

Nearing Retirement in the FRS



YOUR Money
• • • YOUR Choice





Workshop Objectives

- Know how to set goals for retirement including income needs
- Review sources of income you have to meet your retirement goals
- Recognize how to develop a plan for the distribution of retirement assets
- Understand tax and planning opportunities that may present themselves
- Review the tools and resources available to help
- Know which steps to take next



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Personal Action Plan

<i>Action Steps</i>	<i>Done</i>
1) Find your 6-digit PIN and create a MyFRS.com account. (If already registered, use User Id and Password created.)	<input type="checkbox"/>

Action Step

- See **Appendix I** for your own Personal Action Plan.





Resources Available to You - FREE

MyFRS Financial Guidance Program



MyFRS.com
Advisor Service
Choice Services
FAQ's, Calculators



Toll-free MyFRS
Financial Guidance Line,
staffed by EY financial
planners and the
Division of Retirement



Employee workshops:
Visit MyFRS.com for an
updated list of workshops,
locations and dates



Print and e-mail
communications

All resources are available to FRS
Pension & Investment Plan Members

Action Step

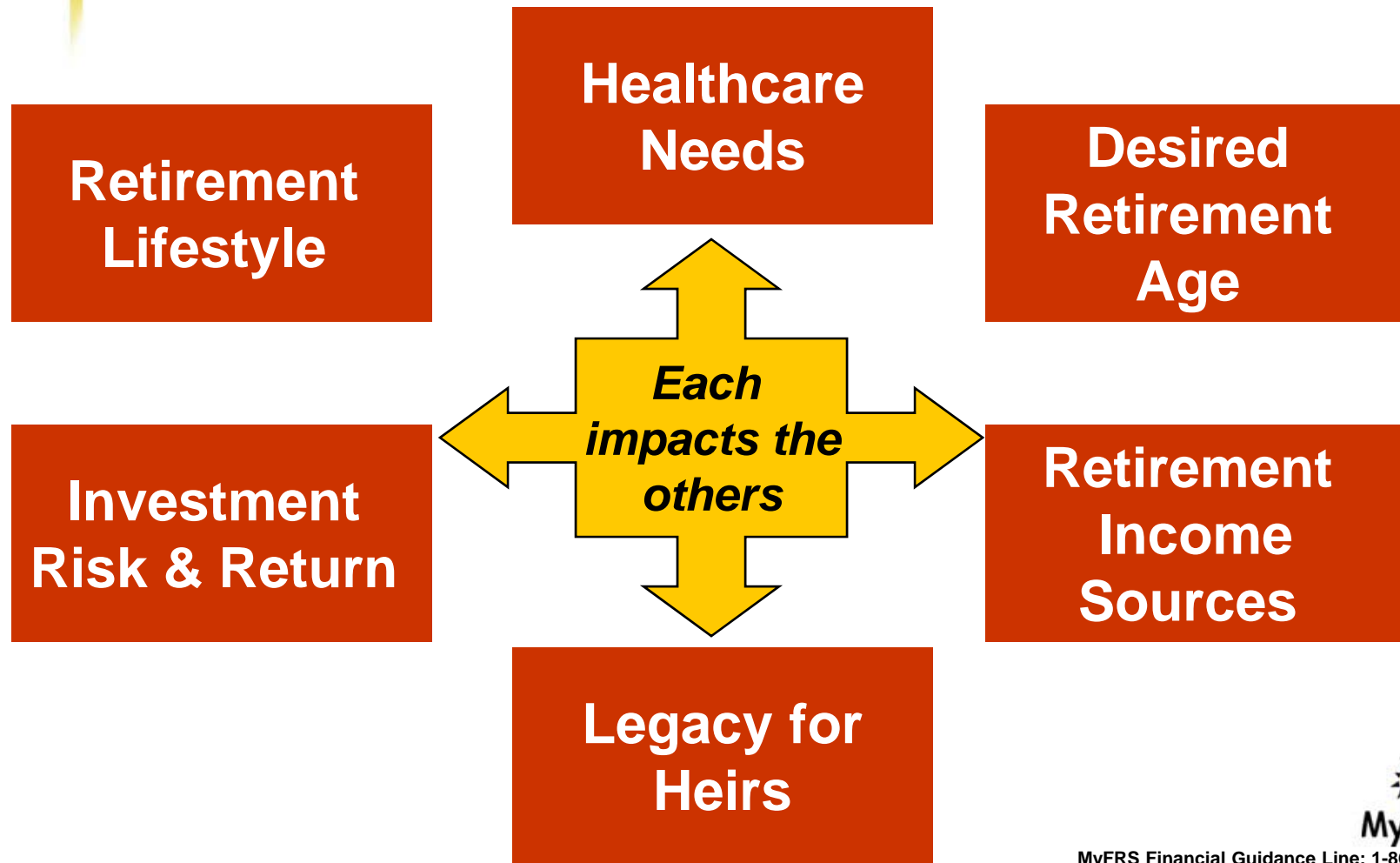
- See **Appendix B** to learn more about the MyFRS Financial Guidance Line.



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Balancing Retirement Goals



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How Will You Spend Your Time in Retirement?

- Will you be employed?
 - Part-time or full-time?
 - New career?
- Will you volunteer?
- Do you have a hobby?
- What activities will you be involved in?
- Do you plan to travel?



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Where Will You Live in Retirement?

- A. Current home
- B. New home, in State
- C. New home, out of State
- D. In another country
- E. Don't know...



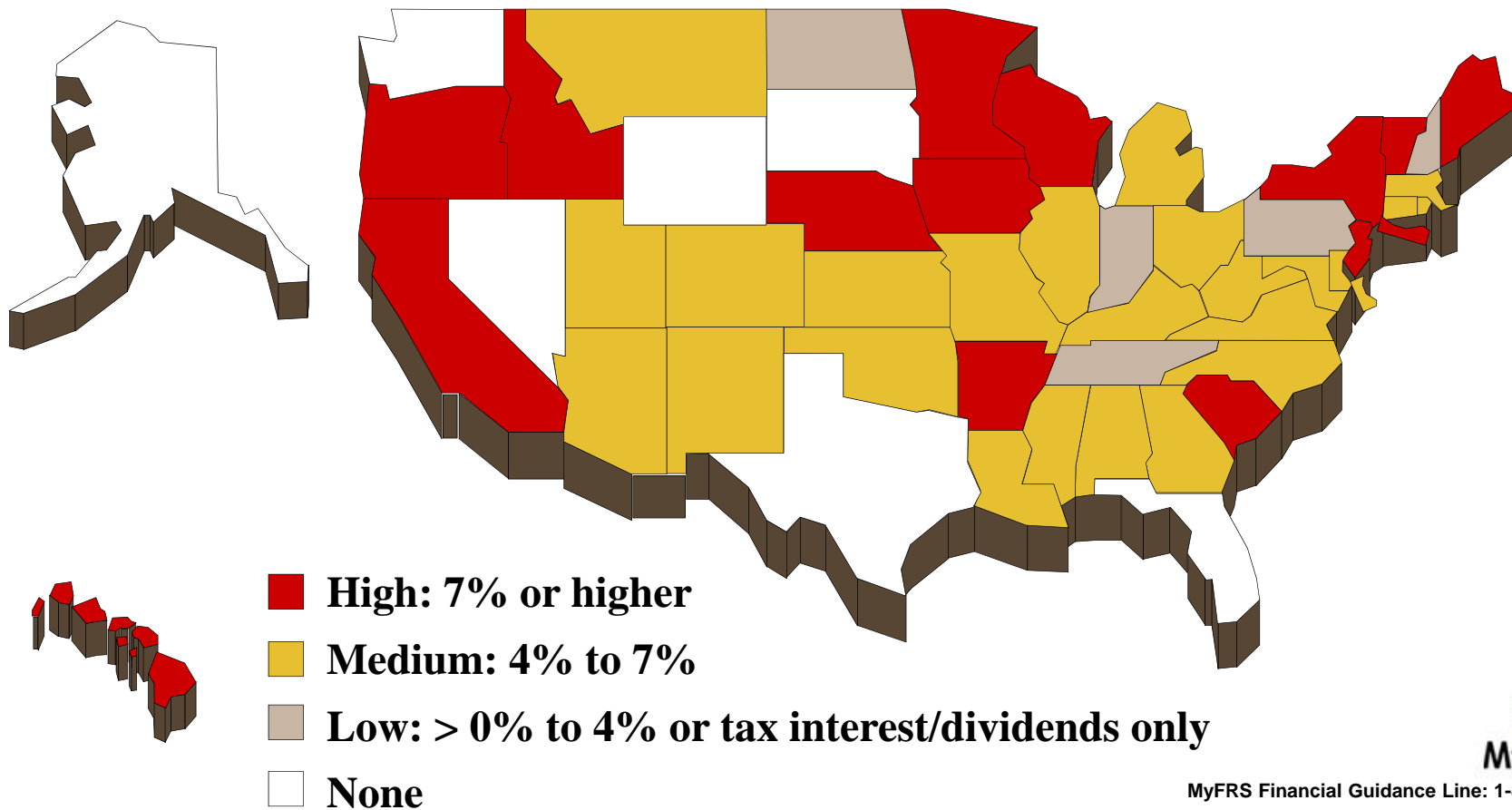
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U.S. State Income Tax Rates

Note: Figures reflect 2014 rates



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Financial Impact of Lifestyle Changes

- Being able to maintain your current lifestyle
- Creating a new lifestyle
- Making large purchases such as a new home or new car
- Relocating to a new community or state
- Staying healthy
- Caring for others

Action Step

- Consider how your lifestyle will change, and how the changes will affect your finances.



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When Will You Retire?



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Planning for Longevity

Current Age	Life Expectancy Confidence	Male	Female
55	50%	80	84
	25%	92	94
	10%	97	99
60	50%	82	84
	25%	92	94
	10%	98	99
65	50%	83	85
	25%	92	95
	10%	98	99

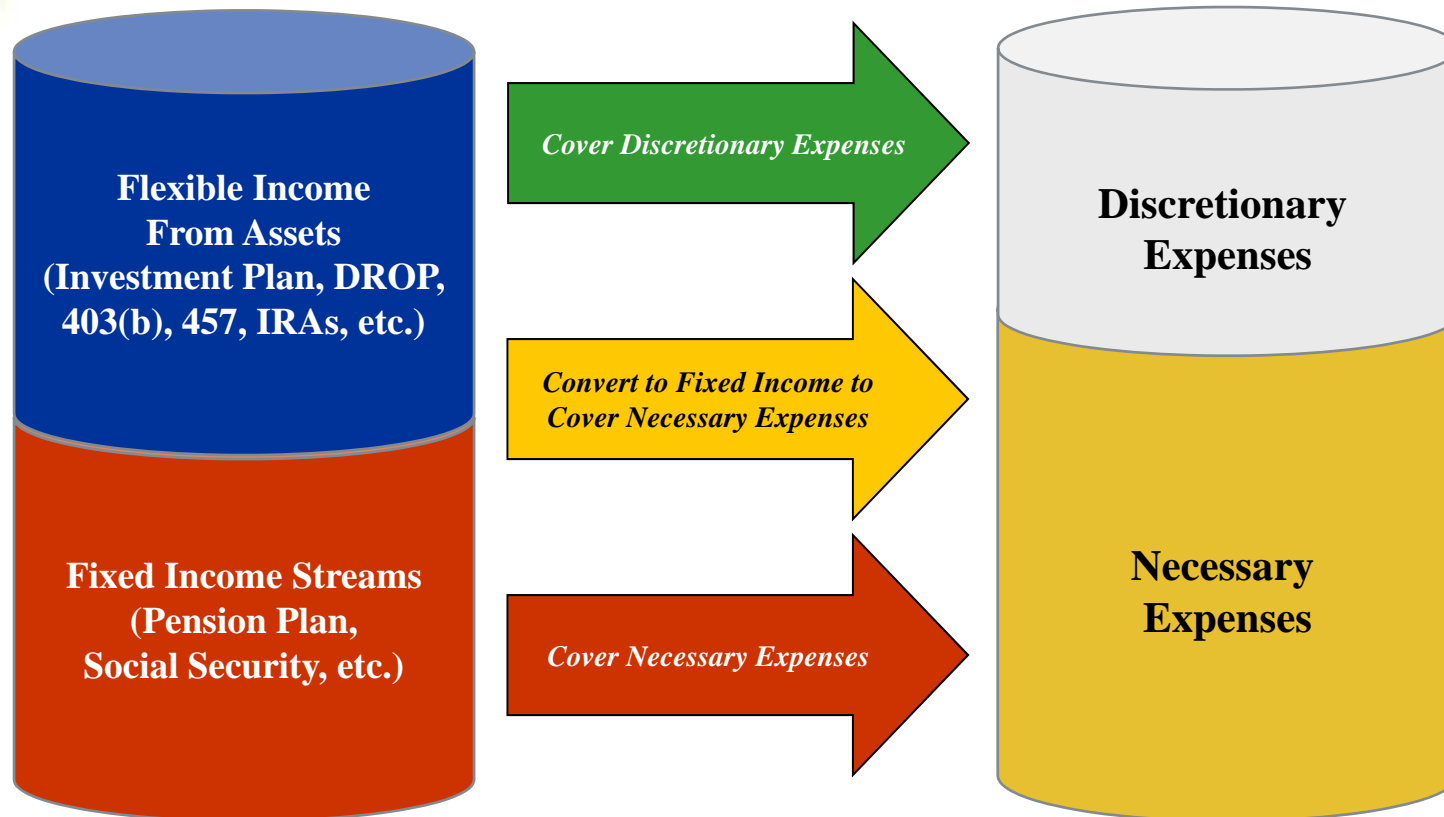
Sources: U.S. Department of Health and Human Services, National Vital Statistics Reports, Vol. 63, dated November 6, 2014 and RP 2000 Mortality Table



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Retirement Income Model - Expenses



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Know Your Annual Retirement Expenses

- What are your retirement expenses?
 - Is the expense recurring or one-time?
 - Same amount each year or different amounts?
 - How much is necessary vs. discretionary?
 - How much is fixed vs. variable?
- How will inflation affect you?
- How will expenses change for the survivor?



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Calculating Retirement Expenses - Example

Expense	Current Amount	Anticipated Amount
Housing*	\$18,000	\$10,800
Food	\$7,200	\$6,000
Clothing	\$2,600	\$2,000
Medical Costs	\$4,800	\$8,400
Other Insurance	\$3,000	\$2,000
Personal Care	\$1,800	\$1,000
Transportation	\$4,800	\$3,400
Entertainment / Travel	\$2,400	\$3,600
Gifts / Charity	\$1,500	\$1,200
Income Taxes	\$3,900	\$1,600
Annual Income Need	\$50,000	\$40,000

Action Step

- Complete the Retirement Expense Worksheet in **Appendix C**.

*Assumes mortgage is paid off by retirement



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How do Healthcare Expenses Change When You Retire?

Today

- **Needs**
 - Preventive care
 - Prescription drugs
 - Dental
- **Coverage**
 - Group medical
 - Dental
- **Costs**
 - Lower costs
 - Group pricing
 - Cost-sharing

Retirement

- **Needs**
 - Preventive Care
 - Chronic care
 - Prescription drugs
 - Dental
 - Long-term care
- **Coverage**
 - Retiree plan
 - Medicare at age 65
- **Costs**
 - Higher costs
 - Medicare premium

Death





Retiree Medical Plans

FRS Retiree Medical Plans	
Plan Eligibility	Each employer is different Speak with your personnel office regarding eligibility and cost
Health Insurance Subsidy (HIS)	\$5 per month per year of service \$150 per month maximum
Subsidy Eligibility	6 years of service—for those who began their FRS career before July 1, 2011 8 years of service—for those who began their FRS career July 1, 2011 and after Pension Plan: Payable when benefits commence Investment Plan: Payable when plan withdrawals begin and normal retirement age or service requirement has been met
Medicare Part A	
Eligibility	Age 65
Cost	Typically no cost
Medicare Part B	
Eligibility	Age 65
Cost	\$104.90–\$335.70/month (per person for new enrollees)

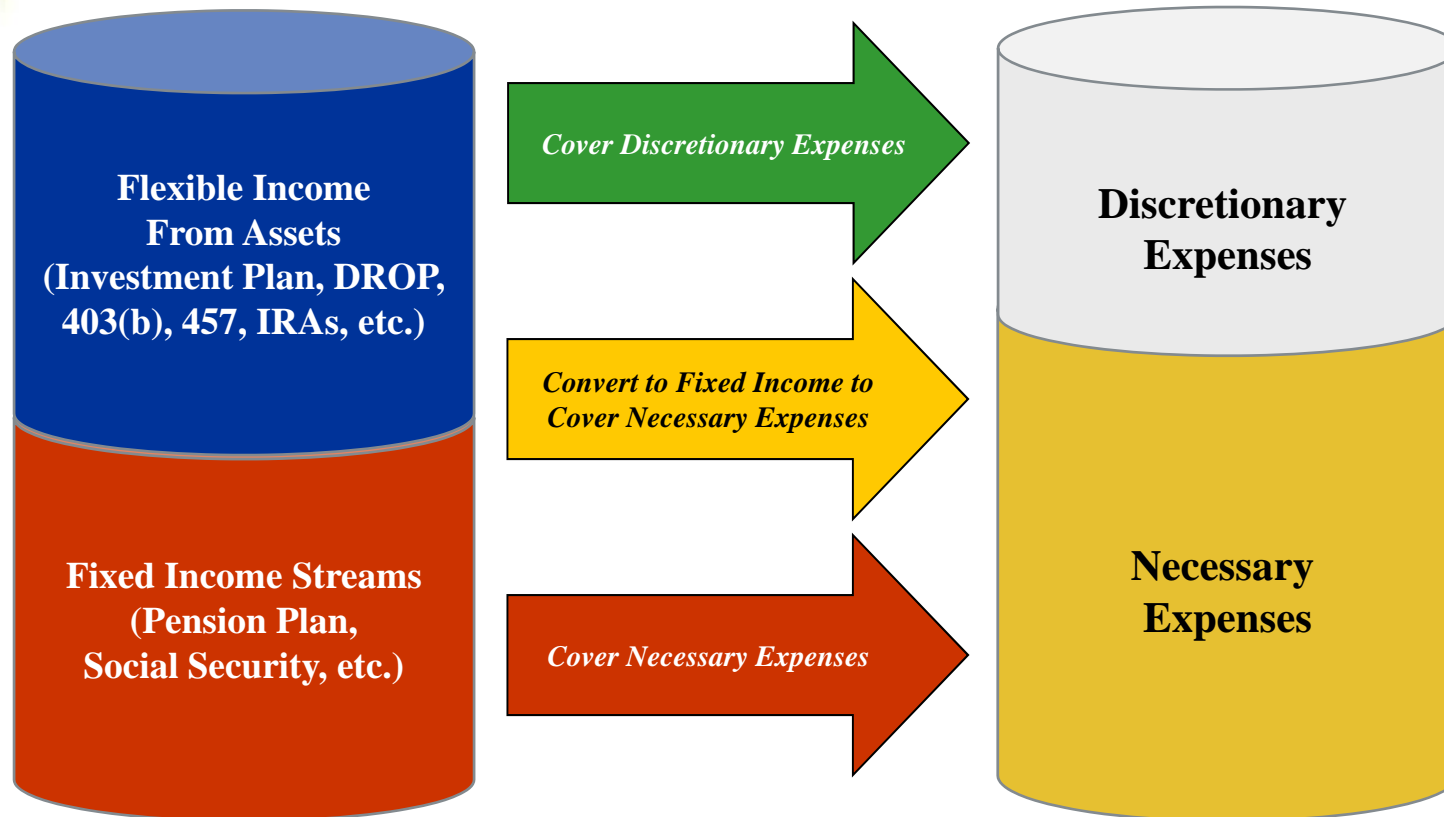


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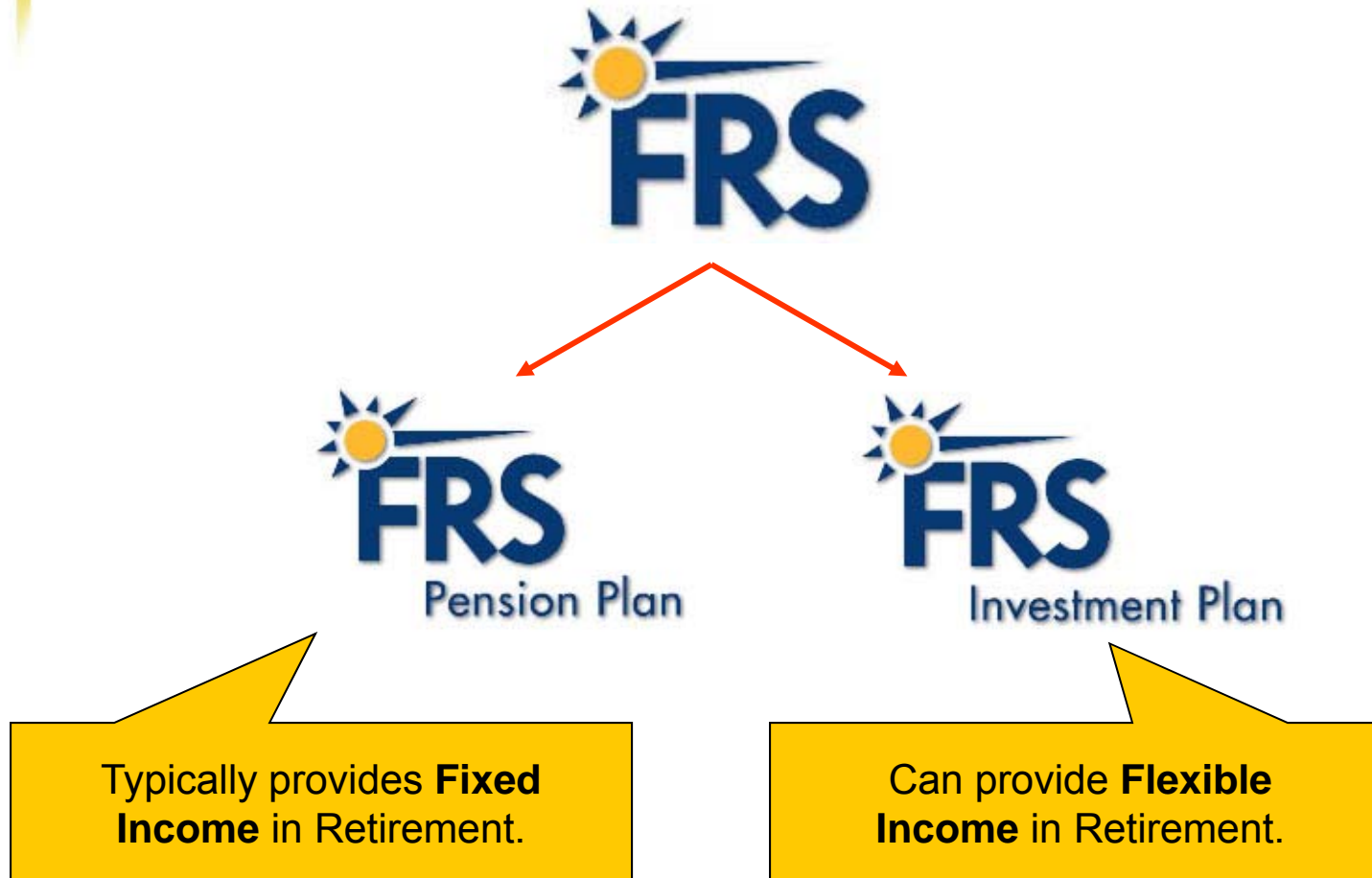
Retirement Income Model – Income



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FRS Retirement Plans



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2nd Election Rules

- ***Pension Plan*** members have the ability to convert their accumulated pension benefits into a lump sum by switching to the Investment Plan
- ***Investment Plan*** members have the ability to buy into the Pension Plan
 - If the cost exceeds your balance, you will need to make up the difference using personal assets
 - If your current balance exceeds the cost to buy in, the excess will accumulate in the Investment Plan for your future retirement benefit
 - Cost may be unaffordable.
- Eligibility to use the 2nd Election
 - May be used only once and is irrevocable
 - Must be actively employed receiving service credits and
 - Does not have a termination date on record *and*
 - Cannot be on unpaid leave of absence



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Consideration in Using Your 2nd Election

- *Pension Plan* members –
 - Do you want to take the FRS benefit with you to a non-FRS employer?
 - Do you want to control how/when you receive the benefit?
- *Investment Plan* members –
 - Can you get a better benefit under the Pension Plan because you are staying longer than you initially expected?
 - Do you want to participate in the DROP program?

Action Step

- Speak to your employer about the impact of switching plans on retiree medical and call the MyFRS Financial Guidance Line to help decide if switching plans might be right for you.



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2nd Election Choice Service

MyFRS CHOICE SERVICE powered by financial engines

2nd Election Choice Service

See how your plans compare.

Here's how both plans compare if you leave FRS employment and start receiving benefits at age 65, and your salary grows at 3.0% per year. **Please make a selection and click Next.**



Scenario 1

Here's how both plans compare if you leave FRS employment and start receiving benefits at age 65, and your salary grows at 3.0% per year. **Please make a selection and click Next.**



Scenario 2

Current Salary: \$41,300

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What are Your Fixed Retirement Income Sources?

Pension Plan

Social Security

Other



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FRS Pension Plan

Distribution Options	<ul style="list-style-type: none">• All options are lifetime monthly payments<ul style="list-style-type: none">• Option 1: Single life annuity• Option 2: Reduced lifetime annuity to retiree with 10-year payout guarantee• Option 3: Reduced joint-and-survivor annuity• Option 4: Reduced annuity with $\frac{2}{3}$ survivor annuity
Taxation	<ul style="list-style-type: none">• Fully taxable (typically)• Taxed as ordinary income in the year received• Can elect withholding• May be subject to state and local taxes
COLA	<ul style="list-style-type: none">• 3% COLA for service before July 1, 2011• No COLA for service earned July 1, 2011 and after

Action Step
<ul style="list-style-type: none">• Call the Financial Guidance Line for assistance in choosing a payment option• Make certain you understand the re-employment restrictions before you retire






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Your Social Security Statement

Retirement Estimator

 Share  Tweet



Retirement Estimator

Estimate Your Retirement Benefits

Action Step

- Request an estimate of benefits by contacting Social Security Administration at 1-800-772-1213 or online at www.ssa.gov/estimator



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Social Security – When Can You Collect Full Benefits?

Born	Age For Full Benefits	Reduced Benefit At Age 62	Delayed Retirement Credit Per Year
Before 1938	65	80%	Up to 7.5%*
1943–1954	66	75%	8%
1960 and Later	67	70%	8%

Note: For years missing add two-month increments to reach your age for full benefits

** Depending on year born*

Action Step

- Call the EY Financial Guidance Line for assistance in deciding when to begin benefits



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Spousal Benefit – Example

Social Security benefit at FRA	\$1,800
Spouse's minimum Social Security benefit at FRA	<u>× 50%</u>
Spouse's minimum Social Security benefit at FRA	<u><u>\$900</u></u>

Note: Spouse receives the greater of the benefit based on their work history or 50% of their spouse's benefit.



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Social Security 2015 Earnings Limitation

< Under Full Retirement

\$15,720 – Reduced by \$1 for every \$2 earned above limitation

In Year Reach Full Retirement Age

\$41,880 – Reduced \$1 for every \$3 earned above limitation

After Full Retirement Age

No Earnings Limitation



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Federal Taxation of Social Security Benefits

If “Modified” Adjusted Gross Income is:		Amount of Social Security income subject to tax:
Single	Married	
< \$25,000	< \$32,000	0%
\$25,000–\$34,000	\$32,000–\$44,000	Up to 50%
> \$34,000	> \$44,000	Up to 85%

Modified Adjusted Gross Income includes: Gross income, tax exempt income, and half of Social Security benefits



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Other Possible Fixed Income Sources

- Former employer pension
- Part-time or full-time work
- Rental income
- Spouse/partner's fixed income

Action Step

- See **Appendix D** for a Retirement Fixed Income worksheet.

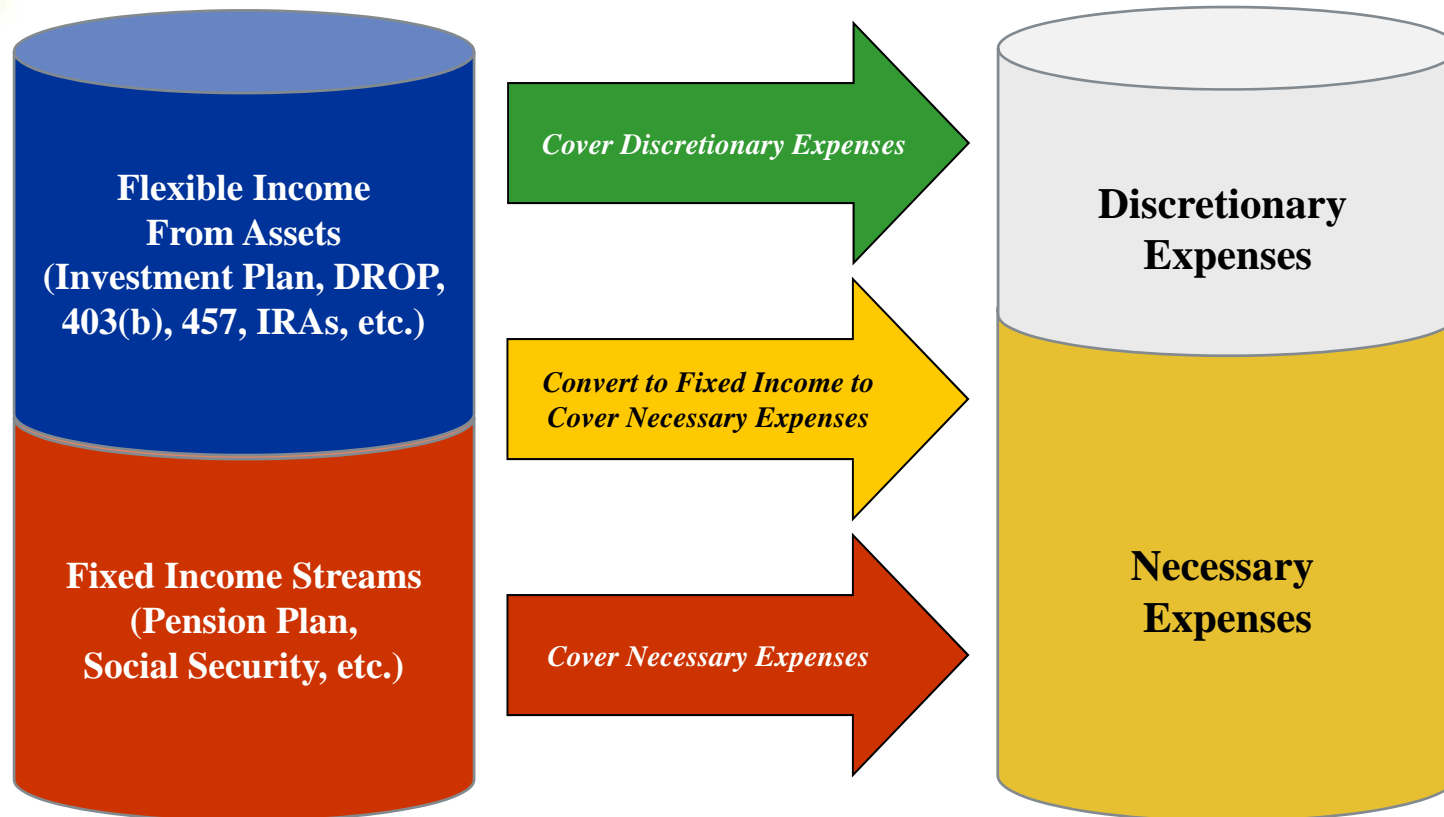


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Retirement Income Model – Income



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What are Your Retirement Investment Income Sources?

**Investment
Plan**

DROP

**Employer
Savings
Plans**

Other



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FRS Investment Plan Benefit Payment Options

- Lump-sum distribution
- Distributions on demand or by any schedule
- Guaranteed annuity payments for life, including survivor options, and 3% annual benefit increase
- Any combination of the above distribution options
- Rollover to an IRA or another tax-deferred plan

Action Step

- See **Appendix E** for the Investment choices within the FRS Investment Plan.
- Make certain you understand the re-employment restrictions before taking a distribution.



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Deferred Retirement Option Program (DROP)

- Available to Pension Plan participants
- Retire and begin accumulating retirement benefits without terminating employment
- Eligible to participate in month you reach Normal Retirement (according to your membership class and hire date)
- Maximum participation of 60 months (5 years)
 - *School Board Instructional Position exception*
- Accumulated benefits earn interest compounded monthly. Effective annual interest rate of 6.5% if enrolled before 7/1/11, 1.3% if enrolled on or after 7/1/11
- DROP benefits paid at termination are eligible for rollover

Action Step

- Call the MyFRS Financial Guidance Line to learn more.



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What Can You do With Your DROP Account?

1) Full or partial distribution	Subject to taxation at the time of distribution
2) Full or partial rollover	Remains tax-deferred
Where can it be rolled over to?	Investment Plan, 403(b), 457, IRA, other qualified plan
How long do you have to decide?	60 days from the end of DROP
What if you do nothing?	Will receive a total distribution subject to taxation

Action Step

- Call the MyFRS Financial Guidance Line to further understand the tax implications and help you make a decision.



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Other Retirement Assets: Employer-Sponsored Savings Plans

	457 Plan – Deferred Comp	403(b) Plan – Tax Sheltered Annuity
Contribution Limits	\$18,000	\$18,000
Catch-Up Contributions	Additional contributions allowed if you are 50 and older. Each plan has other “special catch-up” rules based on the time until retirement or length of service.	
Distribution Options	Vary by plan provider	

Action Step

- Contact your plan administrator to see if you qualify for special catch-up contributions and to understand your distribution options.



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How do Retirement Plans Compare Once in Retirement?

Consideration	Deferral of 403(b) Plan Balance	Deferral of 457 Plan Balance
Investments	<ul style="list-style-type: none"> • Varies by plan sponsor 	
Distribution options	<ul style="list-style-type: none"> • Varies by plan sponsor 	
Income taxes on Distributions	<ul style="list-style-type: none"> • Ordinary income on distributions • No 10% penalty tax if retire or separate from FRS in the year of or after turning age 55 or if another exception applies 	<ul style="list-style-type: none"> • Ordinary income on distributions • No 10% penalty tax on 457 contributions and earnings
Fees and expenses	<ul style="list-style-type: none"> • Typically, lower fees and administrative costs than IRA 	





How do Retirement Plans Compare Once in Retirement?

Consideration	Investment Plan	IRA
Investments	<ul style="list-style-type: none"> • Standard Investment Plan choices • New Brokerage Account option 	<ul style="list-style-type: none"> • Unlimited investment choices
Distribution Options	<ul style="list-style-type: none"> • Flexible choices for distributions 	
Income taxes	<ul style="list-style-type: none"> • Ordinary income on distributions • No 10% penalty tax if retire or separate from FRS in the year of or after turning age 55 or if another exception applies 	<ul style="list-style-type: none"> • Ordinary income on distributions • No 10% penalty tax after age 59½ or if another exception applies
Fees and expenses	<ul style="list-style-type: none"> • Typically, lower fees and administrative costs than IRA 	<ul style="list-style-type: none"> • Typically, higher investment fees and administrative costs



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What Other Investment Income Sources Will You Have?

- Taxable savings
- Deferred annuities
- Other retirement savings plans/pensions
- Spouse's retirement assets
- Inheritance
- Home equity
- Other?

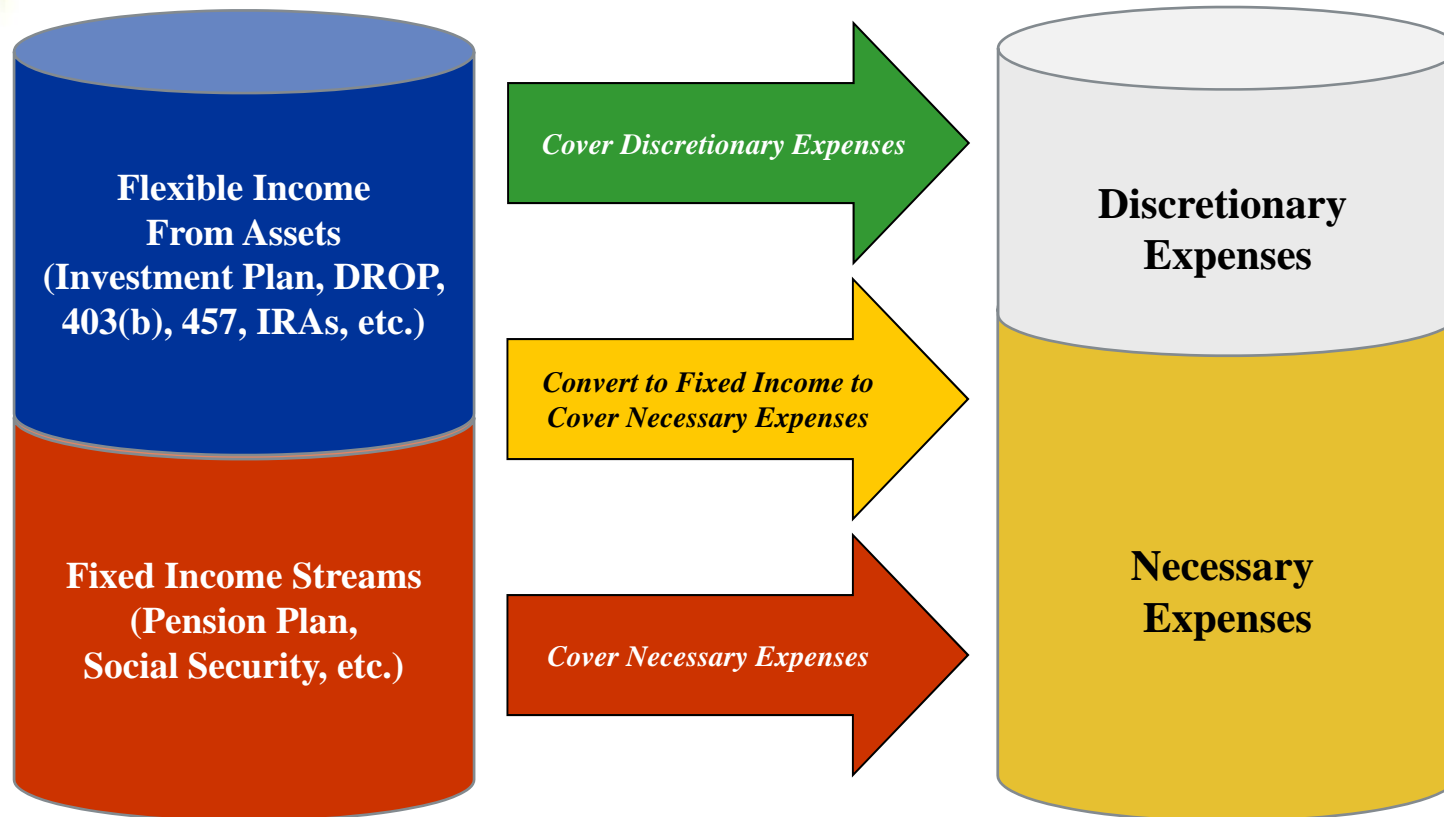


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Retirement Income Model - Strategies



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Income from Assets – Strategies

- Annuitize
- Live off the income
- Use income and principal



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What are Fixed Immediate Annuities?

- Insurance products designed to distribute assets
- Convert a lump sum of money into a stream of payments
- Payments paid over your lifetime or multiple lifetimes
- Payments are fixed, though you can purchase a COLA



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Deciding How Much to Annuitize



Action Step

- Call the MyFRS Financial Guidance Line to obtain a quote from Metlife at group rates.



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Withdrawals from Investments

- What is your basic withdrawal strategy?
 - Do you plan to live on the interest and dividends only?
 - Will you also access the principal?
- How much income can your investments provide?
 - What mix of investments will you use?
 - What average returns should you expect?
 - What average returns do you need?
 - How much can you withdraw without running out of money in your lifetime?
 - When **MUST** you withdraw from retirement accounts?
 - Which accounts should you withdraw from first?



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Why Investing for Income is Not Enough?

- Rule of 72
 - $72 \div \text{inflation rate} = \# \text{ of years until purchasing power is cut in half}$
 - $72 \div 3\% \text{ inflation} = 24 \text{ years}$

Age	Nominal Nest Egg	Nominal Interest	Real Nest Egg	Real Interest
60	\$500,000	\$25,000	\$500,000	\$25,000
84	\$500,000	\$25,000	\$250,000	\$12,500
108	\$500,000	\$25,000	\$125,000	\$6,250

Note: Portfolio assumed to yield 5% income



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How Many Years Will Your Assets Last Using Both Income and Principal?

Withdrawal	Rate of Return									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
10%	9	9	10	10	10	11	12	13	14	15
9%	10	10	11	11	12	13	14	15	16	18
8%	11	11	12	13	14	15	16	18	20	24
7%	12	13	14	15	16	18	20	22	27	36
6%	14	15	16	18	19	22	25	31	44	*
5%	17	18	20	22	24	29	36	*	*	*
4%	20	22	25	28	33	42	*	*		
3%	25	28	33	39	*	*	*			
2%	35	40	50	*	*					
1%	*	*	*	*						

Note: Withdrawal rate is based on the first year distribution. Subsequent distributions increase 3.5% for inflation.

* = 50+ years



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Required Minimum Distributions

- Accounts subject to Required Minimum Distributions:
 - Investment Plan, 403(b), 457, 401(k), Traditional IRA, Rollover IRA
- Required by:
 - April 1st of the year following the year you reach age 70½
 - Future years: December 31
- Distributions must be taken each year or 50% penalty is incurred
- Distributions determined using a "Uniform Table" (unless your spouse is your sole beneficiary and more than 10 years younger)

Action Step

- See Appendix F for a sample RMD calculation.

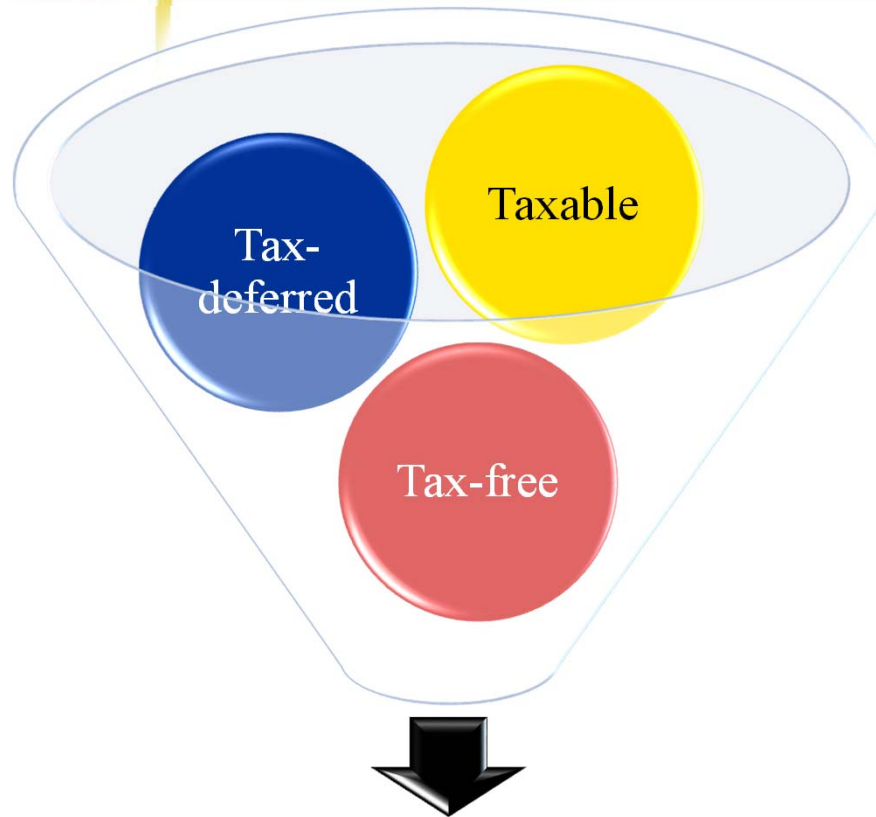


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Considerations for Order of Account Withdrawals



Work with a tax/financial professional throughout retirement to assist with account withdrawal decisions

Minimize the “tax drag”

- Pre-70 ½, spend taxable assets first

Avoid mistakes

- Post-70 ½, ensure you first satisfy your RMDs

Tax incentives

- Tax-advantaged growth
- No RMDs with Roth IRAs

See the “big picture”

- A combination of account distributions may help reduce taxes



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Establishing Payments

- Know your upcoming annual expenses
- Understand what your account distributions need to cover
- Decide which account(s) you will/must take distributions from
- Set aside enough in cash for upcoming planned distributions and for unanticipated emergencies
- Establish a payment method
 - **Annually**
 - **Quarterly**
 - **Monthly**
 - **Distributions as needed**



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Workshop Objectives

- Define your goals for retirement
- Use the retirement planning process to organize your retirement plan
- Understand the role of FRS retirement plans
- Review the tools and resources available to help
- Know which steps to take next

Action Step

- See **Appendix G** for a Retirement Checklist and **Appendix H** for a Glossary of Financial Terms.



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Resources Available to You - FREE

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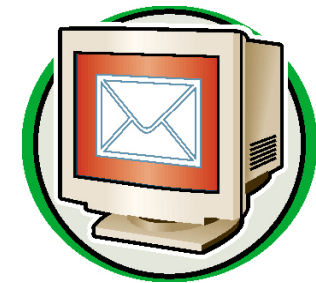
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Advisor Service
Choice Services
FAQ's, Calculators**



**Toll-free MyFRS
Financial Guidance Line,
staffed by EY financial
planners and the
Division of Retirement**



**Employee workshops:
Visit MyFRS.com for an
updated list of workshops,
locations and dates**



**Print and e-mail
communications**

**All resources are available to FRS Pension
& Investment Plan Members**



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Next Steps: Personal Action Plan

<i>Action Steps</i>	<i>Done</i>
1) Consider your retirement goals	<input type="checkbox"/>
2) Calculate your retirement expenses	<input type="checkbox"/>
3) Understand what resources you will have to reach your goal	<input type="checkbox"/>
4) Consider how to draw from retirement investment assets	<input type="checkbox"/>
5) Call the MyFRS Financial Guidance Line for a retirement analysis	<input type="checkbox"/>
6) Use the retirement checklist in Appendix G	<input type="checkbox"/>





Questions and Answers



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