Deferred Compensation – Early thru Mid-Career Members

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You should consult your own counsel before making retirement plan decisions.

Agenda

Our presentation covers:

- Sources of Retirement Income
- Why a 401(k), 457(b), or 403(b) plan is an important part of your overall retirement plan
- Understand the basics of investing for retirement
- Get the information necessary to enroll in your employer's plan

Sources of Retirement Income

Many individuals draw income from multiple sources. These retirement income factors could affect different categories in different ways. It's wise to have money in multiple investments if possible as this can give you flexibility to adapt to any changes and to try to minimize your taxes in retirement. All these sources fall into one of three categories:

1. **Taxable** – examples include:
    a. Investments (stocks, most bonds, CDs
    b. Taxable portion of Social Security benefits
    c. Profit from selling a primary home
2. **Tax deferred** – examples include:
    a. Pension
    b. Retirement savings: 401(k), 403(b), 457(b) plans, Traditional Individual Retirement Account (IRA)
    c. Certain annuities
3. **Tax free** – examples include:
    a. Retirement savings: Roth 401(k), Roth 457(b), Roth IRA
    b. Life insurance cash value
    c. Certain municipal bonds
    d. Non-taxable Social Security

These are examples about the tax status of the withdrawal. You may have already paid tax on the money you deposited into the investment. Remember, check your plan specifics as some investment options may have tax implications.

CalPERS

The annual Facts at a Glance is released at the end of each fiscal year to provide members, stakeholders, and the public with a wide range of data and information about the state of the pension system.

- 60% of all service retirees received less than $3,000 per month
- The average retirement age for all service retirees is 58.7 years of age
- The average years of service is 21 years
- 33% of CalPERS retirees do not receive Social Security

Social Security

Social Security is the major source of income for most older adults. Nearly nine out of ten individuals age 65 and older receive Social Security benefits.

- Social Security benefits represent about 33% of the income of the older adults
- Among older Social Security beneficiaries, 50% of married couples and 70% of unmarried persons receive 50% or more of their income from Social Security
- Among older Social Security beneficiaries, 21% of married couples and about 45% of unmarried persons rely on Social Security for 90% or more of their income
- Average income of $1,514 per month
- Average 3 years gap between average retiring age and earliest filing age

Employer-Sponsored Retirement Plan

Your employer-sponsored plan provides you with the ability to contribute pre-tax or after-tax contributions. It's easy to contribute through payroll deduction. You may be able to contribute as little as $25 a month, or a percentage of your pay as long as you do not exceed the IRS contribution limits. Understanding the IRS annual contribution limit is important, especially when your goal is to contribute the maximum amount to your account. Even if you cannot contribute the maximum amount, increasing your contribution a little each year can help you move closer to your retirement goals.

When it comes to saving for retirement, there are two ways to fund your account(s). You can elect tax-deferred or tax-free funds or both.

What's the difference between tax-deferred vs. tax-free retirement funds?

Tax-deferred retirement funds are funds you invest in a tax-deferred retirement account, using pre-tax contributions. Your contributions are withdrawn before they are taxed. You receive an immediate tax break and the taxes are deferred until you withdraw from your account. Withdrawals are taxed as ordinary income.

Tax-deferred retirement savings:

- 401(k) plan
- 403(b) plan
- 457(b) plan
- Traditional IRA

Tax-free retirement funds are funds you invest in a tax-free retirement account using after-tax contributions. Essentially, you pay taxes now on your contributions; and at retirement, your contributions and any earnings from your investment are tax-free. When you choose to make Roth 457(b) contributions, you'll pay taxes upfront when your money goes into the plan. Unlike a Roth IRA, participation has no income limits. Then you'll enjoy tax-free withdrawals as long as you're at least 59½, and do not take withdrawals from your Roth account for at least five years after your first Roth contribution is made to the plan.

Tax-free retirement savings:

- Roth 401(k)
- Roth 457(b)
- Roth 403(b)
- Roth IRA

There are certain rules that apply for your Roth contributions to be tax-free. For example, if you're taking distributions from funds that you previously converted from your tax-deferred 401(k) account into your Roth 401(k) account, then you must wait 5 years after the first day of the calendar year in which you first made a Roth contribution to the retirement plan to avoid paying taxes/penalties on those distributions.

Tax-free distributions are the number one advantage of any of the Roth plans:

- Not only are your contributions tax-free, but also any earnings from your investments
- Taxes must be paid on the entire balance of a tax-deferred contributions that are withdrawn

Why a 401 (k), 457(b), or 403(b) plan is an important part of your overall retirement plan?

Investing involves market risk, including possible loss of the money you have invested. And there is no guarantee you will achieve your investment goals. You'll need to determine what type of contribution is right for you.

401(k) and 403(b) plans offer:

- Penalty-free withdrawals: Age 59½ or upon separation from service at age 55 or older; For employees in a safety classification, if you are 50 or over, you can take a penalty free distribution.
  - 401(k) plans are subject to a 10% penalty if withdrawn prior to age 59 ½.
- In-service withdrawals for hardship*
- Pre-tax and Roth contributions*

457(b) plan offers:

- Penalty-free withdrawals: Age 59 ½ while still employed effective 1/1/2021* or upon separation from service at any age
- In-service withdrawals for unforeseeable emergency*
- Pre-tax and Roth contributions*

*As defined in the Plan Document

Understand the basics of investing for retirement

Your plan may offer different ways to customize your portfolio based upon your time horizon until retirement and your risk level. So, how can you balance your need for long-term growth against market risk and volatility?

- **Asset allocation** involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The process of determining which mix of assets to hold in your portfolio is a very personal one. The asset allocation that works best for you at any given point in your life will depend largely on your time horizon and your ability to tolerate risk.
- Your **time horizon** is the expected number of months, years, or decades you will be investing to achieve a particular financial goal. An investor with a longer time horizon may feel more comfortable taking on a riskier, or more volatile, investment because he or she can wait out slow economic cycles and the inevitable ups and downs of our markets. By contrast, an investor saving up for a teenager's college education would likely take on less risk because he or she has a shorter time horizon.
- **Risk tolerance** is your ability and willingness to lose some or all of your original investment in exchange for greater potential returns. An aggressive investor, or one with a high-risk tolerance, is more likely to risk losing money in order to get better results. A conservative investor, or one with a low-risk tolerance, tends to favor investments that will preserve his or her original investment.
- **Risk vs. Reward** – When it comes to investing, risk and reward are inextricably entwined. You've probably heard the phrase "no pain, no gain" - those words come close to summing up the relationship between risk and reward. Don't let anyone tell you otherwise. All investments involve some degree of risk. If you intend to purchase securities - such as stocks, bonds, or mutual funds - it's important that you understand before you invest. The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long-time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals.

The practice of spreading money among different investments to reduce risk is known as diversification. By picking the right group of investments, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain.

In addition, asset allocation is important because it has a major impact on whether you will meet your financial goal. If you don't include enough risk in your portfolio, your investments may not earn a large enough return to meet your goal. On the other hand, if you include too much risk in your portfolio, the money for your goal may not be there when you need it.

Portfolio Rebalancing

Rebalancing is bringing your portfolio back to your original asset allocation mix. This is necessary because over time some of your investments may become out of alignment with your investment goals. You'll find that some of your investments will grow faster than others. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.

When you rebalance, you'll also need to review the investments within each asset allocation category. If any of these investments are out of alignment with your investment goals, you'll need to make changes to bring them back to their original allocation within the asset category.

Before you rebalance your portfolio, you should consider whether the method of rebalancing you decide to use will trigger transaction fees or tax consequences. Your financial professional or tax adviser can help you identify ways that you can minimize these potential costs.

Consider these three approaches to learn how to build your portfolio:

Customize your portfolio includes Asset Allocation, Time Horizon Risk Tolerance, and Risk and Reward

Target Date Funds are designed for people who plan to withdraw funds during or near a specific year. There is no guarantee that target date funds will provide enough income for retirement.

Managed Accounts – If you're new to investing and have no knowledge or have no time, consider hiring a professional to help build and manage an investment plan. Additional fees may apply. Check with your plan provider to see if such services are available within your plan.

Target Date Investment Options

Target Date Funds invest in a wide variety of underlying investment options to help reduce investment risk. Their expense ratio represents a weighted average of the expense ratios and any fees charged by the underlying investment options in which the Funds invest.

Target Date Funds are designed for people who plan to withdraw funds during or near a specific year. Like other funds, target date funds are subject to market risk and loss. Loss of principal can occur at any time, including before, at or after the target date. There is no guarantee that target date funds will provide enough income for retirement.

Before investing, carefully consider each fund's investment objectives, risks, charges and expenses. View the Savings Plus fund fact sheet on the Savings Plus website or request by phone at (855) 616-4776

Manage It for Me

New to investing, no knowledge, and/or no time?

- Hire financial expert to help build and professionally manage an investment plan
- Additional fees may apply
- Adds value by removing emotional decision making and setup a disciplined approach to investing to achieve goal

Check with your plan provider if such services are available within your plan.

Act Now!

- It’s never too early and never too late
- Start with a comfortable amount and make changes as you go
- If you received a raise recently – don’t adjust your lifestyle to your raise, save the extra income
- Remember, no action is also an action

Get the information necessary to enroll in your employer’s plan

Contacting your plan provider or personnel office for more information on your employer’s:

- 401(k) plan
- 457(b) plan
- 403(b) plan

State of California employees, contact:

- Savings Plus Solutions Center
- (855) 616-4776

Reminder: You should consult your own counsel before making retirement plan decisions.