Deferred Compensation – Early Through Mid-Career

Today's Objectives:

- See why a 401(k), 457(b), or 403(b) account is an important part of your overall retirement plan
- Determine how you want to live beyond your career years
- Understand the basics of retirement investing
- Get the info necessary to enroll in your employer's plan

Disclaimer

View the disclaimer for today's presentation.

How Much Income Will You Need in Retirement?

The answers are as varied as the sources; we've seen anywhere from 75 – 90 percent.

Kiplinger says you'll need 78percent of your pre-retirement income to maintain your lifestyle in retirement.

To quote the U.S. Department of Labor: "Figure on at least 80-90 percent of your preretirement income to cover expenses."

The Center for Retirement Research at Boston College says 80 percent is needed to maintain pre-retirement living standards.

The National Institute for Retirement Security pegs the amount at "roughly 85 percent."

However, none of these reports appears to factor in inflation and increases in medical costs which could be important variables to account for.

Right now, you might be feeling not very confident about being able to retire when and as you want to. Honestly, you're not alone. 64 percent of U.S. workers say they're behind on retirement savings. 52 percent say they haven't tried to figure what they need.

That's where deferred compensation plans come in.

How Much Can You Expect?

- The average new state employee receives around 40 percent-50 percent of their final pay from pension alone
- 64 percent of all CalPERS service retirees receive less than $3,000 per month
- The average Social Security recipient receives $1,341 per month

- The average California state retiree has as least three years between retirement and Social Security eligibility
- The average annual inflation rate is 3.22 percent which doesn't sound too bad until we realize that at that rate prices will double every 20 years

Which Plan Is Right for You?

The Savings Plus program is available to state employees only. If you work for a public agency or a school, contact your employer to see what types of deferred compensation plans they offer. The information presented today on 401(k) and 457(b) plans will apply regardless of plan sponsor.

Savings Plus offers two different kinds of plans to choose from: a governmental 457(b) plan and a 401(k) plan. You can enroll and participate in either, or both, plans. From a participant's perspective, these two plans are very similar, but there are some important distinctions.

A key difference between 401(k) and 457(b) plans is that 457(b) plans have no tax penalty for taking money before age 59½. However, unlike a 401(k) plan, access to your money is limited to a distributable event, such as a hardship, separation of service or early retirement.

For more details about the differences, please refer to the 401(k)/457(b) chart on the Savings Plus web site.

If you do decide to participate in both plans, you can contribute up to the legal maximum in each plan. If you are contributing to a 403(b) plan, you can contribute to the legal maximum to it and to the Savings Plus 457(b) plan [but not to the 401(k) plan].

Current 401(k) and 457(b) Plan Contribution Limits

Plan Type	Maximum contribution limit, less than age50	Contribution limit plus Age Based Catch Up, at least age 50	Traditional 457(b) Catch Up Contribution limit, 3 years or less from your normal retirement age
401(k) Pre-tax /401(k)Roth	$19,000	$25,000	$25,000 (use Age-Based Catch-Up)
457(b) Pre-tax/ 457 (b) Roth	$19,000	$25,000	$38,000
TOTAL	$38,000	$50,000	$63,000

If you're under the age of 50, the left column shows how much you may be able to contribute this year. If you've achieved age 50, look at the right column.

Assuming your includible compensation exceeds the contribution limits, you may be able to contribute to your Savings Plus account as much as $50,000 this and in future years. The combined 401(k) and 403(b) contributions cannot exceed 19,000 and 25,000 respectively.

If you plan to retire within the next five years, you may be able to contribute even more.

Exemption for Public Safety Employees

Effective January 2016, the Defending Public Safety Employees' Retirement Act provides that public safety employees age 50 or older who retire or separate from service are exempt from the additional 10 percent early withdrawal tax on their 401(k) account. This includes distributions from qualified defined contribution plans when a participant separates from service while still serving as a Public Safety employee. It does not apply to any IRA money rolled into a Savings Plus account.

To take advantage of this benefit contact your Human Resources department to confirm your classification. You'll need to check the appropriate box on the Benefit Payment booklet to ensure the distribution is classified correctly.

NOTE: If you are a public safety employee and you do not check this box, the tax exception will not be applied.

Regardless of your agency or department, there are specific contribution limits that apply.

Contribution Limitations

401(k) – contributes pre-tax dollars, allows for in-service withdrawals under certain conditions, must wait until age 59½ to avoid 10 percent early withdrawal tax (some exceptions apply).

Roth 401(k) – contributes after-tax dollars for tax-free growth potential when certain conditions are met. Same contribution limits as 401(k) pre-tax.

457(b) – contributes pre-tax dollars and has no 10 percent early withdrawal tax regardless of age but cannot take a withdrawal while still employed with the state (except for Unforeseeable Emergencies).

Roth 457(b) – contributes after-tax dollars for tax-free growth potential when certain conditions are met. Roth 457(b) has same contribution limits as 457(b) pre-tax.

Savings Plus offers you flexibility in how you save for retirement. You can choose to make pre-tax, Roth (after-tax) or both types of contributions in either the 401(k) Plan, 457 Plan or both.

Each type of contribution has its own benefits. You can contribute on a pre-tax or Roth after tax basis to Savings Plus. Pre-tax contributions come out of your pay before taxes are deducted, lowering your taxable take-home pay. Any earnings on your savings grow tax-deferred until withdrawn. Roth contributions come out of your pay after taxes are deducted, but your contributions and related earnings may be withdrawn tax-free at retirement if certain criteria are met.

Small Increases Can Make a Big Difference

Regularly increasing contributions to your Savings Plus account can help you feel confident that what you're doing now can positively impact your longer-term goals. You may want to consider your planned lifestyle in retirement, inflation, rising healthcare costs, and longevity as factors to help you make your decision to increase.

How Do You Want to Build Your Portfolio?

Savings Plus offers you three approaches for investing through the Plans:

1. Do it for me
2. Manage it for me
3. Do it myself

1. Do It for Me

You select the target date fund closest to the year you plan to start taking withdrawals. That may or may not be the year you plan to retire.

Target Date Funds offer the convenience of a single, diversified investment strategy that automatically becomes more conservative as the fund approaches a specific retirement date. The Target Date Funds are comprised of the Savings Plus core investment funds, Savings Plus's investment line-up featuring a broad range of asset classes with differing levels of risk/reward potential.

Each fund invests in a professionally selected mix of investments tailored for investors who plan to retire and take a distribution close to the target date designated in the fund's name (generally assumed to be when they reach age 62).

Over time, the fund will automatically become more conservative with greater emphasis on investments that provide for income and preservation of capital, and less on those offering the potential for higher growth. Keep in mind that the principal value in the fund isn't guaranteed at any time, including the target date.

Your financial concerns don't stop at retirement. They just change. That's why the investment mix for each fund is managed in a way that helps you grow your retirement savings over the long term while seeking to reduce volatility and provide income.

2. Manage It for Me

Enroll in our professional managed account solution, Nationwide ProAccount®.

Through this service, you complete a Risk Tolerance Questionnaire, which is used to guide the professional account managers as they allocate, invest and rebalance your account. There is a fee for this service, but we believe you'll find it to be very competitive.

Of course, no matter which approach you choose, you have Savings Plus Retirement Specialists to help you put it into effect.

Keep in mind that we cannot offer investment, tax or legal advice. However, we do offer plenty of online resources that can help you make decisions as you participate in Savings Plus.

3. Do It Myself

With this approach, you do it all.

You select, mix and match from the Savings Plus core fund options. You monitor your account's performance against your Investor Profile, your investment strategy and your goals. You rebalance your account regularly.

You can even go outside for more investment options by maintaining a Schwab Personal Choice Retirement Account. PCRA "opens a window" to a world of investment options and may be best suited for participants who consider themselves experienced investors. There no explicit fees in your Savings Plus account but there may be PCRA transaction fees which are highlighted in the PCRA pricing guide on the Savings Plus Website.

If going it alone is not for you, Savings Plus offers two forms of asset allocation funds to "help you do it."

Investing in a Volatile Market

Regardless of changes to the funds that are upcoming, when you are investing, you need to be aware of market risk: the potential for investments to lose value due to market fluctuation or volatility. Market risk is always there. You can't avoid it.

History shows that investment markets have grown over time despite short-term ups and downs. In fact, these fluctuations can actually create buying opportunities that may lead to greater earnings over time. Investing is all about striking a balance between market risk and return. Rather than trying to avoid market swings, understanding some key principles for long-term investing can help you navigate a sometimes volatile market.

When investing for your retirement, it's important to have a plan, understand your investment style and contribute regularly. Keep in mind investing involves risk, including possible loss of principal.

3 Key principles when investing for the long term:

1. Have a plan. It's easier to take a long-term view if you understand where you want to go.
2. Know your investment style and determine the asset allocation that is right for you. How comfortable are you with seeing your portfolio go up and down.
3. Contribute regularly and stay cool when markets become volatile. Making investment decisions based on hunches or trying to time the market often leads to dollar losses and missed opportunities.

Act Now!

- It's never too early, it's never too late.
- Set up your 401(k), 403(b) or 457(b) account right away.
- If you've already waited "too long" then make a commitment today, don't wait any longer.
- Start with a comfortable amount then opt for "auto-increase".
- Get a raise recently - spend it on yourself.

- No one ever complained that they had too much saved for retirement.
- Take control of your financial future today.

Next Steps

- Call Savings Plus at (855) 616-4776
- Log in to your account at the Savings Plus website.
- Reach out to your plan provider or personnel office for more info on your employer's 401(k), 457(b), or 403(b) plan

Disclaimer

Recordkeeping, education and administrative services for Savings Plus are provided under contract by Nationwide, a leading provider of financial services and one of the first companies – more than 40 years ago – to offer retirement-savings plans for public employees like you.

Both Savings Plus and Nationwide are committed to transparency about how we serve participants; thus, we ask that you review the information on this slide and understand any of the disclosures you may see throughout this presentation.

Investing involves market risk, including possible loss of principal. There is no guarantee that fund, investment option or portfolio objectives will be met nor that any investment strategy, including asset allocation and diversification, will generate a profit or avoid losses, especially in a down market. Actual investment results will vary, depending on your investment and market experience.

Savings Plus Retirement Specialists are registered representatives of Nationwide Investment Services Corporation, member FINRA. Neither Nationwide nor any of its representatives give investment, legal or tax advice. Please consult your own counsel before making decisions about retirement plan participation.

Target date funds are managed to become more conservative as the year in the fund's name approaches. There is no guarantee that lifestyle or target date fund objectives will be met or provide enough income at or through retirement. These funds invest in other funds; therefore, in addition to the fund's charges and expenses, an investor indirectly pays a proportionate share of the underlying funds' charges and expenses.

The Schwab Personal Choice Retirement Account® (PCRA) self-directed brokerage window is offered for an additional fee by Charles Schwab & Co., Inc, member SIPC, which is not affiliated with Savings Plus or Nationwide.

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