



Teachers' Path Financial Planning

The Teacher's Guide to a Secure Retirement: Beyond the Pension

A guide for educators planning their financial future

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financial advisor focusing on the retirement needs of educators

Introduction: Your Journey to Financial Independence

As an educator, you spend your career investing in the future of others. You deserve the same level of dedication when it comes to planning your own future.

I'm Nathaniel Carswell, CFP®, founder of Teachers' Path Financial Planning. As an independent fiduciary financial advisor who primarily serves the needs of educators, I understand the unique financial challenges and opportunities you face. My mission is to help you navigate the path to a secure retirement with confidence and clarity.

Many teachers rely heavily on their pension plans, believing they provide complete financial security in retirement. While pensions are valuable benefits, they often represent just one piece of a comprehensive retirement strategy. This guide will help you understand how to help maximize your pension while building additional financial resources designed to ensure a more secure retirement.

Whether you're just beginning your teaching career or counting down the years to retirement, this guide will provide actionable strategies to help you create a retirement plan that can go beyond your pension and align with your personal goals and dreams.

Let's begin your journey toward financial independence.





A teacher with glasses and a tan jacket is leaning over a desk, assisting several young students. The students are focused on their work, with one girl in the foreground writing in a notebook. The background is a bright, clean classroom setting.

Understanding Your Pension: The Foundation of Retirement Security

Your pension is likely the cornerstone of your retirement plan. However, understanding exactly how it works is essential to making informed decisions about your future.

How Teacher Pensions Work

Most educator pension plans are defined benefit plans, meaning they promise a specific monthly benefit at retirement based on:

- Years of service
- Final average salary
- A multiplier specific to your state's pension system

Key Considerations

Vesting Period: Most teacher pension plans require 5–10 years of service before you become “vested” and entitled to benefits. If you leave teaching before meeting this requirement, you may forfeit employer contributions.

Benefit Calculation: Your monthly pension benefit typically follows this formula:

$$\text{Monthly Pension} = \text{Years of Service} \times \text{Final Average Salary} \times \text{Multiplier}$$

Cost-of-Living Adjustments (COLAs): Some pension plans include automatic COLAs to help benefits keep pace with inflation, while others don't. Understanding whether your plan includes COLAs is crucial for long-term planning.

Survivor Benefits: Consider how your pension treats survivor benefits. Will your spouse continue receiving benefits if you pass away first? Are there reduction factors for choosing survivor options?

Pension Health: Many state pension funds face funding challenges. Research your specific plan's funded status to understand potential risks to future benefits.



Action Steps:

1. *Obtain your pension benefit statement and estimate from your state pension system.*
2. *Understand your vesting timeline and benefit calculation formula.*
3. *Identify any pension system changes that might affect your benefits.*
4. *Consider how your pension fits into your overall retirement income strategy.*

Remember: While your pension provides valuable retirement security, it's designed to replace only a portion of your pre-retirement income—typically 50-70% for a full career. Building additional savings is often essential for a truly secure retirement.

Maximizing Your 403(b): A Powerful Retirement Tool

Beyond your pension, your 403(b) plan may offer an effective way to build retirement savings. Unfortunately, many educators don't fully utilize this valuable benefit or fall prey to high-fee investment options.

Why Your 403(b) Matters

Tax Advantages: Contributions to traditional 403(b) plans reduce your current taxable income, while Roth 403(b) options provide tax-free growth potential and withdrawals in retirement*.

Compound Growth: The earlier you start contributing, the more time your investments have the potential to grow. Even small contributions can compound significantly over decades.

Control: Unlike your pension, you maintain control over 403(b) investments and can access them if you change careers.

**Roth distributions are tax free after age 59-1/2 if the account has been open for at least 5 years.*

Common 403(b) Pitfalls for Educators

High-Fee Products: Some 403(b) vendors offer teachers 403(b) plans with relatively expensive annuity products or high-fee mutual funds that can significantly reduce returns over time.

Limited Investment Options: Some district plans offer few low-cost index fund options, which can be effective long-term investment vehicles.

Inadequate Contributions: Many educators contribute too little to meaningfully supplement their pension benefits.

Optimization Strategies – tips to consider:

Contribution Goals: Aim to contribute at least 10–15% of your salary between your pension contributions and 403(b) plan.

Investment Selection: Consider if low-cost index funds make sense for your portfolio.

Regular Increases: Consider increasing your contribution percentage with each raise or step increase on the salary schedule.

Account Consolidation: If you've changed districts, consider consolidating old 403(b) accounts to simplify management and potentially reduce fees.



Action Steps to consider:

1. *Review your current 403(b) contribution rate and increase if possible.*
 2. *Evaluate your investment options and fees.*
 3. *Consider whether traditional or Roth contributions make more sense for your situation.*
 4. *Set up automatic contribution increases to coincide with salary steps.*
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Supplemental Savings Strategies: Beyond Pension and 403(b)

While pensions and 403(b) plans form the foundation of most teachers' retirement planning, supplemental savings strategies can provide additional financial security and flexibility.

Individual Retirement Accounts (IRAs)

Traditional IRA: May offer tax-deductible contributions, depending on your income and whether you participate in a workplace retirement plan.

Roth IRA: Provides tax-free growth potential and withdrawals in retirement, with additional flexibility for early withdrawals of contributions if needed.

Spousal IRA: If your spouse has limited or no income, you may be able to contribute to an IRA on their behalf, potentially doubling your tax-advantaged savings.

Health Savings Account (HSA)

If you have access to a high-deductible health plan, an HSA offers the potential for triple tax advantages:

- Tax-deductible contributions
- Tax-free growth potential
- Tax-free withdrawals for qualified medical expenses

In retirement, an HSA can serve as an additional investment account for healthcare expenses, which typically increase with age. (Note that withdrawals for non-qualified expenses are generally taxable, and may incur an additional 10% IRS penalty).



Taxable **Investment Accounts**

Beyond tax-advantaged retirement accounts, standard brokerage accounts offer:

- No IRS contribution limits
- Greater flexibility for early withdrawals, often without penalties
- Preferential tax treatment on long-term capital gains

Real Estate **Investments**

Many educators find that real estate offers another potential avenue for building retirement wealth:

- Primary residence equity
- Investment properties
- Real estate investment trusts (REITs)



Action Steps to consider:

1. *Maximize tax-advantaged accounts before investing in taxable accounts.*
2. *Consider opening a Roth IRA for additional tax-diversified savings.*
3. *Explore whether an HSA makes sense for your healthcare situation.*
4. *Develop a consistent savings strategy outside retirement-specific accounts.*

Social Security Optimization: Understanding Your Benefits

Many educators have questions about Social Security benefits and timing. Understanding these rules is crucial for effective retirement planning.

Social Security Strategies

Timing Your Claim: Benefits increase approximately 8% for each year you delay claiming from full retirement age until age 70.

Spousal Coordination: Married couples should coordinate claiming strategies to help maximize lifetime benefits.

Earnings Test: If you plan to work while collecting Social Security before reaching full retirement age, benefits may be temporarily reduced.



Action Steps to consider:

1. *Create a My Social Security account at ssa.gov to view your earning history and benefit estimates.*
 2. *Consider how your pension and Social Security will work together in retirement.*
 3. *Develop a claiming strategy designed to help maximize lifetime benefits.*
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Early Retirement Considerations: Bridging the Gap

Many educators dream of retiring before traditional retirement age. While early retirement can be rewarding, it requires careful planning to help ensure financial security.

The Rule of 55

If you leave your job in or after the year you turn 55, you may be able to access your 403(b) funds without the typical 10% early withdrawal penalty. This can be a valuable tool for early retirement planning. (Funds will be subject to ordinary income taxes)

Pension Considerations

Early Retirement Penalties: Most pension systems reduce benefits for teachers who retire before meeting age and service requirements. Understand these reductions before committing to early retirement.

DROP Programs: Some states offer Deferred Retirement Option Programs, allowing you to technically “retire” while continuing to work, with pension benefits accumulating in a separate account.



Healthcare Bridge Strategies

One of the biggest challenges of early retirement is healthcare coverage before Medicare eligibility at age 65:

COBRA Coverage: Temporary extension of employer coverage (typically limited to 18 months)

ACA Marketplace Plans: May offer subsidized coverage based on retirement income

Spouse's Coverage: Often, the most cost-effective solution, if available

Creating Income Streams

Developing multiple income sources can help bridge the gap to your traditional retirement age:

Roth IRA Contributions: Can be withdrawn at any time without taxes or penalties.

Part-Time Work: Many retired educators find fulfillment in substitute teaching, tutoring, or educational consulting.

Rental Income: Property investments can provide ongoing passive income.



Action Steps to consider:

1. Calculate your "retirement number" – how much you need to save before comfortably retiring.
 2. Develop a detailed budget for early retirement years.
 3. Create a strategy for healthcare coverage.
 4. Build savings to access before age 59½.
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Creating Your Personalized Retirement Plan

A secure retirement requires integrating all these elements into a cohesive strategy aligned with your personal goals and circumstances.

Key Planning Questions

- What lifestyle do you envision in retirement?
- What is your desired retirement age?
- How will you manage healthcare expenses?
- What legacy do you wish to leave?
- How will you protect against longevity risk (outliving your money)?

Building Your Retirement Income Floor

Consider creating a “floor” of guaranteed income to cover essential expenses:

- Pension benefits
- Social Security (if applicable)
- Potential fixed annuity options

Additional investments can then fund discretionary expenses and provide flexibility.

Risk Management in Retirement

- **Inflation Protection:** Ensure your income plan accounts for rising costs over potentially 30+ years of retirement.
- **Long-Term Care:** Consider strategies for potential care needs, which can rapidly deplete retirement savings.
- **Market Volatility:** Develop an investment strategy that balances growth potential with appropriate risk management.
- **Tax Efficiency:** Structure withdrawals to help minimize tax impact throughout retirement.

The Power of Professional Guidance

While this guide provides a foundation, each educator’s situation is unique. Working with a financial advisor who specializes in teachers’ retirement needs can help you:

- Navigate complex pension rules
- Optimize your 403(b) and other investment accounts
- Coordinate all retirement income sources
- Adjust your plan as life circumstances change

About Nathaniel Carswell and Teachers Path Financial Planning

As an independent fiduciary financial advisor focusing primarily on the retirement needs of educators, I founded Teachers' Path Financial Planning with a mission to help teachers build financial security while navigating the unique aspects of educator compensation and benefits.

Why Choose Teachers Path Financial Planning?

Educator Focus: We understand the nuances of teacher pensions, 403(b) plans, and the specific financial challenges educators face.

Fiduciary Commitment: We put your interests first at all times.

Independence: As an independent advisor, I'm not limited to proprietary insurance and investment products offered through a parent company. This business model helps to reduce conflicts of interest and ensure our advice is truly in your best interest.

Comprehensive Approach: We address all aspects of your financial life, from retirement planning to debt management, insurance, and estate planning.



How Teachers Path Financial Planning **Can Help**

We are passionate about empowering teachers to achieve their financial goals. We understand the intricacies of your pension system, 403(b) options, and the importance of building a comprehensive retirement plan.

We can help you with:

- **Personalized Retirement Planning:** We'll work with you to create a customized plan that aligns with your unique circumstances and goals.
- **403(b) Guidance:** We can help you navigate your investment options and make informed decisions about your contributions.
- **Supplemental Savings Strategies:** We'll explore various savings vehicles to help you build additional wealth.
- **Social Security Optimization:** We'll help you understand your benefits and develop a claiming strategy designed to help maximize your income.
- **Ongoing Support:** We'll be your trusted partner, providing ongoing guidance and support as you work towards a secure retirement.

Next Steps

Your journey to a secure retirement begins with a clear understanding of where you stand today and where you want to go. I invite you to schedule a initial consultation to discuss your unique situation and how Teachers' Path Financial Planning can help you achieve your retirement goals.



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Schedule a consultation

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