RETIREMENT PLANNING FOR HEADS OF SCHOOL: SOME USEFUL TOOLS TO GET THERE

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In interviewing over 50,000 teachers worldwide in the past 20 years on the topic of their compensation, over 95% of them could not relate their exact salary, much less the amount they have accumulated in their total retirement assets.

Most heads are not any more knowledgeable about their total asset picture. Like teachers, they tend to be caregivers. Furthermore, their absence of personal financial planning may pose some long term challenges.

1. Which "Experts" Does a Head Need?Most school heads fail to hire an attorney when a contract is offered or renewed. Their trust is high. Yet, even the board chairs of highly reputable national schools have advised this consultant that they believe heads would be wise to seek legal counsel before signing a contract and that a good board would insist on it, for the longer term health of the relationship between both parties.
   Many schools now offer financial planning services for faculty, staff and for the head of the school for a modest fee, and sometimes it is offered pro bono. It is important for a head of school from the mid 30's on to have a financial planner and tax advisor, preferably one who is also trained as an attorney. Many schools provide for these services as part of a head's contract, and if not, this is not an unreasonable request for a head to make. The financial planning advice should come from a certified financial planner not a broker or insurance sales person interested in selling specific "products."

2. Which Benefits are Typical and Which Can a Head Legitimately Request?Heads of school often have major tax protection by virtue of living in a school owned home, with the corresponding tax free benefits of utilities, and other housing amenities. These are tax free (according to most tax attorneys) IF the head is living in a school owned home at the wish of the Board, and does school related entertainment and some oversight of the school from that home. This should be documented in the head's contract for the school's and the head's protection.
   Recognizing that living in school-owned homes does not allow a head to acquire equity in a home of his or her own, some boards assist the head in the purchase of a permanent

retirement home with an interest-free loan forgiven over time. However, most boards, while not shying away from considering this benefit, are at least being very careful about compliance, transparency and "optics".

Usually the school car is leased and provided to the head. The head declares that portion of the car that is used for personal or commuting purposes and pays the tax on that portion. Thus a $6000 annual lease value, with 20% personal use, means the head is paying tax on $1200 of benefit.

Some heads ask their boards about long term medical care. Generally, boards will not consider this as it sets a precedent and can become costly as the amount of the future liability to school is unknown. However, for valued long term heads and teachers, many schools will carry the head on the school's medical plan, often at school expense, until the head reaches age 65. Many will also provide a supplemental or "wrap around" plan for Medicare at school expense, up to and even beyond age 70.

TIAA/CREF and similar 403 (b) investment vehicles form the front line for asset accumulation and most heads find their school putting in between 7% and 14% of base salary, depending on school policy and longevity of service. Heads should be maxing out their own contribution limits beyond these school contributions. Deferred compensation is the next higher level of savings.

Deferred compensation or 457 (f) plans are the most powerful and widely used tools by which heads are attracted, rewarded and retained. It is also the primary vehicle through which most which school heads are building their assets for retirement.

Many heads in the country will retire with more in their non qualified deferred compensation plans than in their 403 (b) accounts. Contributions to deferred compensation plans are considered at "substantial risk of forfeiture" and represent school owned money until the head retires, becomes disabled, resigns, is fired or dies. At that time, the money is taxed unless another provision has been made in advance for the extension of the "risk of forfeiture" provision.

"Split dollar" life insurance plans should be phased out in favor of deferred compensation plans because split dollar plans, lacking this "risk of forfeiture" provision, may attract IRS scrutiny.

It is not a good idea to have 457 (f) plans in place if a school's finances are "iffy" and thus, the "at risk" provision means a powerful risk to the asset. Deferred compensation can be made up of the head's own salary reduction in a non qualified deferred compensation plan as well as from contributions from the board. The board's contributions may be funded or unfunded, in the near term, annually or longer term. Once those monies are in the plan, they cannot be withdrawn until the employment relationship is severed. They grow tax deferred.

3. What are a Head's Prospects for Employment Upon Retirement?The vast majority of heads naturally try their hand at the consulting profession upon retirement. A very few make a "go" of it due to the greater than anticipated travel and marketing demands of the profession.
   A very few heads continue to work at their own school or other schools in other administrative capacities such as development or admissions. However, few heads are really comfortable hiring former heads.

   An even fewer number of heads find positions in local, regional or national foundations. These are almost always a product of key board connections, or alumni or parent contacts that have been built over time. Such opportunities are rare and yet they can be landed if a head knows which strings to pull and is adept at long term cultivation of prominent members of the charitable communities that have helped the school over time. There are about twenty such positions being held today by former school heads across the land. However, twenty is not a high number considering the number of heads "retiring" every year.

4. A Sample Profile of a Retiring HeadJason is 58 years of age and the age when most heads are ready to leave the profession. He is planning to retire in July, 2005. He has been a school head, at this school and one before, for 25 years. His TIAA/CREF asset to date from all sources totals $850,000. He has amassed $560,000 in deferred compensation during the nine years his plan has been in place with his current school.
   For his retirement, the school has arranged to turn over to him the leased car he has been driving. It will also provide two years worth of salary and benefits upon his departure, both to reflect a full year sabbatical he was once offered and never took, and to provide one year's severance in appreciation of some eighteen years as head of this school. Together these assets represent approximately an additional $500,000.

   Having lived in a school owned home most of his career, Jason and his wife have bought a permanent retirement home in another state. That home has been in a shore area where the family has rented the home out each summer for $30,000. Based on those years of rental, he owns the home debt-free.

   Jason's wife, while never working for the school in a paid capacity, has been his faithful support system, working with the children and the families of the school for many years at no compensation. The Board has decided to provide her with a one time gift, a trip to Europe for the two of them for several months. This gift in fact comes from a donor family to the School and is thus taxable to the head. The gift in turn is prompted by the board's reasonable desire that Jason distance himself from the school and community for a period of time so that his successor has the comfort and space needed to establish his headship.

Jason and his wife also own a condo in the town where their school is located. Their daughter has lived there for many years, paying a modest rent to her parents.

Most former heads of Jason's age are not ready to sit by the lake all day. Jason plans to do some consulting for a search firm with a number of regional partners with whom he has built a network over the years. He hopes to garner two or three searches a year and possibly some additional consulting work, adding perhaps $50,000 a year to his bottom line.

However, realistically Jason should expect and be pleased to earn a modicum of income to supplement his regular retirement with the added benefit of staying "connected" to the business and his peers.

5. ConclusionIt is important to note Jason has been able to build a MORE diverse retirement portfolio with GREATER total assets than the majority of heads. He was able to acquire at least this much financial security as a result of the following: a long-term headship; a proactive supportive board made up of key 'CEO types" who understand the tools and importance of retirement planning; and the assistance of a financial planner.
   Retirement planning and security are thus a function of many key elements: a good contract which protects the head and the school; sound financial planning advice; strong disciplined savings in a 403 (b); the addition of deferred compensation; saving to buy a home; and a board that values the head's service sufficiently over time to ensure there is a "soft landing" after the years of hard work.

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