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W H I T E P A P E R

Taking the Gamble out of Retirement

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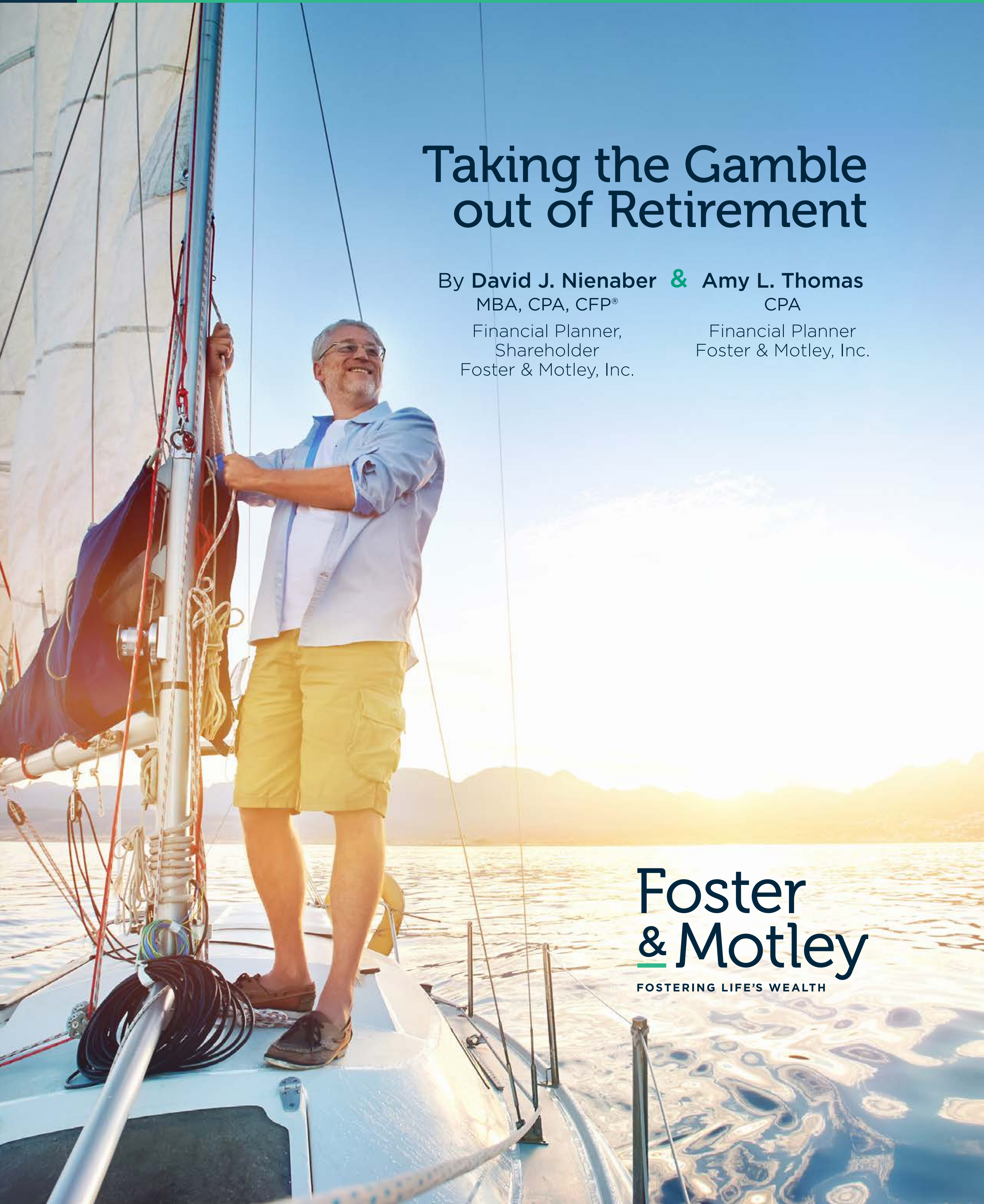

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Procter & Gamble (P&G) is one of the world's great companies and one of Greater Cincinnati's largest employers. The company offers two active retirement plans — a 401k Savings Plan and the Procter & Gamble Profit Sharing Trust (PST). Both are enormous — each has about 30,000 participants, with $3 billion in assets for the 401k plan and more than $16 billion in assets for the PST.

On its own, the P&G Savings Plan is a middle-of-the-road 401k package, with no employer match but well-diversified and low-cost investment options. The PST, meanwhile, offers a generous employer contribution but is invested almost exclusively in company stock. That exposure makes it a concentration risk for plan participants, especially those considering an exit. Historically, the generous contributions combined with well-performing P&G stock have allowed employees across the organization to realize their personal financial independence.

The 401k plan is pretty straightforward — it's the profit sharing plan that triggers uncertainty and questions. Our team has been working with P&Gers for decades, and we understand the nuances and issues that are at play. If you're a P&Ger, here are some insights to get you thinking.

Understanding Your Options

For the P&G Profit Sharing Trust, participants have four alternatives to consider for turning their savings into retirement cash flow.

The lump sum is the most popular option and the one we most often recommend.

- **Individual Annuity:** This can provide a guaranteed stream of income, but the insurance costs within the annuity can make it more expensive than other alternatives and distributions are taxed as ordinary income. So, almost no one chooses this option.
- **Leave Assets in the Plan:** This option comes with more flexibility than the annuity and management costs are low, but few people select it because it requires leaving at least 40% of the plan balance in P&G stock. In retirement it is not advisable to hold such a large exposure to a single stock as it increases risk.
- **Full Rollover to an IRA:** This choice delivers absolute investment flexibility, but also means forfeiting the potential tax benefits of a lump sum distribution. All distributions will be taxed at ordinary income rates, and there is no "do over" option to execute a lump sum later. That's not ideal.
- **Lump Sum Distribution:** This option requires the prepayment of some tax, but it provides the advantage of converting ordinary income into more favorable capital gains rates. You pay the upfront tax on the low-cost basis shares you receive which turns the value between the cost basis ($6.82 per share for preferred shares) and current stock price into capital gain income versus ordinary income when sold. Capital gains rates start at 0% and go up to 20% once a married couple has more than $400,000 of taxable income. These rates are much lower than ordinary income tax, thus the appeal of this strategy. The lump sum distribution creates low cost basis shares that can be an excellent option for fulfilling your charitable goals. Lastly, there is a technique to defer the upfront tax payment, though this requires a detailed discussion with a financial planner.

What's best for you might not be what's best for the person sitting next to you.

For all these reasons and more, the lump sum is the most popular option and the one we most often recommend. It's the only one that allows you to convert ordinary income into capital gains income, while providing the best combination of flexibility and diversification. It's also a huge opportunity for short and long-term cash flow and tax planning.

For many people, this kind of distribution is often the first time they're doing advanced financial planning. It's the perfect time to fully understand the interplay of tax rates, cash flow and how all of your financial decisions can deliver one plan that meets all of your short and long-term goals.

Navigating the Process

The P&G financial universe certainly has its own idiosyncrasies and potential pitfalls. More than a quarter of our practice is made up of P&G executives and retirees, and we hear a similar refrain when it comes to retirement planning: What are my P&G friends/colleagues doing? Who are they working with? How do they know they're taking the best approach? There's no one right answer. Your best case scenario depends on everything from your band level and tenure at P&G to your life goals, family dynamics, charitable giving philosophy and more. What's best for you might not be what's best for the person sitting next to you. Despite all the variables, here are some fundamental questions to consider:

- **What's your current marginal tax rate now, vs. the pre-70 ½ retirement rate and post-70 ½ rate?**
- **How much P&G stock are you comfortable holding?**
- **How much investment complexity or simplicity do you want?**
- **What proportion of your overall retirement savings is in the PST?**

Your answers — intersected with our experience within the P&G environment — gives us a collaborative blueprint. Understanding it well and executing a well thought out, strategic plan can deliver the gratifying retirement you've been investing in for so long.

Make sure you're engaging with an advisor at least a year before your planned exit from P&G. Be on the lookout for an advisor with CPAs to parse through the weighty tax implications and fiduciaries that are legally bound to put your interests ahead of their own. Chart a timeline so you fully understand the key milestones ahead, such as age 50 (when you become eligible for Retirement Plus and can diversify holdings) and age 59½ (when you requalify for a lump-sum distribution and are eligible for penalty-free plan withdrawals).

We're ready to help with a no-cost meeting to understand your situation, start building a plan and give you a handful of action steps whether you decide to continue working with us or not.

Now that's an option worth considering.

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David Nienaber and Amy Thomas are Financial Planners with Cincinnati, Ohio-based Foster & Motley, Inc. The firm is an independent Registered Investment Advisor, managing over $1 billion in client assets. Foster & Motley combines Financial Planning & Investment Management to provide a comprehensive Wealth Management experience for its clients.

To learn more, visit **fosterandmotley.com.**

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