behalf to one or more of the companies designated to provide annuity contracts under the state's ORP. Once funds are on deposit with a designated company, the participant may move those funds among the different investment accounts offered under that company's annuity contract, subject to the restrictions of the contract. The participant may authorize such internal transfers by telephone (Tennessee Board of Regents, 2004).

There are some tax breaks that might be forfeited by rolling money out of the state plans. If one was born before January 1, 1936 and you have had a 401(k) for 5 or more years, he or she would be eligible to use 10 year forward averaging on a lump sum distribution from the plan. If a 401(k) account was rolled over into an IRA or any other type of plan, it would permanently forfeit the right to use forward income averaging on a later distribution of that money. If age 55 or older at retirement from state government, the 10% early distribution penalty is waived on distributions from the 401(k) plan; however, if monies are rolled over to an IRA, that exemption from the 10% early distribution penalty would not be available (State of Tennessee, 2004).

If one has reached age 59 ½ and is considering taking an in-service distribution from the 401(k) plan in order to roll the money to an IRA, it is not required to begin distributions from the state's plan until after retirement, regardless of age; however, this special

government plan exemption from the standard age 70 ½ distribution rules will not be available if the money is in an IRA (State of Tennessee, 2004).

401(k) plans continue to grow in number of participants and value of assets. They will play an increasingly critical role in the retirement plans of the current and future work force. Some employers are under qualified to choose investments for employees. Likewise, some employees do not have enough knowledge in how to invest. According to the *2002 Participant Satisfaction Survey*, conducted by American Express Retirement Services, 84% of respondents wanted more financial education. Consumer advocates say employees need better tools for managing retirement savings now and after they retire and greater flexibility to avoid being locked into company stock and poorly performing investments (Rudowsky, 2004).

If a participant has separated from service and is receiving social security disability benefits from the social security administration due to the participant's disability, the participant may, upon his/her written request receive a lump sum distribution from accounts each year. For the calendar year 2001, the aggregate total of each annual distribution from all of the participant's accounts shall not exceed \$15,000. This aggregate total will be increased by one thousand dollars each calendar year thereafter until the aggregate total annual distribution equals \$25,000. Each annual distribution will be made in any manner permitted by the companies holding the accounts but only upon receipt by the employer of documentation confirming the participant's continued receipt of social security disability benefits. Once the participant attains the age requirement for receipt of old age and survivors benefits under Title II of the Federal Social Security Act, the participant will no longer be required to provide such documentation in order to receive an annual distribution pursuant to this subsection (Tennessee Board of Regents, 2004).

The purpose of TBR Guideline P-045 is to provide guidance to those institutions that enter into agreements to establish deferred compensation plans or programs for the benefit of their employees. Such plans or programs are permitted by Internal Revenue Code section 403(b), 401(k), and 457 (Tennessee Board of Regents, 2004).

Institutions governed by the Tennessee Board of Regents and employees of such institutions may enter into agreements to participate in tax-deferred annuity plans or programs consistent with Section 403(b) of the Internal Revenue Code and related provisions of the Internal Revenue Code, regulations, rulings, etc., and subject to the provisions of this guideline. An institution may enter into an agreement with any company, financial institution, or other party that offers a program qualifying as a Section 403(b) program. Such agreement will be as prescribed by the Chancellor. This provision will not cause any individual agreement in force on the date of the adoption of this guideline to be terminated, but no new individual participation agreements will be executed until the vendor agreement has been fully executed. An institution may accept and enter into individual salary reduction agreements with employees and a vendor after execution of the agreement when such vendor has five or more employees who have valid participation agreements in existence. An institution may permit a new employee to transfer the existing agreement from his/her former employer without regard to the Rule of Five, subject to execution of the agreement between company and institution. Such transfer must be made within 1 year from the date of employment. That company must submit firm applications to bring its total to five before additional applications will be accepted (Tennessee Board of Regents, 2004).

All employees of an institution/technology center/Central Office, except students scheduled to work less than 20 hours per week, will be eligible to participate in Section 403(b) programs. The maximum contributions to a Section 403(b) program should be

determined by the institution consistent with Internal Revenue Service provisions (Tennessee Board of Regents, 2004).

During the 2004 Tennessee legislative session, the General Assembly passed legislation giving Optional Retirement Plan (ORP) members the opportunity to transfer membership to the Tennessee Consolidated Retirement System (TCRS). The legislation can be found in Public Chapter 738 or TCA 8-35-403(f). The specifics of the one-time opportunity are as follows:

1. You must be a current state of Tennessee employee or higher education employee with 5 or more years of service in the ORP as of January 1, 2005. You must also be a current employee at the time of transfer in order to enroll in TCRS.
2. You must not have received a cash withdrawal or other distribution from the ORP.
3. The transfer must include Tennessee ORP service. If you elect to transfer to TCRS, you waive all current and future rights to ORP benefits from Tennessee Contributions. The decision is irrevocable.
4. The cost of the transfer will be the greater of (a) your ORP account balance, or (b) 12.65% of your compensation during the ORP participation period plus 7.5% annual interest. It is likely that the ORP balance will not cover the cost of the transfer.
5. The required payment must be made in lump sum by no later than December 31, 2005. There are various options for funding the payment including transferring your ORP account or other tax-deferred retirement accounts or using personal savings (State of Tennessee, 2004).

Members of TCRS are eligible for unreduced retirement benefits at age 60 or after 30 years of service. The formula for calculating the monthly benefit takes into account the five highest consecutive years of salary (Average Final Compensation – AFC) and years of service. Higher salary and more years of service translate into a higher monthly benefit.

This monthly benefit, which will increase annually for cost of living adjustments, will continue until death or the death of your beneficiary depending on the payment plan chosen at retirement (State of Tennessee, 2004).

One of the requirements to transfer membership to TCRS is a payment equal to the greater of an ORP account balance or 12.65% of one's salary during the ORP participation period, plus interest. There are several methods to use when paying for the ORP transfer requirement: (a) transfer the funds from an ORP account (subject to distribution guidelines imposed by the vendor); (b) make a rollover or transfer from a tax-deferred 401(k) plan, 403(b) plan, 457 plan, or IRA; or (c) write a personal check. In some cases, the money needed to complete the transfer may be derived from a combination of the above sources. According to the records maintained by ETSU, there have been 37 employees to make the change from the Optional Retirement System to the Tennessee Consolidated Retirement System (State of Tennessee, 2004).

This study would not be complete without a comparison of the TCRS versus ORP plans. The following represents differences in the important aspects of each plan:

1. Contributions

In TCRS, the member makes no contributions to the plan. The employer pays both the employee and employer costs for funding the benefits. In the ORP plan, the member makes no contributions to the plan. The employer contributes 10% of gross salary covered by Social Security and 11% of salary in excess of the Social Security Wage Base.

2. Cost-of-Living Adjustment

TCRS retirement benefits are payable in the form of a fixed annuity. Compounded adjustments in benefits to reflect increases in the CPI of up to 3% are made annually. In the ORP plans, there are no automatic cost-of-



living adjustments. The benefit payable under a variable annuity may fluctuate up or down depending on market conditions.

### 3. Creditable Service

Members may earn service credit in TCRS for service with the State of Tennessee, the public school systems in Tennessee, or over 300 political subdivisions in Tennessee that have elected to participate. Vested members may also establish credit in TCRS for up to four years of eligible military service. At retirement, unused sick leave may be converted to retirement service credit at the rate of one month of service credit for each 20 days of leave. For the ORP plans, benefits are based on the member's account balance rather than on service. Contributions are credited to the member's account during service to a Tennessee higher education institution while a member of the ORP.

### 4. Death Benefits Before Retirement

The beneficiary of a TCRS member who dies before retirement may be eligible for one of the following benefits: (1) if the member is eligible to retire, TCRS will provide a survivor annuity to a surviving beneficiary upon the member's death before retirement; or (2) if the member has at least 10 years creditable service, the surviving spouse is eligible for a 100% joint and survivor annuity if the spouse is named as beneficiary; or (3) if the member has made contributions to TCRS, the beneficiary or estate may receive a lump-sum payment equal to twice the value of the member's accumulation. For the ORP member, the value of the total accumulation is payable to the named beneficiary or the estate. If the value of the accumulation is sufficiently large, the beneficiary may be eligible to elect an annuity payout.

## 5. Disability Benefits

Accidental disability retirement benefits are available immediately if a TCRS member is injured on the job. Ordinary disability retirement benefits are available to members with 5 years of creditable service; regardless of where the member is employed at the time the disability occurs. With the ORP plans and upon disability retirement (or upon termination of employment for any reason), the member may request an annuity settlement or lifetime distribution payout. Members receiving social security disability benefits may also elect a partial lump sum payment from their account, subject to the provisions of the products the member selected.

## 6. Payout Methods Available to Members

Vested members in the TCRS are eligible to select a single life annuity or one of several joint and survivor annuities at retirement. No refunds of contributions are provided for members who joined after July 1, 1981. ORP members are eligible to select a single life annuity, a joint and survivor annuity, periodic payments for their life expectancy, or a minimum distribution payout beginning at age 70 ½, subject to the offerings of the product provider the member selects. Members, whose Tennessee ORP accounts totaled less than \$8,000 in 2004, may file a Lifetime Distribution Exception form to qualify for a lump sum payment. In addition, any member who is beginning a lifetime payment plan may elect to receive a partial lump sum payment of up to 50 % of the account balance at the time the lifetime payout or annuity payment begins.

7. Retirement Benefits

TCRS retirement benefits are computed under a formula that uses the average of the member's highest 5 consecutive years of salary (while a member of TCRS) and the years of service credited in TCRS. Members are eligible for unreduced benefits upon attaining age 60 or 30 years of service. Reduced benefits are available upon attaining age 55 or 25 years of service. ORP benefits are based on the member's account balance and the member's age at the time benefits begin. Members are eligible to begin drawing lifetime benefits at any age if separation from service has occurred.

8. Transfers Between TCRS and ORP

Employees who are eligible to participate in the ORP but who elected to participate in TCRS may make a one-time election to transfer membership from TCRS to the ORP. Employees who participate in the ORP generally may not transfer membership to TCRS; however, beginning in 2005, ORP members with 5 years of service had a one-time transfer option.

9. Transfers Outside Tennessee's Plans

Employees who joined TCRS after July 1, 1981, may not transfer their TCRS account to another employer's plan or to an Individual Retirement Account (IRA). Some employees who participate in the ORP may be eligible to transfer a portion of their Tennessee ORP account balance to another employer's plan or to an Individual Retirement Account (IRA) if they qualify for a partial or total lump sum distribution.

## 10. Vesting

Higher education employees participating in TCRS are vested after 5 years of service. For the ORP members, all contributions made to the plan are 100% vested from the date of contribution (State of Tennessee, 2004).

Employees not currently on TCRS will receive a letter from the State of Tennessee that estimates the cost at year end to transfer membership to TCRS. This figure should be weighted carefully to determine if transferring membership to TCRS is advantageous for the employee.

The Tennessee Board of Regents provides employees with educational assistance. The following programs are available subject to funds being budgeted:

1. Faculty or Administrative/Professional Staff Grant-in-Aid Program
2. Faculty or Administrative/Professional Staff Tuition or Maintenance Fee Reimbursement Program
3. Employee Audit Program
4. Clerical and Support Staff Maintenance Fee Payment Program
5. Fee Waiver for TBR/UT System Employees Program
6. Desegregation Development Programs
7. Fee Discount for Spouse and/or Dependent Children Program
8. Veterans' Dependents' Post-Secondary Education Program
9. Age 65 or Above Program
10. Public Higher Education Fee Waiver for State Employees Program
11. Fee Discount for Dependent Children of Licensed Public School Teachers or State Employees Program (Tennessee Board of Regents, 2004).

*The Economic Growth and Tax Relief Reconciliation Act of 2001* provides a new above-the-line deduction for qualified tuition and related expenses. In 2002 and 2003

deduction was limited to \$3,000 and was only available to taxpayers with adjusted gross income at or below \$65,000 (\$130,000 for joint filers). In 2004 and 2005 deduction was limited to \$4,000 and was only available to taxpayers with adjusted gross income at or below \$65,000 (\$130,000 for joint filers). Also in 2004 and 2005 taxpayers were permitted a deduction up to \$2,000. The deduction was eliminated after 2005 (Pershing Yoakley & Associates, 2001).

The Tennessee Board of Regents also offers a Post Retirement Service Program for Tenured Faculty. The program consists of a definitive description of its fundamental features and agreement forms for both academic year faculty and fiscal year faculty. “The Tennessee Board of Regents places great value on the talent and experience of its senior faculty and recognizes, when such faculty retires, there is often an abrupt and complete loss of the talent and experience of those individuals.” Therefore, this program is designed to facilitate the transition of senior faculty from full-time service to retirement. In addition, it serves as an aid to the institution in maintaining academic excellence and achieving needed flexibility in academic staffing (Tennessee Board of Regents, 2004).

To participate in the Post-Retirement Service Program, the following criteria must be met:

1. Age 60 or older with at least 10 years of creditable service in the TCRS or at least 10 years of full-time equated service in the ORP.
2. Any age with at least 30 years of creditable service in TCRS or 30 years of full-time equated service in ORP. Faculty who decide to participate must submit a written Notice of Intent to Participate to their department head, dean, and chief academic officer. Faculty who choose to participate must retire with an effective date not later than 180 days or less than 90 days after they submit their Notice of Intent to Participate, except that when the

end of the 180-day period falls within a semester, the period may be extended to no later than the beginning of the subsequent term. A period of less than 90 days may be accepted at the discretion of the institution president.

3. To ensure the continued quality and integrity of the institution's academic programs, the institution reserves the right to limit the number of participants in a single department, school, or college. The limiting of participation within a department, school, or college will occur only if recommended in writing by the responsible dean and approved by the chief academic officer and the President.
4. Each eligible tenured faculty member, who is approved to enter the program, will be offered re-employment as Senior Affiliate Faculty under a Post-Retirement Service Agreement. The agreement may provide for up to 15 semester hours of instruction per year (including Non-Credit) or up to 750 hours of non-instructional service per year, provided, the minimum assignment may be no less than 20% of full time per year. The specific percent of effort, work assignments, and schedule of service must be mutually agreed upon prior to the participant's retirement and set forth in the Post-Retirement Service Agreement. Compensation during the period of re-employment will be paid monthly and will be at a salary proportionate to the participant's salary prior to retirement, plus a salary supplement equal to the premium the participant must pay to continue single or family medical insurance or Medicare supplemental insurance coverage. The institution will compensate the participant only for time worked (Tennessee Board of Regents, 2004).

5. The period of re-employment may extend over a maximum of 4 consecutive years with the exact number of years to be mutually agreed upon prior to the participant's retirement and confirmed in the Post-Retirement Service Agreement (Tennessee Board of Regents, 2004).

Authorized under Internal Revenue Code Section 408, the Classic IRA allows individuals with earned income to make contributions to a tax-favored savings account for their long-term goals. Beginning in 2002, individuals who have not attained age 70 ½ could make contributions of up to \$3,000 to a Classic IRA. In addition, individuals age 50 and over could contribute an extra \$500. Based on certain criteria, such as income level, marital status, and participation in an employer-sponsored retirement plan, an individual's contributions to a Classic IRA could be fully deductible. Even if the contributions were not fully deductible, he or she could still enjoy the benefits of tax deferred earnings. If an individual withdraws accumulations at retirement, the earnings may be taxed at a lower rate than would have applied if they had been taxed during his or her high earning years before retirement (TIAA-CREF Individual and Institutional Services, 2001).

Contributions can be made to a Classic and/or Roth IRA from January 1 of the tax year for which the contributions are made until the due date for filing a tax return for that year. Contributions can be made until April 15 of the following year. Any contributions made between January 1 and December 31 and claimed for the same year in which the contribution was made, is called a current year contribution. Contributions made between January 1 and April 15 and claimed for the previous tax year are referred to as prior year contributions. If an individual does not indicate for which year his or her contributions are to be

applied, contributions are reported as applying to the current year (TIAA-CREF Individual and Institutional Services, 2001).

Financial planners should be extremely wary of basing tax savings on current tax laws only because these laws are in a constant state of flux. The estate tax provisions of the tax law are supposed to expire in 10 years. Many financial planners may have boxed their clients into what eventually will be outdated tax shelters, irrevocable life insurance trusts created only to pay estate taxes. With the estate tax phase-out Congress passed in May 2001, a client who implemented an irrevocable life insurance trust may be saddled with a totally useless and costly vehicle. In addition, such trusts are usually very restrictive and contain policies that will cover only the expected estate tax obligation on the day the policy is issued. This is a problem because the amount of insurance a client needs to pay estate taxes is guaranteed to be wrong the day after the plan is in place. Simple asset growth in the client's taxable estate will automatically increase the amount of tax due (Knell, 2002).

There are several facts about Social Security that the retiree needs to take into account. Social Security pays retirement, disability, and family and survivors benefits. Medicare, a separate program run by the Centers for Medicare and Medicaid Services, helps pay for inpatient hospital care, nursing care, doctors' fees and other medical services and supplies to people age 65 and older, or to people who have been receiving Social Security disability benefits for two years or more. The Social Security covered earnings qualify for both programs (Social Security Administration, 2004).

Some people retire before their full retirement age of 65. It is possible to retire as early as age 62 and take benefits at a reduced rate. If one continues



working after full retirement age, he or she can receive higher benefits because of additional earnings and special credits for delayed retirement (Social Security Administration, 2004).

If a person becomes disabled before full retirement age, he or she can receive disability benefits after 6 months if there are:

1. Enough credits from earnings, depending on age, one must have earned 6 to 20 credits in the 3 to 10 years before becoming disabled; and
2. A physical or mental impairment that is expected to prevent a person from doing substantial work for a year or more or result in death (Social Security Administration, 2004).

If one is eligible for disability or retirement benefits, a current or divorced spouse, minor children or adult children, disabled before age 22, also may receive benefits.

Each may qualify for up to 50% of the employee's benefits. The total amount depends on how many family members qualify. When one dies, certain members of his or her family may be eligible for benefits:

1. A spouse age 60 or older (50 or older if disabled, or any age if caring for children younger than age 16); and
2. Children if unmarried and younger than age 18, still in school and younger than 19 years old or adult children disabled before age 22.

According to the Social Security Administration, Social Security is a compact between generations. For more than 60 years, America has kept the promise of security for its workers and their families. Serious future financial problems are being faced by the Social Security system because there are almost 36 million Americans who are age 65 or older. Their Social Security retirement benefits are funded by today's workers and their employers who jointly pay Social Security taxes. The Social Security Administration

calculates that if nothing is revised by 2020, Americans will begin paying more in benefits than the government collects in taxes. By the year 2042, the number of Americans 65 or older is expected to have doubled. There will not be enough younger people working to pay the benefits owed to those who are retiring. At that point, there will be enough money to pay only about 73 cents for each dollar of scheduled benefits (Social Security Administration, 2004).

There are some decisions to be made before one actually decides to retire, for example, thinking about long-term benefits and considering the advantages and disadvantages of early retirement. If one elects to receive benefits before reaching full retirement age, benefits will be permanently reduced. However, they will be offered for a longer period of time (Social Security Administration, 2004).

According to the State of Tennessee's deferred compensation program, there are several changes in an employee's life that may have an effect upon his or her deferred compensation account. Work related changes would include:

1. Changing Branches of State Government

If a state employee changes from a state department that is paid once a month to a department that is paid twice a month, he or she must complete a new Salary Reduction Agreement to set up a new deferral amount. If the employment change is among central state government, University of Tennessee, and the Tennessee Board of Regents, the employee must also submit a new Salary Reduction Agreement.

2. Leaving State Employment

Although an employee will be eligible to withdraw from an account after he or she is no longer on any state payroll system, it is not necessary to do so as long as the account is over \$1,000. If you are considering rolling an account into a new

employer's plan or an IRA, be sure to check out the provisions of that plan. If one takes a lump sum distribution of a 401(k) plan before age 59 ½, he or she may be subject to a 10% early withdrawal penalty in addition to ordinary income tax.

3. Receiving a Raise

This is a good time to increase deferrals. To do so, the employee submits a new Salary Reduction Agreement.

4. Planning to Retire

The employee should review the retirement withdrawals section of the internet site or request a copy of the publication *Withdrawing Funds at Retirement* for information concerning the payout methods available and the tax rules that will apply. He or she should use the Tennessee projection statement to project deferred compensation account value and the benefits it will provide. If employees have not reviewed their investment portfolios, one of the risk tolerance calculators on the Internet site can help if they do not plan to withdraw all of the money immediately.

5. Returning to Service after Retirement

Employees may begin contribution again if they return to state service while drawing a TCRS benefit; however, they will not be eligible to receive 401(k) matching contributions.

In addition, personal changes would include the following:

1. Moving

Employees must change an address with the Deferred Compensation Program by completing a Participant Change Form.

2. Marriage

If they are changing names and/or addresses, employees should complete a Participant Change Form. If they wish to change a beneficiary, they should complete a new Beneficiary Designation Form.

3. Birth or Death of a Family Member

If they wish to change a beneficiary, employees should complete a new Beneficiary Designation Form.

4. Reaching Age 59 ½

At this age, employees are eligible to withdraw funds from the 401(k) plan without an early distribution penalty even if they are still employed by the state.

5. Reaching Age 70 ½

If they are no longer employed by the state and have not yet been receiving distributions, employees must begin now in order to avoid IRS penalties.

6. Financial Hardship

To reduce or cancel deferrals, employees should complete a new Salary Reduction Agreement. If they have \$4,000 or more in their 401(k) account, they may be eligible for a 401(k) plan loan. If they are not eligible for a loan, certain specific hardship conditions, such as unreimbursed medical expenses, may qualify them to withdraw a portion of their account.

7. Buying a Home

If employees have \$4,000 or more in their 401(k) account, they may be eligible for a plan loan. If they have already taken the maximum loan available, purchasing a first home may qualify them to withdraw money from the 401(k) plan under the hardship provisions.

## 8. Divorce

Before making financial settlement arrangements, persons should be aware of the fact that government plans are not subject to ERISA, the law that governs private pension plans. Funds from the plan cannot be paid directly to an ex-spouse under a qualified domestic relations order, although the value of the participant's account accrued during the marriage is normally considered when property is being divided. If they have \$4,000 or more in their 401(k) account, employees may be eligible for a 401(k) plan loan (State of Tennessee, 2002).

In a special report from TIAA-CREF during the winter quarter of 2004, the Saver's Credit for low and middle income individuals was analyzed. The Saver's Credit was designed to encourage working people to save for retirement. It can be no more than \$1,000 per individual. The Saver's Credit is a percentage of the following:

1. Employee voluntary pre-tax or after-tax contributions to employer-sponsored retirement plans, including 401(k) plans, 403(b) plans, governmental 457(b) plans, SIMPLEs and SEPs.
2. Individual or spousal contributions to IRAs (both traditional and Roth).

The amount of the Saver's Credit is based on the amount of the adjusted gross income of the taxpayer and his or her spouse. The higher the adjusted gross income is, the lower the credit. The contribution subject to these percentages cannot exceed \$2,000. However, married participants can contribute up to \$2,000 by or for each spouse, for a joint contribution of up to \$4,000. Therefore, if a couple files jointly, each spouse can realize a Saver's Credit of up to \$1,000, for a total of up to \$2,000, depending upon their tax bracket (TIAA-CREF, 2004).

The Retirement Security for Life Act of 2004, H.R. 4849, was introduced by U.S. Reps. Nancy Johnson, John Tanner, Phil English, and Stephanie Tubbs Jones in the summer

of 2004. The bill was supported by Americans for Secure Retirement, a broad-based coalition of insurance, agricultural, women's, minority, and business groups with interests aligned in promoting annuitization and nonqualified annuities. Under current law, a portion of each payment in a nonqualified annuity stream is (1) includible in gross income for tax purposes, (2) generally equal to the amount of the payment multiplied by the ratio of the premium paid for the annuity to the total of the annuity payments expected to be received, and (3) taxed at ordinary rates (Adney & Keene, 2005).

The bill will promote life annuitization by excluding from gross income 50% of the taxable portion of payments from an insurer-issued nonqualified annuity contract, provided that they are in the form of lifetime annuity payments. Amounts qualify as lifetime annuity payments if they (1) otherwise constitute amounts received as an annuity and (2) are part of a series of substantially equal periodic payments (SEPPs) guaranteed to continue for as long as one or more of the individuals entitled to receive them is alive. Under the bill, payments made to a trust can qualify as lifetime annuity payments if the trust beneficiary is the measuring life under the annuity and is legally entitled to receive the payments (Adney & Keene, 2005).

The maximum amount excludable from income by any individual under the bill would be \$20,000 in any year, subject to an inflation adjustment. Payments received after the death of the individual receiving the lifetime annuity payments would not be eligible for the exclusion, except in the case of a surviving spouse (Adney & Keene, 2005).

If enacted, the proposed Retirement Security for Life Act would provide needed encouragement for taxpayers to choose life-contingent payment streams under nonqualified annuities. Such a choice would enable retirees to avoid the real and serious prospect that they will outlive their income (Adney & Keene, 2005).

## CHAPTER 3

### METHODS

#### *Overview*

This chapter provides detailed information on the study's quantitative research design: population, sample, sampling methods, data collection instrument, threats to validity, measurement of variables, data collection procedures, and data analysis procedures.

#### *Research Design*

The overall design of this study was exploratory. The research investigated financial planning options but differed from purely descriptive research by going beyond simple description to understanding and explaining the situation. The general intent of this study was to provide insight into future economic conditions facing the retiree.

The review of the literature indicated that authors have used many different approaches to financial planning. In order to establish a workable plan, the relevant range of investments in this study included those plans (401k, 403b, and 457) established by East Tennessee State University and Tennessee Board of Regents.

The data associated with this study were collected through quantitative methodologies and a questionnaire was developed to facilitate this investigation. Questionnaires offered several advantages because personal interviews were considered a time-imposition by several ETSU employees, the questionnaire was less invasive and permitted employee confidentiality.

#### *Population*

The target population was all full-time employees of the university, totaling 2,896 and members of the retirement association, consisting of 222. The total of these groups

equates to 3,118 individuals in the population. All full-time employees were stratified into groups of faculty, administrators, and support staff. No stratification was used for current retirees of the University.

All employees included in the study were employed full-time from July 1, 2000, to June 30, 2004. This time period qualifies an employee to receive an annual longevity bonus, plus providing a long-term goal incentive for the population.

### *Sample*

A random sample of 289 employees was selected from the published listing of full-time employees. The sample size represented approximately 10% of the entire population of full-time employees at East Tennessee State University.

A random sample of 22 members was also be selected from the current list of retiree memberships. The sample size represented approximately 10% of the entire population of members in the East Tennessee State University Retiree's Association.

### *Sampling Method*

The sampling method used was systematic, selecting every 10th name, with a random start, determined by roll of the dice. The population of full time employees was divided into three groups: faculty, administrators, and support staff. A list of retiree memberships was also obtained.

The selected sampling method generated a sample size twice the desired level of response. This process ensured the desired response rate of 10%. Because the survey responses were confidential, extra caution was used in tracking and resending of requests.



### *Data Collection Instrument*

The collection instrument was a survey on employee financial planning. The demographic data elements included:

1. Age of respondent (ranges: 18-35,36-45,46-55,over 55)
2. Gender (male or female)
3. Marital status (single, married)
4. Number of dependents in each age group (ages: 1-12,13-18, over 18, none)
5. Job classification (clerical and support, administrative, faculty)
6. Household income

Questions relating to financial planning were as follows:

1. Which retirement plan are you currently with: Tennessee Consolidated Retirement System or Optional Retirement Program?
2. Are you currently participating in a supplemental retirement plan in addition to the regular state funded retirement program?
3. Are you participating in any other financial planning service?
4. Do you currently have a will and power of attorney?
5. My attitude about financial planning is:
  - It is very important and worthwhile
  - I resolve to make a plan as soon as possible
  - I should make a plan, but am really too busy
  - I don't make enough money to bother with it
  - Other: \_\_\_\_\_

6. If ETSU offered financial planning workshops, would this be of interest to you?

Additional questions for the retiree's questionnaire included an open-ended question on "What suggestions would you give an employee about financial planning?"

#### *Threats to Validity*

Situations that would threaten the worth of this study will include: (1) employees desire not to retire, (2) employees' financial situation changes (i.e., win the lottery), and (3) apathy among employees for their retirement years. To overcome these situations, questions relating to the above threats were incorporated in the survey questionnaire.

#### *Measurement of Variables*

The answer to the research questions were obtained by evaluation of questionnaires from a survey of the employees and retirees. Proper questions were developed to ensure that retirement planning can be measured. The measurement produced reliability by giving the same result every time the same answers were obtained. An unreliable measurement is strongly affected by the random error source of variability. A measurement has validity when it reflects the construct it intended to measure with no other irrelevant constructs.

Pilot testing was implemented early in the research planning. In developing the questionnaire, advice was solicited from all sample groups. Input from retirement plan/annuity salespeople was also sought. Those professionals talk regularly with university employees and have gained knowledge regarding selling supplemental annuity plans to the various groups involved in this research.

### *Data Collection Procedures*

Data were obtained from the questionnaires that were mailed to the employees. A pre-addressed envelope was enclosed for the respondent's convenience. After the initial mail-out of the questionnaires, employees were given 15 days to respond. A response rate of approximately 10% of the total population is desired for this study. A second mailing based on similar sampling methods was undertaken.

### *Data Analysis Procedures*

The information collected was analyzed to confirm that the desired response rate of 10% was obtained. Also, the information collected was analyzed objectively and presented by use of percentages, comparisons by graphs, and illustrated in tables.

### *Summary*

With the exploratory design of this research, the intention was to derive information from both current employees and retirees on the effects of financial planning.

Employees shared their concerns and attitudes regarding financial planning and offered their ideas on proper planning techniques and investment vehicles.

Retirees offered invaluable knowledge and experience from the practical experience of the retirement years. Results of this study may provide ETSU valuable information in order to enhance the employee educational aspects of financial planning.

## CHAPTER 4

### PRESENTATION AND ANALYSIS OF THE DATA

Significant opportunities regarding financial planning awaits ETSU employees and the main purpose of this study was to determine to what extent ETSU employees have engaged in financial planning. It was also designed to increase the body of knowledge on financial planning to ensure that ETSU has provided the necessary financial planning tools for the employees.

The study asked questions of employees and retirees in an effort to answer the following research questions:

1. To what extent are ETSU employees engaged in financial planning?
2. What financial planning services are provided for ETSU employees?
3. What factors should ETSU employees consider in deciding between defined-benefit and defined-contribution retirement plans?
4. To what extent should ETSU employees supplement their financial planning?
5. To what extent are ETSU employees satisfied with ETSU financial planning services?
6. To what extent should the university enhance the financial planning services for ETSU employees?

#### *Analysis of the Data*

##### *Respondents*

Chapter 3 detailed the data collection procedures that were conducted during an 8-week period in June, July, and August 2005. The initial survey mailing and follow-up resulted in 219 (7.56%) responses. A second survey and follow-up letter was mailed to

employees not responding to the initial survey. An additional 50 responses were received for a total of 269 (9.29%) of the targeted population of employees. The initial survey mailing and follow-up of retirees resulted in 27 (12.16%) responses. A second survey and follow-up on retirees was not deemed necessary because the survey exceeded the 10% response rate as detailed in Chapter 3.

### *Population*

The employees and retirees responding were representative of the population. The following frequency tables classify the respondents into current employee, retiree, age, gender, marital status, number of dependents, job classification, and household income.

### *Research Question 1*

Research question 1 was stated as follows: To what extent are ETSU employees engaged in financial planning. Survey questions one through six identifies the respondents as to type of employee, age, gender, marital status, dependents, job classification, and household income.

Total current employees of ETSU are 2,896 and retirees are 222. The returned surveys represented 9.29% for current employees and 12.16% for the retirees. Over 90% of the survey respondents were current employees (see Table 1). This was a satisfactory response rate because most of the current financial planning opportunities are more closely to the current employee. The experience and opinion of the retired employees were also valued as a means to evaluate their planning efforts and subsequent experiences as individuals utilizing retirement benefits.

Table 1

*Type of Employee*

	<i>N</i>	%
Current Employee	269	90.9
Retiree	27	9.1
Total	296	100.0

The ages of current employees are significant in the fact that research indicates employees over the age 45 tend to be more interested in financial planning for the future (see Table 2). Factors affecting this decision could be maturity, age of children, aging parents, and better income levels.

Table 2

*Age of Current Employees*

	<i>N</i>	%
18 – 35	35	13.1
36 – 45	66	24.6
46- 55	87	32.5
over 55	80	29.9
Total	268	100.0

The ages of retirees are less significant to this study because they have already reached the milestone in their lives and have their financial position in place (see Table

3). At this time, the retiree knows what financial situation he/she has in place. The main question is what differences would the retiree have made earlier in their career.

Table 3

*Age of Retired Employees*

	<i>N</i>	%
55 – 64	6	22.2
65 – 74	12	44.4
75 or over	9	33.3
Total	27	100.0

According to ETSU Fact Book 2004, male employees represent 42.4% of the total population. Female employees comprise 57.6%. The respondents from this survey were mainly female at approximately 69%, with male respondents representing slightly above 30% (see Table 4). We may derive from this analysis that female employees are more interested in financial planning as compared to their male counterparts or, perhaps, are more comfortable sharing this personal information.

Table 4

*Gender*

	<i>N</i>	%
Male	91	31.1
Female	202	68.9
Total	293	100.0

Over 70% of the respondents are married individuals (see Table 5). This high response rate could show a relationship between being married and planning for the financial future. This analysis is somewhat confusing in the fact that single employees may not be as interested in financial planning or desire not to share their personal information.

Table 5

*Marital Status*

	<i>N</i>	%
Single	81	27.5
Married	214	72.5
Total	295	100.0



Over half of the respondents had zero dependents (see Table 6). The majority of the other half of respondents had two dependents or fewer. A relationship may exist between the total number of dependents and the money available for financial planning. Explanation for this assumption may be lesser amounts classified as disposable income. The basic needs are met first and any extra will be invested for future concerns.

Table 6

*Total Number of Dependents*

	<i>N</i>	%
0	162	54.7
1	65	22.0
2	45	15.2
3	15	5.1
4	8	2.7
7	1	.3
Total	296	100.0

A large majority of the respondents had dependents of 2 or fewer who are aged 12 and under (see Table 7).

Table 7

*Number of Dependents Aged 12 and Under*

	<i>N</i>	%
1	30	10.1
2	19	6.4
3	5	1.7
4	1	.3
Total	55	18.6

Table 8

*Number of Dependents Aged 13 to 18*

	<i>N</i>	%
1	31	70.5
2	12	27.3
3	1	2.3
Total	44	100.0

A high majority of respondents have two or fewer dependents aged over 18 (see Table 9).

Table 9

*Number of Dependents Aged Over 18*

	<i>N</i>	%
1	41	63.1
2	20	30.8
3	3	4.6
4	1	1.5
Total	65	100.0

The respondents were rather equally spread over the entire population (see Table 10). Approximately 30% responses came from clerical and support staff and another 30% was received from faculty. Responses from administrative employees totaled approximately 40%. The analysis of these responses did not present the assumption that financial planning is more important to clerical and support staff, administrative, or faculty positions.

Table 10

*Job Classification*

	<i>N</i>	%
Clerical and Support Staff	85	29.9
Administrative	111	39.1
Faculty	88	31.0
Total	284	100.0

A large percentage of respondents come from households earning more than 80 thousand dollars a year (see Table 11). This analysis may show that there is a relationship between income levels and financial planning.

Table 11

*Household Income*

	<i>N</i>	%
\$10,000 - 19,999	15	5.2
\$20,000 - 29,999	29	10.0
\$30,000 - 39,999	34	11.7
\$40,000 - 49,999	28	9.7
\$50,000 - 59,999	33	11.4
\$60,000 - 69,999	28	9.7
\$70,000 - 79,999	26	9.0
\$80,000+	97	33.4
Total	290	100.0

*Research Question 2*

Research question number two was listed as follows: What financial planning services are provided for ETSU employees? This information was not obtained through the survey instrument but assembled through the literature review in Chapter 2.

Available benefits at ETSU toward financial planning services include: retirement plans,

insurance programs, leave programs, educational benefits, longevity pay plan, basic group term life and special accident insurance, optional life insurance, flexible benefit plans, long-term care insurance, and employee funded optional deferred compensation and supplemental retirement options. A detailed discussion of these programs is provided in Chapter 2.

### *Research Question 3*

Research question number three was stated as follows: What factors should ETSU employees consider in deciding between defined-benefit and defined-contribution retirement plans? Before this question can be answered, information must be considered regarding the choice of retirement plans.

A large percentage difference did not exist between the respondents on the Tennessee Consolidated Retirement System versus the Optional Retirement Program (see Table 12). The percentages above from the respondents are exactly the same percentage associated with the total population. From the records maintained at ETSU, the total percentage of employees on Tennessee Consolidated Retirement System is 57%, as compared with 43% of employees on the Optional Retirement Programs. Clearly, this suggests that both programs have common advantages and disadvantages that may only be discernable by the employee.

Table 12

*Current Retirement Plan*

	<i>N</i>	%
Tennessee Consolidated Retirement System	157	56.1
Optional Retirement Program	123	43.9
Total	280	100.0

Approximately one third of the respondents revealed that they had no choice at the time of hire (see Table 13). This would certainly be true for clerical and support employees or administrative employees who were originally hired as clerical and support. Another one third of the respondents admitted that they chose the Optional Retirement Plans because of the flexibility and mobility aspect. If an employee resigns from ETSU and moves to another college or university outside of the State of Tennessee, the employee could continue to make contributions to this retirement plan.

Table 13

*Reasons for Selecting Plan*

	N	%
Flexibility and mobility	67	27.8
Only choice at the time	81	33.6
Recommended by Human Resources	12	5.0
Recommended by Others	16	6.6
Other	65	27.0
Total	241	100.0

Basically, over 75% of the respondents were happy with their decision of retirement plan (see Table 14). Approximately, 25% of respondents indicated that they should have chosen a different retirement plan. Explanations for the 25% may include selecting the Optional Retirement Plan based on mobility, then not moving from ETSU. The opinion of some people is that if an employee remains at ETSU for 30 years, then the decision for Tennessee Consolidated Retirement System would be most beneficial. However, this would only be true based upon the investment decisions with the Optional Retirement Plan.

Table 14

*Would You Choose a Different Plan?*

	N	%
No	197	76.1
Yes	62	23.9
Total	259	100.0

Because the university offers supplemental retirement plans to employees, it was noteworthy to estimate the percentage of participation among employees (see Table 15). The supplemental retirement plans require full funding from the employee, except for 401(k) plans. These plans receive a \$30 a month match from the State of Tennessee. With this incentive, it is surprising that all employees are not participating in the 401(k) with at least a \$30 contribution. The above table reveals that only 75% of the respondents actually participate in a supplemental retirement plan.

Table 15

*Supplemental Retirement Plan*

	N	%
No	71	24.1
Yes	223	75.9
Total	294	100.0



#### *Research Question 4*

Research question number 4 was stated as follows: To what extent should ETSU employees supplement their financial planning? With the wide variety of investment opportunities provided through the university, the question still exists as to participation in other financial planning. Table 16 below presents that less than half of the respondents (42%) participate in other financial planning which might account for work related investments of the spouse.

Table 16

#### *Participation in Other Financial Planning?*

	<i>N</i>	<i>%</i>
No	167	58.0
Yes	121	42.0
Total	288	100.0

With the wide variety of investment opportunities provided through the university, the question was presented as to participation in other financial planning. Forty-two percent of the respondents participate in other financial planning.

Tables 17, 18, and 19 relate both to research questions number 4 and 5. Financial planning comprise more than savings accumulation. Financial planning preparation also includes arrangements of establishing a will. Table 17 reveals that approximately one half of the respondents have developed a will.

Table 17

*Currently Have a Will?*

	<i>N</i>	%
No	141	47.6
Yes	155	52.4
Total	296	100.0

Other arrangements such as a durable power of attorney (see Table 18) and a living will (see Table 19) are represented by only one third of the respondents. It appears that more people will develop a will, but they will not take the extra step in setting up a durable power of attorney and a living will.

Table 18

*Durable Power of Attorney?*

	<i>N</i>	%
No	197	66.6
Yes	99	33.4
Total	296	100.0

Table 19

*Do You Have a Living Will?*

	<i>N</i>	<i>%</i>
No	200	67.8
Yes	95	32.2
Total	295	100.0

*Research Question 5*

Research question number 5 was stated as follows: To what extent are ETSU employees satisfied with ETSU financial planning services? The extent of employee satisfaction is directly related to an employee's motivation to develop a financial plan. Table 20 shows that over three quarters of the respondents are highly motivated to develop a financial plan. This response is probably expected because the non-motivated employees might be reluctant to respond to such a survey.

Table 20

*Motivation*

	<i>N</i>	%
Not motivated	2	.7
Slightly motivated	4	1.4
Moderately motivated	63	21.9
Highly motivated	219	76.0
Total	288	100.0

An employee's attitude about financial planning also has a direct link to the satisfaction level with the current services. From the respondents as presented in Table 21, seventy percent said that financial planning was very important and worthwhile.

Table 21

*Attitude About Financial Planning*

	<i>N</i>	%
It is very important and worthwhile	208	70.7
I resolve to make a plan as soon as possible	32	10.9
I should make a plan, but I am too busy	26	8.8
I don't make enough money to bother with it	14	4.8
Other	14	4.8

*Research Question 6*

Research question number 6 was stated as follows: To what extent should the university enhance the financial planning services for ETSU employees? A common educational tool in enhancing financial planning services is the establishment of periodic workshops. Table 22 reveals that over three quarters of the respondents have an interest in participating in workshops sponsored by ETSU.

Table 22

*Interest in Workshops*

	<i>N</i>	%
Yes	217	75.3
No	71	24.7
Total	288	100.0

Over half of the respondents said that retirement plans should be covered in the workshops. However, the percentages varied among basic money management techniques, estate planning, college planning, and other.

The survey ended with an open-ended question as follows: What suggestions would you provide ETSU on financial planning for employees? This survey question was instrumental in answering research question 6: To what extent should the university enhance the financial planning services for ETSU employees? One popular response from the survey indicated that ETSU should encourage the employees to start early with financial planning (see Table 23).

Table 23

*What Financial Programs Should be Covered?*

	<i>N</i>	<i>%</i>
Retirement Plans	70	57.9
Basic money management - budgets, credit card debt, etc.	18	14.9
Estate Plans	14	11.6
College Plans	2	1.7
Other	17	14.0
Total	121	100.0

Other suggestions on financial planning for employees included: making financial planning available to all employees; make it a part of new-hire training; AARP has some excellent resources; encourage employees to take Finance 3300 – Principles of Investment course; make it mandatory; publicize incentives and benefits; more dollars for 401(k) match; pay decent salaries; give people more than 1 hour to decide about retirement; more education (see Table 24).

Table 24

*Suggestions on Financial Planning for Employees?*

	<i>N</i>	%
Encourage employees to start early	31	21.7
Offer more frequent financial planning workshops	21	14.7
Use objective teachers in workshops; not salespeople	13	9.1
Workshops offered at various times	10	7.0
Other	68	47.6
Total	143	100.0

*Summary*

This chapter included an analysis of data on financial planning. In Chapter 5, the findings on financial planning are summarized and interpreted. From the analysis on financial planning, conclusions are made. In addition, limitations and recommendations for further consideration are given.

## CHAPTER 5

### SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The purpose of this study was to determine if East Tennessee State University provides employees appropriate financial planning services. In particular, it is unknown to what degree employees of East Tennessee State University have actively engaged in financial planning. This chapter includes the findings, conclusions, and recommendations from the research study. Recommendations for further practice and for further research are also presented.

#### *Summary of the Study*

Retirement can be thought of as a normal part of the life and work cycle. Individuals can expect to spend one fourth of their life span in retirement. Many workers admit looking forward to years of retirement leisure, while maintaining their current lifestyle and expanding it to include more leisure activities. However, the majority of workers know little about planning behaviors in midlife that will facilitate the lifestyle they desire as retirees (Turner et al., 1994, p.144).

The review of the literature documented the various information accumulated on financial planning for employees. The literature was divided into general, planning, and technical. In addition to the literature review, a survey on financial planning was distributed to a random sample of ETSU employees and retirees. Both the literature and survey instrument were used to address the study's research questions.



## *Findings*

### *Research Question 1*

Findings regarding the extent ETSU employees are engaged in financial planning are as follows: It was not a significant finding that employees over age 45 tend to be more interested in financial planning. It is only human nature to attend to the details of family, paying bills, purchasing a home, preparing for college expenses, and then saving what is left. This usually amounts to very little without a plan of action.

The literature review in Chapter 2 reminded us that stage three of our lives is defined as the Retirement Stage. This stage is the point at which most of the returns on careers are in, and it becomes possible to make a detailed retirement plan. A common beginning point for this stage is somewhere between 55 and 60 years of age, at which there is time to make changes in light of what one wishes to do with the remainder of his or her life (Vineyard, 2004, p.3).

The data did not make a distinction between male and female employees. Statistics prove that women live longer than men; therefore, women should prepare for these extra years of longevity. The differences found in planning demonstrate the importance of developing pre-retirement programs that were individualized for the various types of workers.

It was difficult to draw any conclusion on financial planning between single and married employees. It could be a misconception that one may assume that the spouse or children will financially plan for the individual. Within the literature, all employees should prepare financially for themselves. Financial planning is a personal concern and

people should not allow themselves to become dependent upon another person for his/her financial security.

Contrary to public opinion, the study did not find any differences in the planning between men and women. The differences found in planning according to employment position demonstrate the importance of developing pre-retirement programs that were individualized for the various types of workers (Rosenkoetter & Garris, 2001).

Employees with dependents are concerned with the financial future of themselves and also their dependents. One would suggest that a relationship exists among the number of dependents and the amount of accumulated savings. It becomes very difficult to save when family needs are not met. The employee may be preparing for college expenses for dependents or possibly medical expenses needed for a dependent.

Job classification was an important determinant in the activity of financial planning. A common fallacy is that financial planning is only for higher paid employees. This should not be the case because every job classification should be planning on a percentage basis; therefore, clerical/support, faculty, and administrative should be contributing to the financial plan on an equal percentage basis.

### *Research Question 2*

The findings are listed below for research question 2: What financial planning services are provided for ETSU employees?

1. Retirement Plans (TCRS and ORP)
2. Insurance Programs
3. Leave Programs

4. Educational Benefits
5. Longevity Pay Plan
6. Basic Group Term Life and Special Accident Insurance
7. Optional Life Insurance
8. Flexible Benefit Plans
9. Long-term Care Insurance
10. Employee Funded Optional Deferred Compensation and Supplemental Retirement Options.

The above benefits are recorded in Chapter 2 and a brief synopsis of each benefit was retrieved from ETSU Personnel Policies. Findings relating to the current benefits of ETSU employees are summarized in Research Question 6.

### *Research Question 3*

Factors that ETSU employees should consider in deciding between defined-benefit and defined-contribution retirement plans are as follows:

1. You must be a current State of Tennessee employee or higher education employee with 5 or more years of service in the ORP as of January 1, 2005. You must also be a current employee at the time of transfer in order to enroll in TCRS.
2. You must not have received a cash withdrawal or other distribution from the ORP.

3. The transfer must include Tennessee ORP service. If you elect to transfer to TCRS, you waive all current and future rights to ORP benefits from Tennessee Contributions. The decision is irrevocable.
4. The cost of the transfer will be the greater of (a) your ORP account balance, or (b) 12.65% of your compensation during the ORP participation period plus 7.5% annual interest. It is likely that the ORP balance will not cover the cost of the transfer.
5. The required payment must be made in lump sum by no later than December 31, 2006. There are various options for funding the payment including transferring your ORP account or other tax-deferred retirement accounts, or using personal savings (State of Tennessee, 2004, p. 3).

Members of TCRS are eligible for unreduced retirement benefits at age 60 or after 30 years of service. The formula for calculating the monthly benefit takes into account the five highest consecutive years of salary (Average Final Compensation – AFC) and years of service. Higher salary and more years of service translate into a higher monthly benefit. This monthly benefit, which will increase annually for cost of living adjustments, will continue until death or the death of your beneficiary depending on the payment plan chosen at retirement (State of Tennessee, 2004).

One of the requirements to transfer membership to TCRS is a payment equal to the greater of an ORP account balance or 12.65% of one's salary during the ORP participation period, plus interest. There are several methods to use when paying for the ORP transfer requirement: (a) transfer the funds from an ORP account (subject to

distribution guidelines imposed by the vendor); (b) make a rollover or transfer from a tax-deferred 401(k) plan, 403(b) plan, 457 plan, or IRA; or (c) write a personal check. In some cases, the money needed to complete the transfer may be derived from a combination of the above sources (State of Tennessee, 2004).

#### *Research Question 4*

The fourth research question wanted to know to what extent ETSU employees should supplement their financial planning. First, the employee must prepare a plan for the financial future. In order for the employee to adequately plan for the future, one must predict and ascertain what level of financial condition will be needed in the future. If an employee wants to maintain his/her current level of living expenses, then these expenses must be estimated for future use. A 5% cost of living increase would be helpful in predicting future expenses. After these expenses have been estimated, then an employee would be able to design the plans necessary to fund such situations. The data received presented an estimate that 75% of the population had supplemental retirement plans. This indicated that employees were not comfortable with only the state funded retirement plans. Employees indicated that supplemental plans are necessary in order to maintain a satisfactory standard of living in the future years.

An additional finding regarding the supplemental retirement plans concerns the 401(k) plan administered through the State of Tennessee. All employees should be contributing to this 401(k) plan to the extent that the state matches. For each dollar up to \$30 that the employee contributes, the state will match 100%.

### *Research Question 5*

The extent to which ETSU employees are satisfied with ETSU financial planning services was research question 5. The study did not receive a clear indication that ETSU employees were satisfied or dissatisfied with ETSU financial planning services. The data revealed that less than half of the respondents (42%) participate in other financial planning which might account for work related investments of the spouse. Because a relatively high percentage responded that they do participate in other financial planning, it would equate that ETSU has room for improvement within this area.

### *Research Question 6*

Research question 6 intended to find to what extent the university should enhance the financial planning services for employees. Suggestions on financial planning for employees included: making financial planning available to all employees; make it a part of new-hire training; use resources from AARP; encourage employees to take Finance 3300 – Principles of Investment course; make it mandatory; publicize incentives and benefits; establish more dollars for 401(k) match; pay decent salaries; give people more than 1 hour to decide about retirement; more education. The findings associated with this question clearly signify that enhancement is a constantly moving target. Financial planning keeps changing; therefore, a review of the options offered to employees should be set up on an annual review for the employer.

## *Conclusions*

The following conclusions and recommendations for practice were developed from the data analysis and the literature review:

1. Regularly scheduled financial workshops should be continued by the Human Resource department. These classes should be scheduled at various times and dates in order to accommodate schedules of various employees. Workshops should be arranged in a convenient location for employees with each participant having computer access.
2. A financial workshop web page should be developed that would encompass retirement information, insurance programs, leave programs, educational benefits, longevity pay plan, basic group term life and special accident insurance, optional life insurance, flexible benefit plans, long term care insurance, employee funded optional deferred compensation, and supplemental retirement options. Additional financial tools could be added that would assist the employee with loan calculations, savings and investments calculations, and IRS regulations pertaining to the various deferred compensation plans.
3. Employees should schedule an appointment with Human Resources for an annual review of their financial plan. Employee situations change frequently; therefore, this would have serious consequences on the financial plan.

4. ETSU Human Resource Office should designate financial planning duties to an employee who is qualified to assist employees with the various areas of financial planning. This employee would be responsible for the following duties: schedule the annual reviews with employees, schedule the workshops on campus, maintain the financial planning web site, coordinate the web cast training materials, and maintain current financial planning information.
5. ETSU could provide financial planning software for employees. This software may consist of the following: budget planning, investment planning and scheduling, loan calculator, computation of Federal and State taxes.
6. Set up a suggestion box on-line for employees with suggestions, questions, and recommendations concerning financial planning materials.
7. Develop a library of web cast videos regarding financial planning.
8. ETSU should encourage employees to start early by increasing the matching amount for the 401(k) plan and actually creating a match for the 403(b) plan.
9. The employee should set aside each month time for review of plan. This would help the employee realize the importance of starting early on financial planning.
10. ETSU should be timely on distribution of information on retirement plans.



11. ETSU should gather information on Best Practices from other colleges/universities regarding financial planning for employees.
12. Develop a discussion group via internet or group meeting on different aspects of financial planning. This would be similar to an investment group process.
13. Publicity should be increased on the 401(k) match from the State of Tennessee. It is estimated that 25% of employees are not aware that the state matches employee contributions up to \$30 a month.

#### *Recommendations for Practice*

The study provided ongoing recommendations for practice as follows:

1. Internal Revenue Service regulations change on a periodic basis that would necessitate changes to the technical section of the literature review.
2. Tennessee Board of Regents change benefits for employees on a periodic basis that would necessitate changes to the technical section of the literature review.

#### *Recommendations for Further Study*

The study provided a broad overview of the financial planning aspects for ETSU employees; however, the following represent recommendations for further study:

1. A similar study should be conducted to compare other higher education institutions in order to establish a baseline for Best Practices within the higher education relevant range.

2. This study indicated that the period of time is very important in the area of financial planning. A study should be conducted on the different ways of motivating an employee to start early in their financial planning arrangements.

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APPENDICES

APPENDIX A

East Tennessee State University  
Survey on Financial Planning

GENERAL INFORMATION

1. My age is:  18-35  36-45  46-55  over 55
2. Gender:  male  female
3. Marital status:  single  married
4. Number of dependents in each age group:  
ages          ages          ages  
 1-12  13-18  over 18  none
5. Job Classification:  clerical and support staff  administrative  faculty
6. Household income:  
 \$10-19,999  \$20-29,999  \$30-39,999  \$40-49,999  
 \$50-59,999  \$60-69,999  \$70-79,999  \$80,000+

FINANCIAL PLANNING INFORMATION

7. Which retirement plan are you currently with:  
 Tennessee Consolidated Retirement System (TCRS)  
 Optional Retirement Program (TIAA/CREF, VALIC, or ING)
8. What were the reasons in selecting your retirement plan above? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. If you were making the same decision today, would you choose a different retirement plan?  
 No  Yes
10. Are you currently participating in a supplemental retirement plan (403b or 401k) in addition to the regular state funded retirement program?  
 No  Yes
11. Are you participating in any other financial planning service?  
 No  Yes (comments: \_\_\_\_\_)  
\_\_\_\_\_)

12. Do you currently have a will?  No  Yes
13. Do you currently have a durable power of attorney?  No  Yes
14. Do you have a living will?  No  Yes
15. How motivated should an employee be to develop a financial plan?
- Highly motivated
  - Moderately motivated
  - Slightly motivated
  - Not motivated
  - Other: \_\_\_\_\_
16. My attitude about financial planning is:
- It is very important and worthwhile
  - I resolve to make a plan as soon as possible
  - I should make a plan, but I am too busy
  - I don't make enough money to bother with it
  - Other: \_\_\_\_\_
17. If ETSU offered financial planning workshops, would this be of interest to you?  Yes  No

What financial programs should be covered: \_\_\_\_\_

\_\_\_\_\_

18. What suggestions would you provide ETSU on financial planning for employees? \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_



APPENDIX B

East Tennessee State University  
Survey on Financial Planning  
(Retirees)

GENERAL INFORMATION

1. My age is:  45-54     55-64     65-74     75 or over
  
2. Gender:     male         female
  
3. Marital status:  single     married
  
4. Number of dependents in each age group:  
    ages            ages            ages  
     1-12     13-18     over 18     none
  
5. Former job classification:  clerical and support staff     administrative     faculty
  
6. Household income:  
     \$10-19,999     \$20-29,999     \$30-39,999     \$40-49,999  
     \$50-59,999     \$60-69,999     \$70-79,999     \$80,000+

FINANCIAL PLANNING INFORMATION

7. Which retirement plan were you with:  
     Tennessee Consolidated Retirement System (TCRS)  
     Optional Retirement Program (TIAA/CREF, VALIC, or ING)
  
8. What were the reasons in selecting your retirement plan above? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
9. If you were making the same decision today, would you choose a different retirement plan?  
     No         Yes
  
10. Did you participate in a supplemental retirement plan (403b or 401k) in addition to the regular state funded retirement program?  
     No         Yes

11. Did you participate in any other financial planning service?  
 No  Yes (comments: \_\_\_\_\_  
\_\_\_\_\_)

12. Do you currently have a will?  No  Yes

13. Do you have a durable power of attorney?  No  Yes

14. Do you have a living will?  No  Yes

15. How motivated should an employee be to develop a financial plan?  
 Highly motivated  
 Moderately motivated  
 Slightly motivated  
 Not motivated  
 Other: \_\_\_\_\_

16. My attitude about financial planning was:  
 It is very important and worthwhile  
 I resolve to make a plan as soon as possible  
 I should make a plan, but I am too busy  
 I don't make enough money to bother with it  
 Other: \_\_\_\_\_

17. If ETSU offered financial planning workshops, would this be beneficial to the employees?  Yes  No

What financial programs should be covered: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

18. What suggestions would you provide ETSU on financial planning for employees? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## VITA

### STEVEN R. CAMPBELL

Personal Data: Date of Birth: July 21, 1954  
Place of Birth: Johnson City, Tennessee  
Marital Status: Married

Education: Sulphur Springs School, Jonesborough, TN  
Daniel Boone High School, Gray, TN  
East Tennessee State University, Johnson City, TN  
Accounting, B.S., 1976  
Tusculum College, Greeneville, TN  
Organizational Management, M.A., 1997  
East Tennessee State University, Johnson City, TN  
Educational Leadership, Ed.D., 2006

Certifications: Certified Public Accountant, 1987, State of Tennessee

#### Professional

Experience: Staff Accountant – Baylor & Backus Certified Public Accountants  
Johnson City, TN, 1975-1977  
Internal Auditor – East Tennessee State University, Johnson City, TN,  
1977-1979  
Bank Internal Auditor – SunTrust Banks and First Virginia Banks,  
Johnson City and Knoxville, TN, 1979-1989  
Assistant Comptroller – East Tennessee State University, Johnson City, TN,  
1989-1997  
Assistant Vice President for Business and Finance/Comptroller – East  
Tennessee State University, Johnson City, TN, 1997-Present

#### Personal and Professional

Memberships: Jonesborough United Methodist Church (Church Council/Chairman)  
Wesley Foundation at ETSU (Board Member/Chairman)  
Johnson City Lions Club (Past President)  
East Tennessee State University Staff Senate (Past President)  
Tennessee Society of Certified Public Accountants  
American Institute of Certified Public Accountants

#### Honors and

Awards: Distinguished Staff Award, East Tennessee State University, 1997  
Lion of the Year Award, Johnson City Lions Club, 1996  
Lion of the Decade Award, Johnson City Lions Club, 1989-1999