Retirement Security Plan Early!

It’s Never Too Early to Start Retirement Planning

Annual Delegates Meeting
November 4, 2018
Agenda

- What Is Financial Planning
- The Power of Compounding
- Savings Tools (403(b) & 457)
- Inflation and the COLA
- Choosing a Financial Advisor
- Benefit Profile
- System Financials
Retirement in America:
Out of Reach for Working Americans?

By Jennifer Erin Brown, Joelle Saed-Lessler and Diane Oakley

September 2018
57% of Working Americans do not own a retirement account

Median retirement account balance among working age individuals is: $0.00

Workers with a retirement account have an average balance of: $40,000
Financial Planning

- Financial planning is a lifelong process that involves:
  - Setting financial goals
  - Evaluating income and spending needs now and in retirement, and maximizing retirement income sources (pension, investments, Social Security, and work)
  - Understanding the necessity of putting money aside regularly (savings) to meet future income needs
  - Knowing the effect inflation will have on income and savings
When you begin working, retirement seems like it’s a long way off, BUT as your income increases, expenses also tend to increase.

It may seem like there is never a convenient time to start saving.
Financial Planning

The Power of Compounding

- Investing $1,000 per month for 10 years
- Assumed Rate of Return: 5%
- 3 Investors
  - Michael invests from age 25–35
  - Jennifer invests from age 35–45
  - Sam invests from age 45–55
Financial Planning

Power of Compound Interest

Retire at age 65
Educators have a unique tax-deferred savings plan similar to 401K’s and IRA’s.

403(b)’s, or tax-sheltered annuities as they are commonly referred to, give you the ability to set aside a considerable amount of money each year from your salary for future use in retirement.

Contributions are not reportable as income on federal or NYS tax returns.

Savings accrue on a tax-deferred basis until distributions (withdrawals) are made in retirement.
Financial Planning

- You can contribute up to the limits allowed by the IRS for each calendar year, and these employee contributions are known as “elective deferrals.”

- These elective deferrals are limited per calendar year:

  2019 – $19,000

  - This amount can go up in increments of $500 depending on the cost-of-living.
There is a catch-up provision for those who reach the year of their 50\textsuperscript{th} birthday

- At age 50 and beyond (while still employed), you can contribute the amount below in addition to regular contributions
  
  **2019 – $6,000**

- You can also make contributions under the 15-year rule if you are eligible…
In addition to the regular contribution limits, you may also be eligible to make additional contributions under a “Years-of-Service” catch-up provision:

- This provision applies to those whose average 403(b) contribution each year has been under $5,000
- You can contribute up to $3,000 more per year
- The maximum total elective deferral under these provisions is $15,000
- You must have 15 years of service with your current employer to qualify
“Non-Elective” Contributions
Employer pays directly to 403(b)

TOTAL Annual Deferrals
(elective and non-elective) cannot exceed:

2019 – $56,000
Publication 571

- This publication can be downloaded from the IRS website (irs.gov)
- It explains many of the rules governing 403(b) contributions
- Worksheets in this publication can be used to determine the maximum amount that can be contributed into a 403(b) plan each year
Financial Planning

New York State Deferred Compensation Plan – 457*

- Standard Deferral
  - 2019 – $19,000

- Age 50+ Catch-up
  - 2019 – $6,000 (total $25,000)

- Special 457 Catch-up
  - 2019 – Up to $38,000
    (Participants who have contributed less than the maximum limit in previous years may contribute up to double the standard deferral in the three years prior to elected normal retirement age)

*Not available through all employers
Financial Planning

Future Value of $100
With 3% Inflation

<table>
<thead>
<tr>
<th>$0</th>
<th>$10</th>
<th>$20</th>
<th>$30</th>
<th>$40</th>
<th>$50</th>
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<th>$70</th>
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<td>$97</td>
<td>$93</td>
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<td>$77</td>
<td>$73</td>
<td>$69</td>
<td>$65</td>
<td>$62</td>
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</tbody>
</table>
Financial Planning

Eligibility:
- At least 62 and retired for at least five years; or
- At least 55 and retired for at least ten years

Calculation:
- 1–3% annually on the first $18,000 of your maximum benefit
- Percentage is based on half of the annual change in the consumer price index

Through 2018 the cumulative maximum monthly increase since COLA legislation was enacted in 2001 is $348, or $4,200 annually

<table>
<thead>
<tr>
<th>COLA Date</th>
<th>CPI Increase</th>
<th>COLA on First $18K</th>
<th>Max Monthly Increase</th>
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<tbody>
<tr>
<td>Sept 2008</td>
<td>3.98%</td>
<td>2.0%</td>
<td>$30.00</td>
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<tr>
<td>Sept 2009</td>
<td>-0.38%</td>
<td>1.0%</td>
<td>$15.00</td>
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<tr>
<td>Sept 2010</td>
<td>2.31%</td>
<td>1.2%</td>
<td>$18.00</td>
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<tr>
<td>Sept 2011</td>
<td>2.68%</td>
<td>1.4%</td>
<td>$21.00</td>
</tr>
<tr>
<td>Sept 2012</td>
<td>2.65%</td>
<td>1.4%</td>
<td>$21.00</td>
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<tr>
<td>Sept 2013</td>
<td>1.47%</td>
<td>1.0%</td>
<td>$15.00</td>
</tr>
<tr>
<td>Sept 2014</td>
<td>1.51%</td>
<td>1.0%</td>
<td>$15.00</td>
</tr>
<tr>
<td>Sept 2015</td>
<td>-0.07%</td>
<td>1.0%</td>
<td>$15.00</td>
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<tr>
<td>Sept 2016</td>
<td>0.85%</td>
<td>1.0%</td>
<td>$15.00</td>
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<tr>
<td>Sept 2017</td>
<td>2.38%</td>
<td>1.2%</td>
<td>$18.00</td>
</tr>
<tr>
<td>Sept 2018</td>
<td>2.36%</td>
<td>1.2%</td>
<td>$18.00</td>
</tr>
</tbody>
</table>
Financial Planning

- mymoney.gov
- National Endowment for Financial Education nefe.org
- choosetosave.org
Financial Planning

Choosing a Financial Planner

- Know what you want
- Be prepared
- Talk to others
- Look for competence
- Interview more than one
- Fee vs. commission

- Know what to expect
- Get it in writing
- Review regularly
Choosing a Financial Planner

- Certified Financial Planner Board of Standards (cfp.net)
- The Financial Planning Association (fpanet.org)
- International Association of Qualified Financial Planners (iaqfp.org)
Benefit Profile for Pension Planning

For the School Year Ending June 30, 2018

Tier 4 Pension Benefit Calculation

Your Minimum Annual Pension = Your Pension Factor x Age Factor (if applicable) x F&F

Pension Factor:
- This is determined by your service credit, which you earn per year (1% per year).
- For every year of service before age 55, you earn service credit at 1% per year.
- For every year of service after age 55, you earn service credit at 0.5% per year.

Age Factor:
- The Age Factor is determined by your age at retirement.
- For ages 55 to 64, the Age Factor is 0.75% per year.
- For ages 65 and over, the Age Factor is 1% per year.

Service and Service Code:
- Service is calculated based on your years of service.
- The Service Code is determined by your length of service.

Pension Calculation:
- Your Minimum Annual Pension = Your Pension Factor x Age Factor x F&F

Beneficiaries, Death Benefits, Loans, and Disability

Your Service Credit History

Your Social Security Number

Service Milestones, Earning Credit, and Retiring

Calculator

[Further details and tables on pension calculations, service credit history, and other benefits]

[Additional information and charts regarding pension planning and retirement]

[Key terms and conditions for beneficiary's rights and eligibility for pension benefits]
Beware of Imposters!

NYS Teachers' Retirement System Workshop at Broome Library

The Broome County Public Library will host a workshop on the New York State Teachers’ Retirement System on Tuesday, December 12, 6:00pm at 185 Court St., Binghamton. During this session, a representative will present information and answer questions about the Teachers’ Retirement System.

Contact NYSTRS for all your pension information!
System Financials

System funding comes from three sources:

- Employer Contributions
- Member Contributions
- Investment Income
System Financials

Current ECR

June 30, 2017 Actuarial Valuation

10.62% of pay

(Increase of approx. 8% from prior ECR of 9.8%)
System Financials

Estimated ECR for 2019–2020

June 30, 2018 Actuarial Valuation

8.5% – 9.5% of pay
Effective July 1, 2018
Assumed Long-Term Rate of Return

7.25%
(Previously 7.5%)
Diversified Portfolio

- Earn the highest possible return within appropriate risk levels
- This results in the lowest possible cost to employers and taxpayers
**System Financials**

- **Long Term Focus**
  - We begin to save for your retirement the day you join NYSTRS
  - Investment returns continue to accumulate even after a member retires

<table>
<thead>
<tr>
<th>Table: Average Years of Service During a Member’s Career</th>
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</thead>
<tbody>
<tr>
<td>Average Years of Service During a Member’s Career</td>
</tr>
<tr>
<td>25 years</td>
</tr>
<tr>
<td>Average Years Spent in Retirement</td>
</tr>
<tr>
<td>28 years</td>
</tr>
<tr>
<td>Investment Horizon</td>
</tr>
<tr>
<td>53 years</td>
</tr>
<tr>
<td>Average Pension</td>
</tr>
<tr>
<td>$45,725</td>
</tr>
</tbody>
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## System Financials

<table>
<thead>
<tr>
<th>Rates of Return (6/30/2018)*</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>9.0%</td>
</tr>
<tr>
<td>3 Year</td>
<td>7.9%</td>
</tr>
<tr>
<td>5 Year</td>
<td>9.3%</td>
</tr>
<tr>
<td>10 Year</td>
<td>7.2%</td>
</tr>
<tr>
<td>20 Year</td>
<td>6.6%</td>
</tr>
<tr>
<td>25 Year</td>
<td>8.5%</td>
</tr>
<tr>
<td>30 Year</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

* Net of fees
Thirty Year Period
Fiscal Years Ended 1989 - 2018

Employer Contributions
$28.0 billion

Member Contributions
$4.4 billion

Investment Income
$180.2 billion

Benefit Payments and Expenses
$113.7 billion

MV of assets – 6/30/1988: $21.0
MV of assets – 6/30/2018: $119.9
NYSTRS Funded Ratios*

- Actuarial Value of Assets – The average (or smoothed) investment return over a period of time. NYSTRS uses a 5-year smoothing calculation.  
  99%

- Market Value of Assets – The current price for which you could sell the System’s assets on the open market.  
  101%

*Preliminary Estimate 6/30/2018
Takeaways

Your Pension... 

...Is Secure
Takeaways

Save!