Life Stages of Accumulation and Decumulation

By: Debbie Rochester, Benefit Education Specialist
Today’s Agenda

• Accumulation
  – Factors to Consider in Retirement Planning
  – Investing for Retirement
  – Making the Most of the MERS Investment Menu

• Decumulation
  – Budgeting
  – Spending Down Your Retirement Account

• Retirement Tools for Success
Retirement Statistics

33% of retirees rely ALMOST ENTIRELY on SOCIAL SECURITY

$104,000 average current retirement savings OF AMERICANS AGED 55-64

1 in 3 Americans have $0 saved for retirement

37% of middle class Americans plan to work UNTIL THEY DIE

Sources: (1) USA Today; (2) Investopedia; (3) GoBankingRates; (4) CNN Money
Factors to Consider in Retirement Planning
Factors to Consider

- **Longevity**
  - Outliving savings

- **Inflation**
  - Savings are worth less over time

- **Market Volatility**
  - Ups and downs in the stock market

- **Savings Shortfall**
  - Not having enough savings
Longevity

• As life expectancy continues to increase, the risk of outliving your savings is real

• We need to plan to make our retirement funds last longer

<table>
<thead>
<tr>
<th></th>
<th>Women</th>
<th>Men</th>
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<tbody>
<tr>
<td>1976</td>
<td>77</td>
<td>69</td>
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<tr>
<td>1996</td>
<td>79</td>
<td>73</td>
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<td>Today</td>
<td>81</td>
<td>76</td>
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If you’re 65 today, the probability of living to a specific age or beyond

Life expectancy tells only half the story. Plan on the probability of living much longer, perhaps 30+ years in retirement.

For example, there is a 47% chance that one spouse will live to age 90 or beyond.

Source: JP Morgan.
An average 3% inflation rate reduces the value of your dollar by more than half in just 25 years.
The effect of inflation on your purchasing power is real.

- **1998**
- **2005**
- **2014**
Market Volatility

• When the market becomes volatile, resist the temptation to pull out your funds
• Stay focused on a long-term investment strategy; “time” in the market, not “timing” the market
• Recoveries aren’t marked by an “all clear” sign
• Missing only a few days in the market can impact returns dramatically
Market Volatility

The cost of being out of the stock market just a few days
(value of $10,000 invested in S&P 500 Index Jan. 1, 1989-Dec. 31, 2014, and average annual rate of return)

Source: Morningstar, Standard & Poor’s, the Research Center.
What Are Your Savings?

- 54% of workers have no idea how much they will need to save for retirement
- 36% have nothing at all saved for retirement
- MERS has online calculators to help you determine how much you will need in retirement, and how much you need to save to reach that goal

2010 Retirement Confidence Survey, Employee Benefits Research Institute
• MERS Retirement Readiness reports provide individual retirement planning guidance at no cost

• Includes both passive and interactive tools for assessing your financial preparedness for retirement

• Snapshot reports
  – These reports are mailed out to you annually
  – Provide an overview of what your MERS accounts—together with Social Security—will provide for you in retirement
  – Uses 80% income replacement ratio to identify any income gap
Develop the Full Retirement Picture

The “Full Picture” report builder allows you to expand on the information contained in your Snapshot report.

- Add spouse and outside investment information
- Identify your risk tolerance and receive customized suggestions for improving your retirement readiness

- Increase retirement savings
- Review investment selections
- Consider delaying retirement
- Adjust retirement income replacement rate
Start Saving as Early as Possible

Account balance at retirement

Hypothetical example assumes a $100 bi-weekly contribution at an 6% market return and retirement at age 65.
Consider Annual Escalation

*Small steps today can add up to a better future*

Hypothetical example based on $52,000 annual salary with an 7% annual return invested over 35 years.
## Considerations for Avoiding a Savings Shortfall

### Reduce Debt Before You Retire
- Interest rates will work against you over time
- Calculate your potential savings with the Accelerated Debt Payoff Calculator available on www.mersofmich.com

### Review Your Retirement Date
- Consider the date you want to retire and the lifestyle you wish to have in retirement

### Revise Your Retirement Budget
- Know your expenses
- Create a budget and stick with it
- You may need to work longer or adjust your retirement budget

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2010 Retirement Confidence Survey, Employee Benefits Research Institute
Investing for Retirement: Strategies to Consider
What is an Asset Class?

An asset class is a group of securities that generally:

- Have similar characteristics
- Behave similarly in the marketplace
- Are subject to the same laws and regulations

Cash | Bonds | Stocks | Other
Asset Allocation and Diversification

- Asset allocation mixes are asset classes within an investment portfolio.
- Ensures your portfolio isn’t dependent on one asset class.
- Diversification is when you choose different investment options in each asset class.

![Asset Allocation Pie Chart]

- 100%
- 2%
- 25%
- 25%
- Cash
- Bonds
- Stocks
- Other
Importance of Diversification

• Diversification is critical, as it helps to minimize the risk of large investment losses to the plan

• Most investments go through cycles, which include ups and downs

• Provides downside market protection with upside market participation
Rebalancing

- Asset allocations can shift over time as one investment does well, making it a larger part of your total portfolio and exposing you to more risk than you’re willing to take.

- Rebalancing ensures that your portfolio remains invested as you intended.
Impact of Fees on Account Balance

Investing More Dollars Makes a Lot of Sense

Lower costs can make a big difference over time. This hypothetical example illustrates the effect fees can have on $10,000 growing for 30 years, with an additional $200 contributed every other week, at an average return of 6%.
Making the Most of the MERS Investment Menu
MERS Investment Menu

• Research shows that too many investment choices overwhelm participants

• MERS makes it easy with three simplified investment sleeves

  “Do it for me”

  “Help me do it”

  “I’ll do it myself”
“Do it for me”

- Retirement Strategies are target date funds
- Complete diversified investment fund that provide a simple, all-in-one investment choice
- Assets change from aggressive to conservative as participant approaches retirement age and throughout retirement
- Default investment selection, based on projected “target-date” of retirement at age 60
“Do it for me”

Fully diversified funds that transition automatically over time

Objective: Aggressive growth
Objective: Moderate growth
Objective: Income with growth
Objective: Preserve spending power
Advantages of MERS Retirement Strategies

Why Retirement Strategy funds are the default option for our Defined Contribution Plan and 457 Program:

• **Cost effective** – Average fund cost is just 0.48-0.49%

• **Simple** – An easy to understand investment option

• **Age Appropriate** – By gradually shifting away from stocks and toward bonds over time, the fund automatically adjusts your portfolio mix as you approach retirement

• **Automatic rebalancing** – your investments are automatically rebalanced between asset classes
Target Date Funds vs Build Your Own Portfolio

MERS Retirement Strategies are a cost effective all-in-one diversified portfolio

![Pie chart showing asset allocation: Large Cap Stocks 37%, Mid Cap Stocks 6%, Small Cap Stocks 6%, International Stocks 19%, Emerging Market Stocks 7%, Real Estate 5%, High-Yield Bonds 10%, Commodities (Large Cap) 5%, Core Bonds 10%, Large Cap Stocks (5%)]

- MERS Retirement Strategies (2035): 0.49%
- MERS “Build Your Own Portfolio”: 0.54%
- Average 2035 Target Date Fund: 1.41%
- Average “Build Your Own Portfolio”: 1.55%
1) Pre-Built Portfolios for Participants
   - Allows participants to choose a portfolio with a designed mix of stocks and bonds
   - MERS helps participants by monitoring the underlying investment managers
   - Rebalanced quarterly

2) Funds to build your own portfolio
   - Pre-selected options provide access to a variety of funds
   - Actively monitored by MERS
   - Includes several low-cost index funds
   - Participants can easily rebalance online through their myMERS account
For participants who want to independently and actively manage a greater choice of investments

- Broader range of investments including
  - Individual stocks
  - Bonds
  - CD’s
  - Commission-free Exchange Traded Funds
- Access through TD Ameritrade to over 13,000 mutual funds that includes over 2,500 No-Load, No-Transaction Fee Funds
- Online trading available
- Available within the Defined Contribution 401(a) and 457(b) plans
Spending Down Your Retirement Account
### Preparing a Retirement Budget

<table>
<thead>
<tr>
<th>Evaluate Your Income</th>
<th>Know Your Current Assets</th>
<th>Prioritize Your Needs and Wants</th>
<th>Plan for Your Legacy and Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pension</td>
<td>• Retirement accounts</td>
<td>• Travel</td>
<td>• Charitable giving</td>
</tr>
<tr>
<td>• Social Security</td>
<td>• Spouse’s retirement</td>
<td>• Second home</td>
<td>• Inheritance left for children or grandchildren</td>
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<tr>
<td>• Spousal income</td>
<td>accounts</td>
<td>• Hobbies</td>
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<tr>
<td>• Other income</td>
<td></td>
<td>• Leisure time</td>
<td></td>
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<td></td>
<td></td>
<td>• Family</td>
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</table>
## Considerations to Make Savings Last

<table>
<thead>
<tr>
<th>Spend Wisely</th>
<th>Have an Emergency Fund</th>
<th>Continue Investing</th>
<th>Consider Different Income Options</th>
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<tbody>
<tr>
<td>• Make sure you have a realistic budget</td>
<td>• In addition to your retirement fund, you should have an emergency fund</td>
<td>• Because you’re retired does not mean you should stop investing</td>
<td>• Many baby boomers intend to work after retirement</td>
</tr>
<tr>
<td>• Live within your means</td>
<td>• Suggested savings to cover 3-6 months of living expenses</td>
<td>• Keep all your options open</td>
<td>• Purchasing an annuity, like the MERS Stable Income Annuity, can provide a guaranteed monthly income for retirement</td>
</tr>
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Decumulation

Spending down your retirement savings strategically

- Retirement Assets
- Retirement Distributions

Years: 25 to 90

Savings Range: $0 to $800,000
Creating Income in Retirement

Periodic

• Periodic payments made monthly, quarterly, semi-annually, or annually until account is exhausted
• Payments can be a flat dollar or percentage until account is exhausted

Stable Value Annuity

• Allows individuals to convert retirement account into guaranteed income stream for life, or period of choice
• Guaranteed monthly income
• Available for individual purchase, employer does not need to adopt
Tools for Retirement Planning Success
Financial Resource Center

- Learn more about financial topics such as retirement planning, investing and debt management
- Broken down into four age categories, the information provided is timely and relevant to your current situation
- Available on www.mersofmich.com
Key Takeaways

Investment Success Isn’t

- Timing the market
- Chasing hot stocks
- Active trading
- Rocket science

Investment Success Is

- Time in the market
- Cool headed thinking
- Staying the course
- Using your MERS resources
Contacting MERS

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1134 Municipal Way
Lansing, MI  48917

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www.mersofmich.com