Save & Invest Into Retirement

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

Note: This Digital Class Notes & Resources document is designed as a supplementary enhancement to the presentation, offering additional support for CalPERS members.

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
- Save as much as you can through your plan

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

Understand How Continuing in Your Plan Can Benefit You Through Retirement

Save more through your plan by*:*

- Maximizing your supplemental income plan 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

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

NOTE: There are generally several considerations relevant to evaluating whether you might rollover outside assets or leave the money where it is currently invested. Qualified retirement plans, supplemental income plans and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled over from your account(s) may be subject to surrender charges, other fees and/or a 10% early withdrawal tax if withdrawn before age 59½. It's important to understand retirement account differences and similarities, such as fees, services, investment options, etc., before making any rollover decisions.

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 72 (70 ½ if you reached 70 ½ before January 1, 2020).

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 72 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 during your retirement checklist?

- 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
- Review your investment elections

Investing helpful tips:

- 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

Supplemental Income Plans

Savings Plus Program

Savings Plus is a program that provides 401(k) and 457 plans for State of California and California State University employees. You can choose to contribute by payroll deduction on a tax-deferred or tax-free Roth basis. Savings Plus is administered by the California Department of Human Resources (CalHR).

Benefits:

- **Tax-deferred contributions** allow you to defer paying taxes on your contributions and any earnings until you withdraw your assets, generally during retirement.
- **Roth contributions** comes out of your pay after taxes are deducted and generally will not reduce your current tax liability.

A note about 401(k) and 457(b) Plan Roth distributions: if you meet any of the following criteria, you can receive payment from your 401(k) Plan without an additional 10 percent tax for early withdrawal:

1. Separated from state service during or after the year you turned age 55; or
2. Separated from state service during or after the year you turned age 50 if you are a public safety employee; or
3. Attainment of age 59½, regardless of your employment status.

A note about 401(k) and 457(b) Plan Roth distributions: a Roth distribution will be tax free if the distribution is made 5 years or more after January 1 of the calendar year in which the first Roth contribution or Roth conversion was made and the distribution was made on account of death, disability, or attainment of age 59½.

CalPERS 457 Plans

The CalPERS 457 Plan is for employees of participating public agencies and schools. All employees whose employers have adopted the CalPERS 457 Plan are eligible to join the plan, and there are currently no minimum service requirements to fulfill.

Benefits:

- The plan is a voluntary savings program that allows you to defer any amount, subject to annual limits, from your paycheck on a pretax basis.
- Your contributions and your earnings, if any, can benefit from the power of tax-deferred compounding.
    - This means you don't pay income taxes on your contributions or earnings until you start taking withdrawals, which is usually in retirement.

To enroll, your employer must participate in the plan.

CalPERS Supplement Contributions Plan

The CalPERS Supplemental Contributions Plan (SCP) is an after-tax supplemental contribution plan available to state employees and members of the Judges' Retirement Systems I and II. Additionally, as directed by statute, the SCP serves the default rollover account for POFF participants that didn't make an affirmative election during the POFF termination.

Benefits:

- You may make periodic cash contributions or after-tax payroll deductions. You may change your contribution amount and allocation, and transfer account balances among a variety of investment options.
- SCP allows you to voluntarily invest after-tax contributions into an account where all earnings grow tax deferred until you begin to take withdrawals in retirement or upon separation from all state employment. You'll only pay taxes on the earnings.
- Upon distribution, you only pay taxes on the earnings.

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

Contact Information

Contact your plan provider or personnel office for more information on your employer's

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

Public agency and school employees with the CalPERS 457 Plan, contact

- CalPERS 457 Plan
- Monday through Friday 6:00 a.m. - 5:00 p.m. PT
- Call (888) 713-8244

State of California employees, contact

- Savings Plus Solutions Center
- Monday through Friday 5 a.m. - 8 p.m. PT
- Call (855) 616-4776

State of California employees and members of the Judges' Retirement Systems I and II, contact

- CalPERS Supplemental Contributions Plan
- Monday through Friday 6:00 a.m. - 5:00 p.m. PT
- Call (800) 260-0659.

Glossary of Terms

Asset Allocation – The strategy of spreading investment funds across asset classes, such as cash and fixed income, bonds, and stocks, to help minimize risk. The process of determining which mix of assets to hold in your portfolio is a very personal one.

Keep in mind, the use of asset allocation does not guarantee returns or protect from potential losses.

Asset Rebalancing – An investing strategy through which a participant periodically exchanges or moves between funds in their account, in an effort to maintain a specific investment mix designated.

Diversification – Portfolio strategy designed to spread risk by allocating assets among a variety of investments, such as short-term investments, bonds and stocks.

Rebalancing – A strategy to sell investments that have been performing well and invest more into those that have fallen behind – a buy low, sell high approach. Your financial professional or tax adviser can help you identify ways that you can minimize these potential costs.

Risk Tolerance - Is your ability and willingness to lose some or all of your original investment in exchange for greater potential returns.

Risk versus Reward - When it comes to investing, risk and reward are inextricably entwined. 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.

Time Horizon - The expected number of months, years, or decades you will be investing to achieve a particular financial goal to begin to take distributions from your retirement plan.

Disclaimer: This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.