



CHARTING YOUR COURSE SERIES:  
**SAVING FOR RETIREMENT**  
Retirement planning for public sector employees



# Why save now?

Starting to save early, being disciplined about saving enough, and prudently investing those savings will contribute significantly to your retirement security and independence.



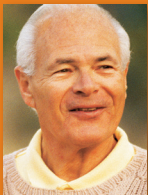
**At age 25, you would need to save \$52 a month to accumulate \$100,000 by age 65.\***

Let's say you're 25 years old and just beginning your career. Earnings are modest, there just doesn't seem to be any extra money and retirement is so far off, anyway. However, it doesn't take much to get started.



**At age 45, you would need to save \$221 a month to accumulate \$100,000 by age 65.\***

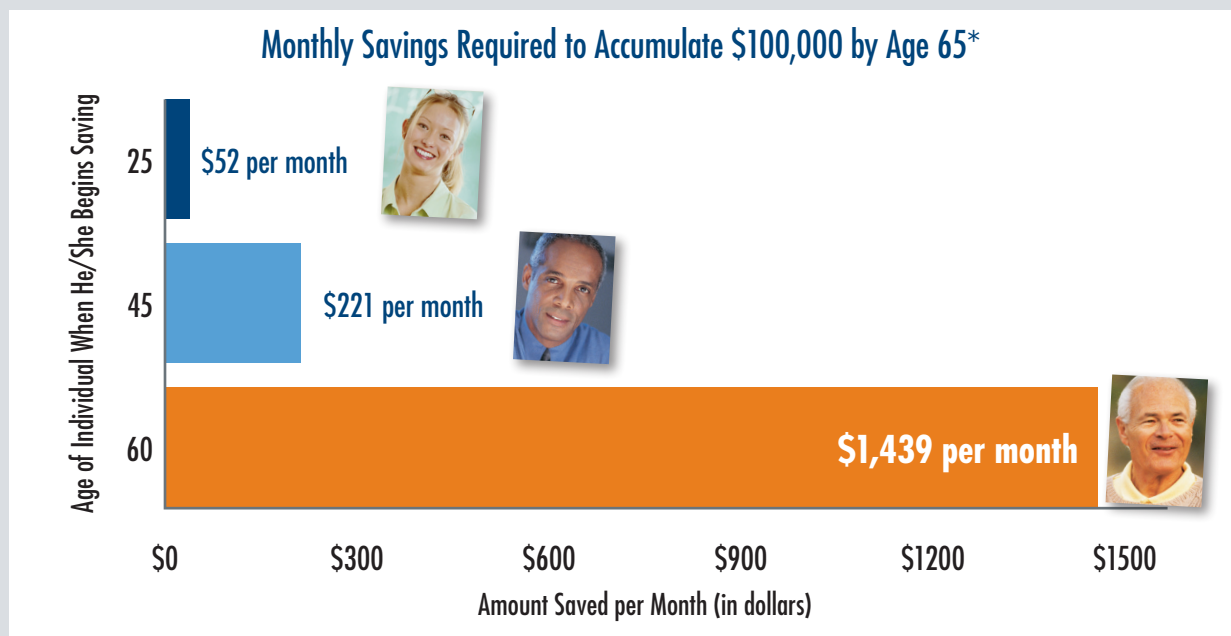
Now you're 45 years old and your pay is better, but your budget is stretched to meet family needs. You tell yourself that when the children are grown, you'll surely have the money to save. However, it's better to save a manageable amount now.



**At age 60, you would need to save \$1,439 a month to accumulate \$100,000 by age 65.\***

Suddenly, you're 60 years old and retirement is nearing. If you've put off serious retirement savings you'll need to save a much larger amount monthly to reach your goal.

Don't wait until saving gets easier. The sooner you begin, the less money you are likely to need to save on a regular basis.



\*For illustrative purposes only. Assumes an effective annual rate of 6%, compounded monthly.

# How much will I have in retirement?

## 1. *Your pension*

For many government retirees, the largest single source of retirement income is their employer-sponsored pension plan. Your pension plan may be either a defined benefit or a defined contribution plan.

A **defined benefit pension plan** pays a specific retirement benefit, calculated using a predetermined formula, based on:

- Number of years of service credit earned in the pension system.
- Salary, defined typically as the highest single year, the final year, or the average of the highest one, three or five years' salary.
- A percentage multiplier.

For example, if your final average salary is \$50,000 after 20 years of service and if your plan uses a two percent multiplier, your first year's unadjusted pension would be \$20,000 ( $\$50,000 \times 20 \text{ years} \times 2 \text{ percent} = \$20,000$ ).

Contact your employer's benefits office to determine how much you are projected to receive based on different retirement dates.

**If you are married, your pension will probably be adjusted to provide payments for two lifetimes.**

**Many plans adjust payments for inflation but often limit this cost-of-living adjustment (COLA), so payments may not keep up with inflation over time.**



A **defined contribution pension plan**, such as a 401 money purchase plan, provides an individual account for each participant. Retirement benefits depend on the balance in this account, which results from contributions by the participant and/or the employer, plus investment return. To learn more, visit [www.icmarc.org/401](http://www.icmarc.org/401).

## 2. Social Security

Your Social Security benefits are determined by a complex formula based on the 35 years of highest earnings over your lifetime, when the earnings occurred, your birth date, and your age at the time payments begin.

Starting benefits before your full retirement age (65 to 67, depending on your year of birth) will reduce the amount of each Social Security payment, although you will get more of them. Waiting until after your full retirement age, up to age 70, will increase your benefit amount. If married, you should also coordinate benefits with your spouse.

To estimate your retirement benefits, visit the Social Security Administration's website at [www.ssa.gov/myaccount](http://www.ssa.gov/myaccount). Not all public employees qualify for Social Security retirement benefits. If you received earnings not covered by Social Security, your estimated benefit may be lower; visit [www.ssa.gov/gpo-wep](http://www.ssa.gov/gpo-wep).



### Will Social Security Be There for You?

There has been a lot of talk about the future of Social Security. The 2013 Social Security Trustees' Report estimates that, even with no changes in the law, there will be money to pay full benefits until 2033, and to pay about 75 percent of full benefits for many years after.

Many proposals have been made to reform the system. There is no way to tell what the final resolution will be or when it will happen. It may be wise — especially for those still many years from retirement age — to plan for the possibility of receiving a reduced Social Security benefit.

## 3. Investments you fully control


457 deferred compensation plans and IRAs are tax-advantaged retirement accounts over which you have significant control.

Your 457 plan and an IRA are designed to supplement your retirement income. While a pension and/or Social Security will go a long way, they are unlikely to be enough. It's these retirement investments that can make the difference between an adequate retirement and the retirement of your dreams.

## With your 457 plan, you have control over:

- 1 How much you contribute. You can make changes at any time.
- 2 How you invest what you save.
  - ▶ Consider a diversified portfolio that is spread among different types of investments.
  - ▶ Determine how much overall risk to take. Be cautious about depending too much on conservative investments that tend not to keep pace with inflation. But also avoid portfolios too aggressive for your time horizon or comfort level.
  - ▶ ICMA-RC has several ways to help you invest — visit [www.icmarc.org/invest](http://www.icmarc.org/invest).
- 3 When, how, and how much you withdraw upon separation from service.
  - ▶ Unlike other retirement accounts, you do not have to qualify for an exception to avoid the 10% IRS penalty tax on 457 plan withdrawals prior to age 59½. (The penalty may apply to assets you roll over from non-457 plans.) While this provides extra flexibility, avoid withdrawing too much too soon. Not only will you lose the opportunity for future tax-advantaged growth, you will pay taxes sooner and increase the risk of outliving your assets.
- 4 Who receives your assets upon your death.

To learn more, visit [www.icmarc.org/457](http://www.icmarc.org/457).



### Save for Retirement with Tax Advantages

If you take advantage of your employer's 457 plan, tax rules help you save. With pre-tax contributions, money that would otherwise be taxed immediately is invested and all taxes, including on earnings, are deferred until the money is withdrawn.

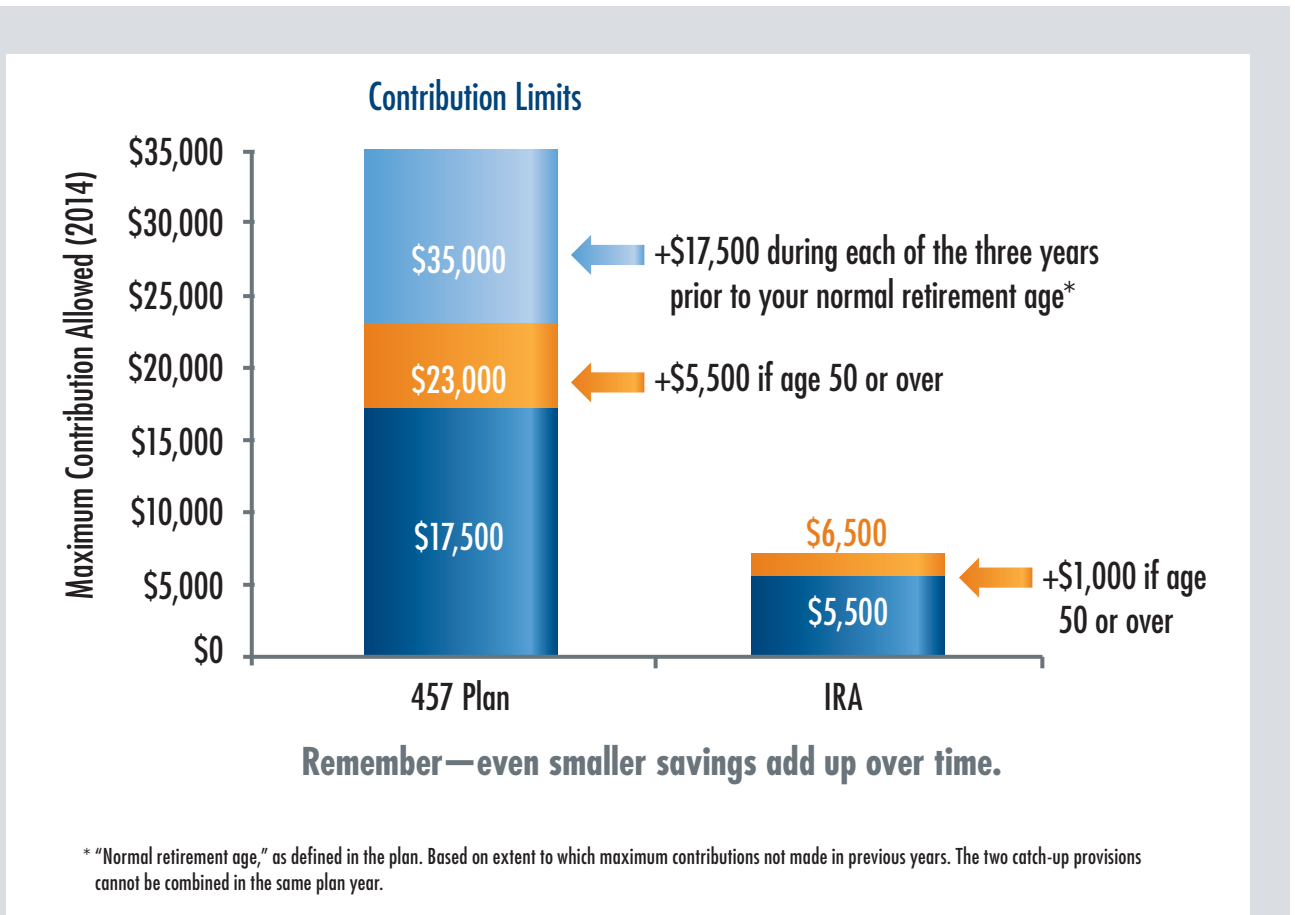
You may also be able to make after-tax Roth contributions that allow you to benefit from tax-free withdrawals in retirement. If available in your plan, explore whether Roth contributions make sense for you. Visit [www.icmarc.org/rothanalyzer](http://www.icmarc.org/rothanalyzer).

Non-Retirement Investment Account		
Total to invest	Taxes taken out	Total invested
\$2,400	– \$600	= \$1,800
<i>Taxes taken out are based on the 25% tax bracket</i>		
457 Plan Account – Pre-Tax Contributions		
Total to invest	Taxes taken out	Total invested
\$2,400	– \$0	= \$2,400

*For illustrative purposes only.*

**An IRA complements your 457 plan.** It can help you meet a variety of savings goals through its additional investment options, tax benefits, and flexible withdrawal rules.

Traditional IRA contributions may or may not be tax-deductible, but the earnings are tax-deferred. While Roth IRA contributions are never tax-deductible, earnings may be entirely tax-free. To learn more, visit [www.icmarc.org/ira](http://www.icmarc.org/ira).



# How much will I need in retirement?

## *Estimating Your Retirement Expenses*

Many financial planners recommend you'll need to replace about 80% of your pre-retirement income. Your needs may be higher or lower. Here are some factors to consider:

- Will both you and your spouse be eligible for Medicare immediately upon retirement, or will you need to provide other coverage in case of a delay in eligibility?
- How would you pay for long-term care (such as a nursing home)?
- Will you have paid off your mortgage? How much might taxes, property insurance, utilities and maintenance total?
- Will you have new expenses for retirement activities such as travel, sports, or hobbies?
- Will you be financially responsible for dependents or elderly parents?
- Do you plan to make significant charitable or family gifts?
- Do you have funds to meet emergencies or to maintain the purchasing power of your income over time?

If you have debt, ask yourself:

- Am I comfortable with the amount of debt that I am carrying?
- What can I do to reduce my total debt?
- What can I do to pay off my debts (or reduce them substantially) by the time I retire?



### Save more for a long life

Remember that half of individuals live longer than their average life expectancy. Many individuals should plan for the possibility of living into their 90s.



### Save for Inflation

One of the most serious financial issues for retirees is the impact, over time, of inflation. Inflation is a measure of how much purchasing power your dollar loses over time. At a modest 3 percent inflation rate, the purchasing power of a fixed \$30,000 annual retirement income will gradually erode to the equivalent of just \$14,000 in 25 years. Even at that low inflation rate, an item that costs \$10 today will cost more than \$20 after 25 years.



## Do I need to save more? ICMA-RC can help.

After reviewing future pension and/or Social Security income, your employer's 457 plan and an IRA, and potential expenses in retirement, how much should you be saving to build a secure retirement?

There are a lot of factors to consider and ICMA-RC has several resources to help you.

### *Personalized Services and Online Education*



- ICMA-RC Retirement Plans Specialists can help you establish your goals, enroll in your employer's retirement plan, and manage your saving and investing strategy over time.
- Our CERTIFIED FINANCIAL PLANNERS™ focus on your overall financial wellness through in-depth seminars and consultations.



- ICMA-RC financial plans can help project your overall financial future, in addition to retirement planning. For more information, visit [www.icmarc.org/financialplans](http://www.icmarc.org/financialplans) or email [financialplanning@icmarc.org](mailto:financialplanning@icmarc.org).



- ICMA-RC's Guided Pathways® can help you determine how much to save and how to invest in your ICMA-RC administered retirement plans. Visit [www.icmarc.org/guidedpathways](http://www.icmarc.org/guidedpathways).
- Discover more tools to help you plan, save, and invest for your future — [www.icmarc.org/realize](http://www.icmarc.org/realize).

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