Financial planners answer questions from readers

Jim Tuttle/Staff Photographer

Chase Mouchet, a member of the Financial Planning Association of Dallas-Fort Worth, took calls Sunday as part of the annual financial planning hotline and online chat at The Dallas Morning News.

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Saving for retirement, paying off a mortgage and saving for college were among the concerns of readers who contacted financial planners on Sunday.

The hotline, which drew 103 callers, and the online chat were sponsored by *The Dallas Morning News* and the Financial Planning Association of Dallas-Fort Worth.

Pensions

Lump sum or payments? Some readers were facing the choice of whether to take their pension as a lump sum or in monthly payments.

It's one of the most complex questions workers will face and one that requires a thorough analysis before a decision.

For example, one reader was considering taking the lump sum and stashing the money in a Roth IRA.

Melissa Brennan, certified financial planner at Vogel Financial Advisors, said it's important for the man to know what tax bracket he's in now and what tax bracket he expects to be in at retirement.

"Those are really crucial questions to answer," she said. "Roth IRAs or Roth 401(k) accounts are most beneficial for investors who anticipate being in the same or a higher tax bracket in retirement. You should do some tax planning before making any decisions."

The other important issue to look is whether taking a lump sum would be worth it, Brennan said.

"It used to be that taking a pension lump sum was a no-brainer," she said.

The rate of return that a pension calculation used was once so conservative that an investor could easily outearn the pension return by rolling the money over to an IRA, Brennan said.

However, with today's low interest rates, "the government has changed the formula by which pension annuities are calculated," she said.

"Now, we often find that the relatively risk-free rate of return in the pension annuity makes the annuity a better election," Brennan said.

Other factors that you should consider are life expectancy and how much you would earn in investments if you were to take the lump sum and invest it.

Of course, you can't know precisely how long you will live, but you can get an idea by looking at your parents' longevity and your family's health history.

Also, do you have the expertise and time to invest this large amount yourself?

Mortgages

Pay it off? One couple wanted to take $90,000 from a $130,000 401(k) to pay off a mortgage.

Certified financial planner Tom Murphy said such a move could cost them dearly.

"If you were to take all $130,000 out of a 401(k) in one year, it would push you up into a higher tax bracket," said Murphy of Murphy & Sylvest. "Depending on your other income, you could pay as much as 43.8 percent of the proceeds in tax. The reality is you will probably pay closer to 30 percent, but I cannot calculate it without knowing your total income. Assuming a 30 percent tax rate, $39,000 would go to the IRS."

He also said withdrawing the money would devastate their retirement fund.

Education

Saving for college: One couple, who have two young children, wanted to know how they should start saving for college.

“The most tax-efficient way to save for college is a section 529 plan,” Murphy said. “Money put into these plans grows tax-deferred and when the money is used it is all tax-free, provided the money is used for qualifying college expenses.”