Deferred Compensation – Members Near Retirement

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

Agenda

Our presentation today covers information on:

- How well prepared you are for retirement
- Learn how to identify your income gap
- Identify your options for getting better prepared
- Understand how continuing in your plan can benefit you through retirement

How Well Prepared Are You For Retirement?

Whether you're early in your career or retirement is around the corner, being well informed will help you prepare for retirement. There are things to consider such as how your income needs may be affected by the following:

- Where you'll live
- Leisure activities
- Family support

Other considerations:

- **Longevity** - You could outlive your financial resources.
- **Inflation** - Your income needs will increase over time to stay even with the costs of goods and services they need to purchase.
- **Healthcare** - A 65-year-old couple retiring today may expect to spend about $220,000 over the next 20 years on out-of-pocket health care expenses.

How much will you need in retirement?

Most financial experts state you need approximately 75 to 90 percent of your retirement income. You should check if you have an income gap by determining:

- The percentage of income you need in retirement
- The estimated amount from your pension
- How much is needed from other sources

How much income can you expect?

Three potential income resources:

CalPERS

- Visit the CalPERS website and select Retirement Estimate Calculator to run several estimates, keep in mind that these are just estimates.
- Log in your myCalPERS account and select the **Education** tab to enroll in a *Planning Your Retirement* class
- Contact us at **888-CalPERS** (or (**888**) 225-7377)

Social Security

- Visit the Social Security Administration (SSA) website and select the Retirement Estimator which gives you a benefit amount based on your actual Social Security earnings record. *Reminder* these are just estimates.
- Contact Social Security at (800) 772-1213

Contact your previous employers to:

- Gather information on previous 401(k), 457(b), or 403(b) plans
- Evaluate the options that may be available to you

Learn How to Identify Your Income Gap

As you run estimates and contact your previous employers to gather all your information and you notice the possibility of an income shortage, you can:

- Work longer
- Work in retirement
- Increase your savings

Understand How Continuing in Your Plan Can Benefit You Through Retirement

Save more through your plan by*:*

- Maximizing your deferred compensation contributions
- Taking advantage of catch-up opportunities
- Transferring unused leave time at separation (if applicable)
- Combining outside assets – IRAs, 401(k), 403(b), and 457(b) – with your current employer account

There are contribution limits, check with your plan for more detailed information.

The benefits of contributing your lump sum separation pay including unused vacation, personal holidays, and annual leave, could be substantial.

- May boost the assets in your account
- Avoids immediate taxation (pre-tax contributions only)
- Allows assets to be taxed as ordinary income

Rollover other assets

- Personal help now and through retirement
- Professionals research and monitor funds
- One investing strategy to manage
- One payout strategy to manage
- One set of fees

Flexible payout options

Withdrawals are an important element of your account to understand. You can take out small or large sums anytime, or you can set up automatic, periodic payments.

If your plan allows it, you may be able to have direct deposit which allows for fast transfer of funds. Unlike a check, direct deposit typically doesn't include a hold on the funds from your account.

Keep in mind that taxes are due on any amount you withdraw, not the balance in your retirement funds account.

When can you take payouts without penalty?

The rules for distributions differ between 401(k) and 457(b) plan types. Under IRS rules:

- **401(k) Participants** must be at least 55 and retired, or over 59½. In addition, if you suffer a hardship as defined by the IRS and Savings Plus policy, your 401(k) account will have income tax implications.

- **457(b) Assets** can be withdrawn without penalty at any age upon separation from service from the plan sponsor, or age 70½ if still working. In addition, if you suffer an unforeseeable emergency as defined by the IRS and your plan's policy, there is no tax penalty for this early withdrawal unless your 457(b) account contains amounts received by a rollover deferral from a source other than another 457(b) plan.

Required Minimum Distribution (RMD)

You cannot keep retirement funds in your account indefinitely. You generally have to start taking withdrawals from your IRA, SIMPLE IRA, SEP IRA, or retirement plan account when you reach age 73.

Check with your plan to find out how this will work for you.

Your required minimum distribution is the minimum amount you must withdraw from your account each year.

- You can withdraw more than the minimum required amount
- Your withdrawals will be included in your taxable income except for any part that was taxed before (your basis) or that can be received tax-free (such as qualified distributions from designated Roth accounts)

If you retire or separate and you're age 73 or older, you must take your RMD in the year in which you retire or separate.

If you don't take withdrawals, or you take less than you should:

- You'll owe a 50 percent federal penalty tax on the difference between the amount you withdrew and the amount you should have withdrawn
- You'll still have to withdraw the required amount and pay any income tax due.

Visit the IRS website for more detailed information on RMDs.

What are the payout withholdings?

All withdrawals are taxed as ordinary income. The amount of federal income tax that is withheld depends on which benefit payment option you select:

- **Mandatory Tax Withheld** - A mandatory 20 percent federal income tax is withheld on full and partial withdrawal, and periodic payments completed in less than 10 years (except when it is an RMD).
- **Periodic Payments** - made over more than 10 years – federal taxation is determined by you, the participant. If less than 10 years, the 20 percent federal taxation applies.
- **RMD and Emergencies** - are subject to a 10 percent federal income tax withholding.

- **NOTE**: "Subject to" means that the tax withholding is <u>not</u> mandatory and can be adjusted to either a higher or lower amount.

After the close of the year, an IRS **1099R** form will be sent to you for tax reporting. On the form, it will report:

- Your total withdrawal amount for the year
- The amount of federal taxes withheld
- The amount of state taxes withheld (if any)

What else should you consider?

- Check your beneficiaries at least annually and update when appropriate
- Update your mailing address every time it changes
- Read any newsletters from your plan
- Review your statements
- Monitor how your account compares to your investor profile