



New England Retirement Education Group



Welcome

- Agenda
 - Who is New England Retirement Group
 - Your Options for Retirement
 - Why it Matters
 - How to Begin

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New England Retirement Education Group (NE REG) is a self-regulating organization established to assist schools with creating a collaborative environment for their employees to learn about and enroll in their retirement benefits.

Adopting School Districts ensure a level of professional standards and conduct that facilitates increasing participation in their plans, strives to comply with IRS requirements (Universal Availability, Meaningful Notice, etc.) and prepares their employees for retirement.



Your Options for Retirement



State Pension

■ Overview

- State program for state employees that guarantees a certain benefit based on salary and years of service.

■ Younger workers receive less benefit

- As more workers enter the system. Newer and younger workers are typically seeing less benefits.

■ Subject to state control

- The state can choose to make changes at any time.



Membership Tier

- Pension Reform III created a different benefit structure for new members of the Massachusetts public retirement systems on or after April 2, 2012.
- Because benefits now based, in part, on membership date, MTRS distinguishes between two “Membership Tiers” based on when you established membership:
 - **Before** April 2, 2012 **Tier 1**
 - **On or after** April 2, 2012 **Tier 2**

NOTE: The benefit calculation examples in this presentation reflect **Tier 1** benefits, **not** Tier 2 benefits.



The three benefit options

Option	Retiree benefit amount	Survivor benefit, if any, upon retiree's death
A	Maximum allowance	None
B	Appr. 1% less than Option A amount	One-time lump-sum payment of balance, if any, remaining in retiree's account; no restrictions on beneficiary designation.
C	Appr. 9-11% less than Option A amount	Monthly benefit, equal to 2/3 of retiree's benefit, to one named beneficiary (restrictions apply); pop-up provision.



The retirement formula

$$\begin{array}{rcl} & \text{Age Factor} & \\ \times & \text{Your creditable service} & \\ \hline & \text{Base percentage of salary average} & \\ & \text{RetirementPlus percentage, if applicable} & \\ + & \text{(additional 12\% at 30 years, plus 2\% for each full year thereafter)} & \\ \hline & \text{Total percentage of your salary average (80\% max)} & \\ \times & \text{Salary average (highest three consecutive years)} & \\ \hline & \text{Your Optional A annual benefit} & \\ & \text{Veteran's benefit, if applicable} & \\ + & \text{(\$15 per year of creditable service, up to \$300)} & \\ \hline & \text{Your total Option A annual allowance} & \end{array}$$



Social Security: Two “double-dipping laws

If you are eligible for Social Security benefits based on your...

- **Own employment earnings:**
Windfall Elimination Provision (WEP)
 - Exempt from WEP if you were eligible to retire from the MTRS prior to 1/1/86.

- **Spouse's employment earnings:**
Government Pension Offset (GPO)
 - Exempt from GPO if you were eligible to retire prior to 12/1/82.



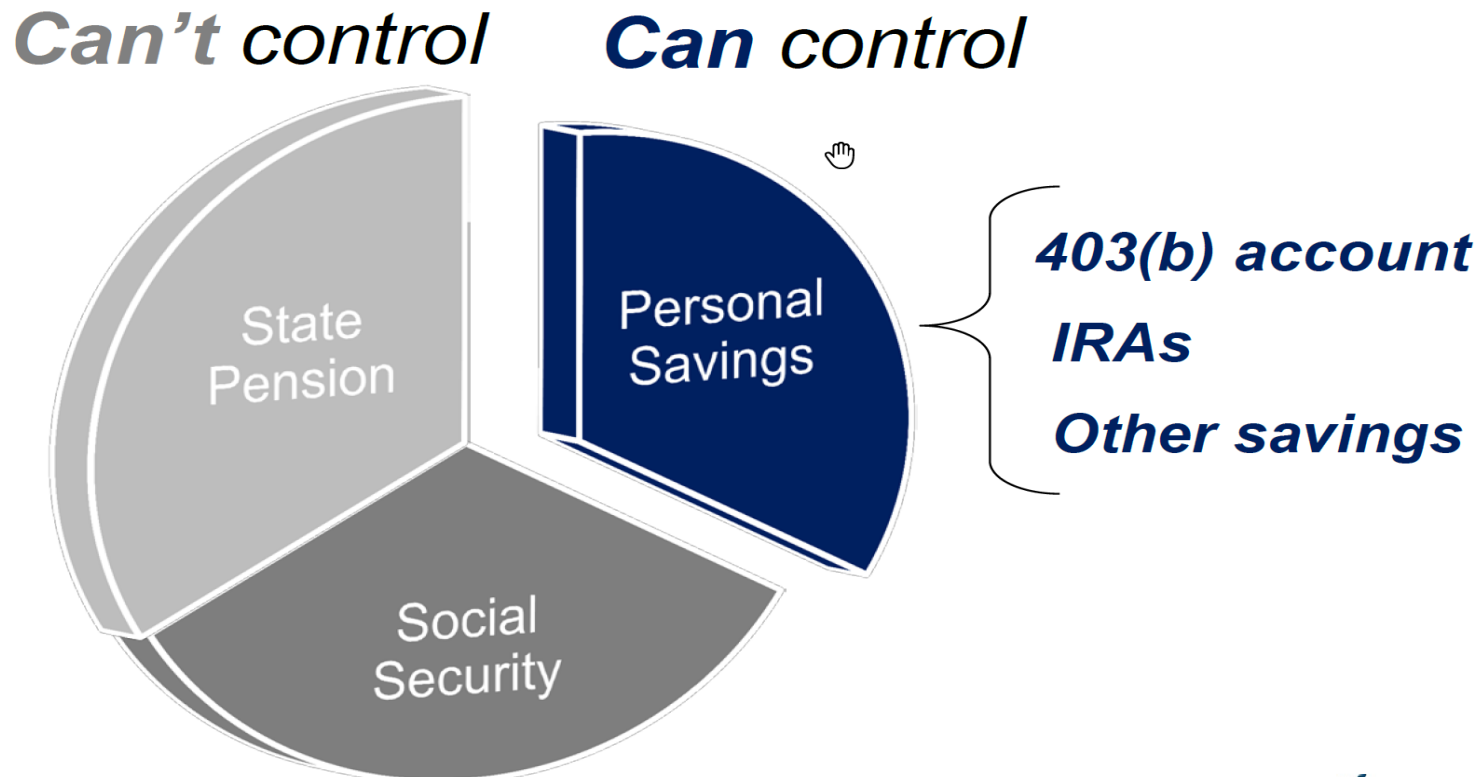
Cost-of-Living Adjustments

- **Eligibility:** MA public retirees are eligible for COLAs after one full fiscal year of retirement.
- **Granted by Legislature:** As part of the annual budget process, a COLA is subject to approval by vote of the MA Legislature.
- **Amount:** Currently, 3% or the CPI, whichever is less, on the first \$13,000 of your retirement allowance, for a maximum increase of \$390 per year.



Supplemental Savings

- How can you save more?



Supplemental Savings

- Two ways to help you save for the future

Pre-tax

Contributions are made to account BEFORE income taxes are calculated

Account	Contributions
403(b)	From your paycheck
IRA	<u>On your own</u> to an individual account

After-tax

Contributions are made to account AFTER income taxes are calculated

Account	Contributions
Bank savings account	<u>On your own</u> to individual account AND earnings are taxable
Roth 403(b)	From your paycheck
Roth IRA	<u>On your own</u> to individual account



Supplemental Savings

Sample Paycheck	After-tax
Gross Income Per Pay Period	\$1,000
Tax-deferred Contributions (403(b)-IRA)	N/A
Current Taxable Salary	\$1,000
Tax (at federal tax rate of 28%)	\$280
Take Home Pay	\$720
After-tax Contribution (savings account)	\$100
Net Take Home Pay	\$620
Tax Savings	\$0

This hypothetical tax-deferred investment does not reflect deduction of any fees associated with the investment product to which contributions are directed. It is important to note that while taxes on amounts invested in tax-deferred investment are deferred until withdrawn, withdrawals are subject to ordinary income tax and, if made prior to age 59½, may be subject to a 10% IRS penalty tax. Conversely, earnings from investments that do not offer tax deferral are taxed currently, and withdrawals from such an investment are not subject to the penalty tax.

Some situations such as your personal investment horizon and income tax brackets (*both current and anticipated*), changes in tax rates and tax treatment of investment earnings, and lower maximum tax rates on capital gains and dividends may impact the results of this comparison. Each person's situation is different so these and other considerations must be taken into account when making an investment decision. For illustrative purposes a tax rate of 28% has been used; however, a person's tax rate will likely change over time.



Pre-tax vs. After-tax

Sample Paycheck	After-tax	Pre-tax
Gross Income Per Pay Period	\$1,000	\$1,000
Tax-deferred Contributions (403(b))	\$0	\$100
Current Taxable Salary	\$1,000	\$900
Tax (at federal tax rate of 28%)	\$280	\$252
Take Home Pay	\$720	\$648
After-tax Contribution (savings account)	\$100	N/A
Net Take Home Pay	\$620	\$648
Tax Savings	\$0	\$28

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Why it Matters

The Importance of Saving on Your Own



What Will Retirement Look Like?

- Average worker retires at age 62¹
- Educators retire even earlier – average age is 59!²

Fact: An average couple retiring at **age 65** can expect at least one of them live to **age 92**.³
That's...



Source:




1 Gallup Poll 4/28/2014 <http://www.gallup.com/poll/168707/average-retirement-age-rises.aspx>

2 National Commission on Teaching, 2010,

<http://nctaf.org/wp-content/uploads/2012/01/NCTAF-Who-Will-Teach-Experience-Matters-2010-Report.pdf>

3 Society of Actuaries 2012 Table

Retirement Expenses Could Look Different

What prices could look like in 30 years ²		
Medical Cost	Groceries	New Car
		
2044 \$11,393	2044 \$23,038	2044 \$94,353
↑	↑	↑
2014 \$4,844	2014 \$8,781	2014 \$32,532

- People age 65+ typically spend more on healthcare than other groups – **up to 5.6x more³**
- But remember – your Social Security and state pension benefits are fixed when you retire

Source:

“New Car” cost based on an assumed 3.61% annual inflation. “Groceries” costs based on an assumed 3.27% annual inflation.

“Medical Costs” based on an assumed 2.89% annual inflation.

These percentages are derived from historic consumer indexes via USInflationCalculator.com.



Healthcare Expenses

- Healthcare costs could be a tough pill to swallow



Retired couples (age 65)

- Nearly 10% of Social Security benefits are spent on Medicare premiums (Part B) ^{1,2}
- Medicare (Part D) “donut hole” accounts for \$1,700 in out of pocket prescription drug costs per year³ (annual drug costs between \$2830 and \$4550)
- In 2010, overall inflation was 1.6%, but healthcare costs rose by 6.3%

Source:

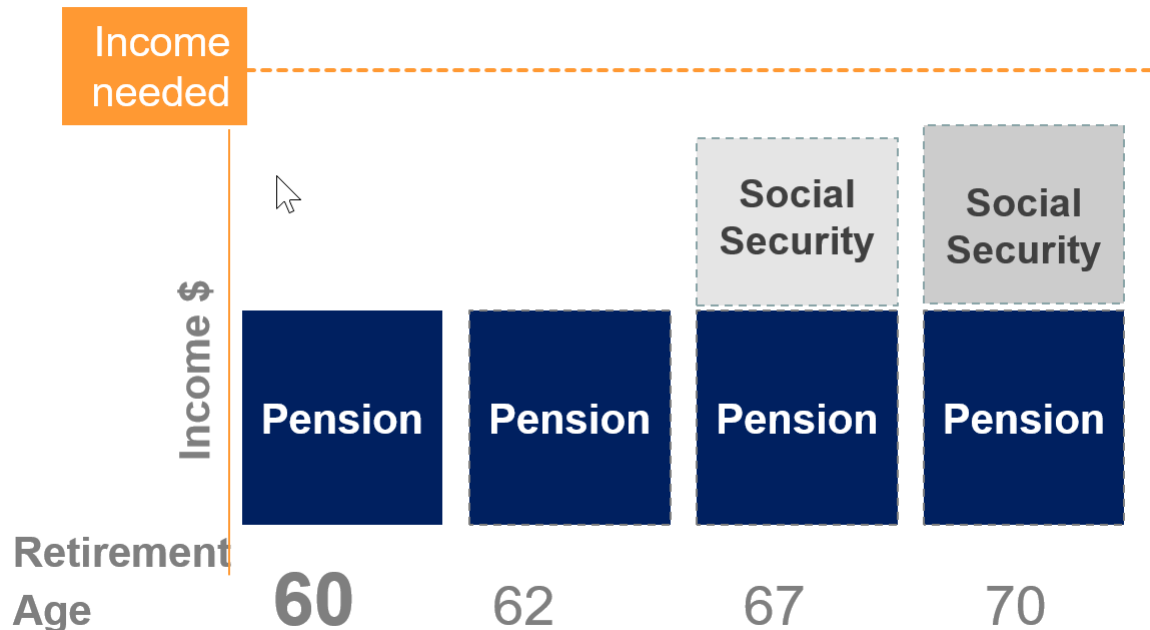
1 “Healthcare Expenses and Retirement Income,” Insured Retirement Institute, January 2012

2 “Retiree Healthcare Costs Surge, Wall Street Journal, May 11, 2012

3 “Ultimate guide to Retirement”, CNN Money, <http://money.cnn.com/retirement/guide/>

How Much Will I Need?

Everyone's retirement income needs are different, but on average, Social Security and a state pension are not enough to meet expenses.



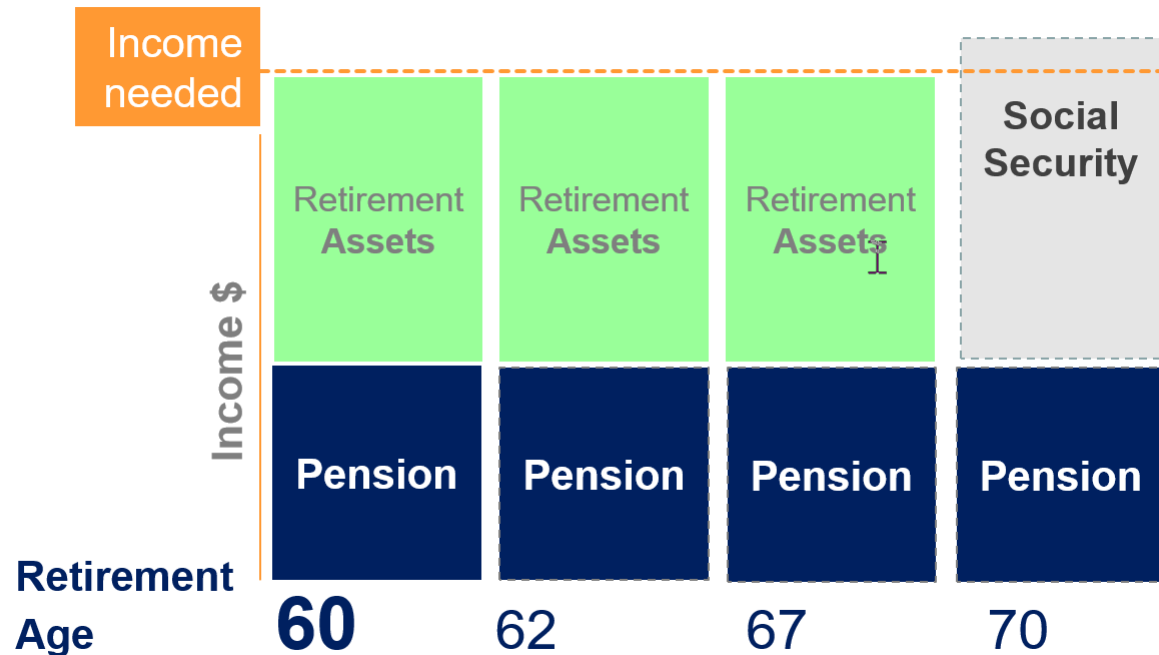
How do you fill your income gap during retirement?



How Much Will I Need?

403(b) accounts and IRAs can be used to:

- Help you generate retirement income; or
- Provide time for you to wait and maximize other sources of income.



Saving on your own for retirement
matters because it may be the
only way
to bridge the gap between
what you have and what you need.



How Much Can I Save?

Time: Your most valuable asset

- If you saved just \$100 per paycheck, how much might you eventually accumulate?



The above illustration does not take into account the effect of any state or federal taxes. The performance of the investment, 8%, in the illustration is hypothetical and in no way relates to the actual or expected performance of any investment. The results of an investment may differ substantially. Investing involves risk and there is no guarantee of investment results. This illustration assumes \$100 invested 26 times per year.

How Much Can I save?

Basics of Tax-Deferred Saving

- Tax-deferred saving available in a 403(b), 457 or IRA
- Save pre-tax now, pay taxes on withdrawal at retirement
- Depending on tax brackets, it might be like getting as much as 28% extra for every dollar you save!

Acct. type	Annual Limit	Annual age 50 “Catch-Up”	Total	Potential tax savings
403(b)	\$18,000	\$6,000	\$24,000	\$6,720
457	\$18,000	\$6,000	\$24,000	\$6,720
IRA	\$5,500	\$1,000	\$6,500	\$1,820

Assumes a federal tax rate of 28%.



How to Take Action



How to Take Action

- Regardless of your career stage, you can take control of your personal financial picture.

Early Career

Get Started. Start to save now and leverage the power of tax-deferral accounts.

Mid-Career

Move Forward. Understand your pension benefit and adjust your strategy now to reach your retirement goals.

Late Career

Be Ready. Develop a strategy to maximize your income to meet your ever changing needs throughout retirement.



How to Take Action Now!

- Review the plan options
- Register for your benefits
www.mass.gov/mtrs.
- Determine the best way for you to save *for today and for retirement*
- Start small – start *now*
- Review your plans *annually*



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AGE-125547 (4/17)(EXP,4/19)



Thank you

- Please fill out an interest card if you would like to meet with anyone more about your benefits.

