

Life Stages of Accumulation and Decumulation

By: Debbie Rochester, Benefit Education Specialist

PLANNING
RETIREMENT
TOGETHER FOR

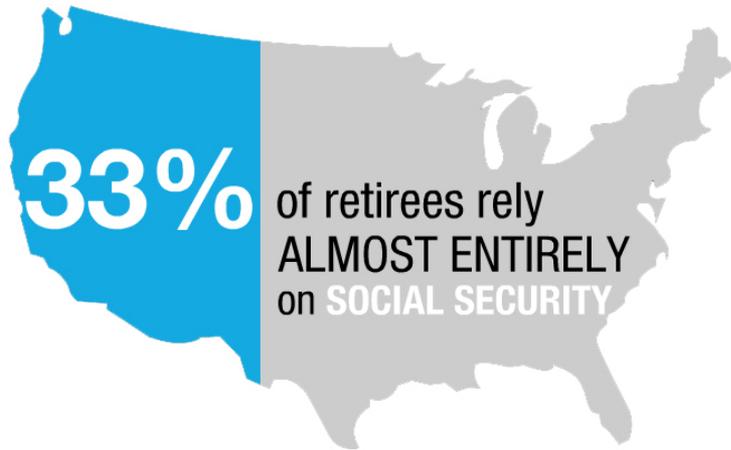
70
YEARS



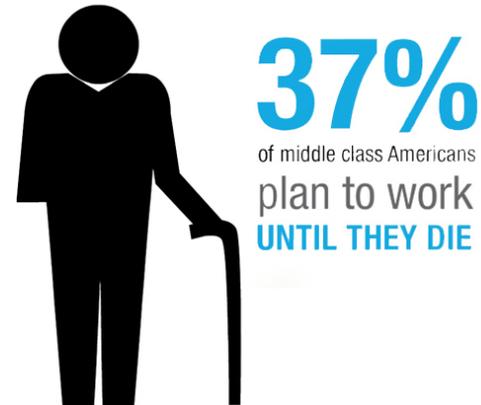
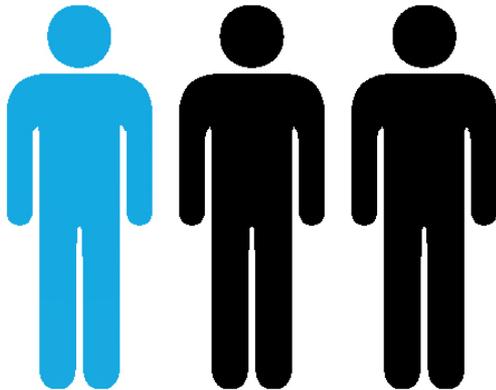
Today's Agenda

- **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



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



Sources: (1) USA Today; (2) Investopedia; (3) GoBankingRates; (4) CNN Money

PLANNING
RETIREMENT
TOGETHER FOR

70
YEARS

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

Life Expectancy by Gender

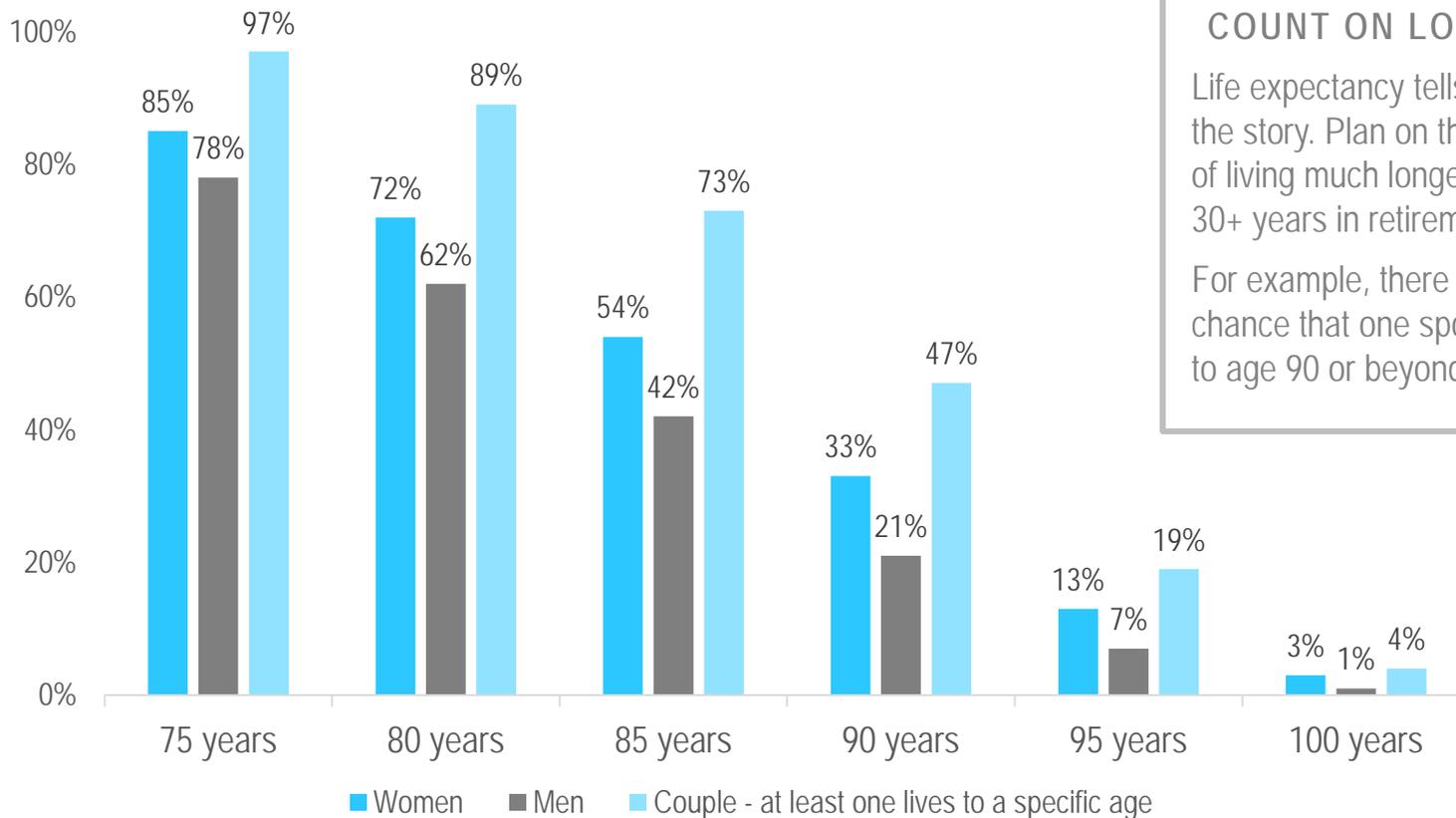


	Women	Men
1976	77	69
1996	79	73
Today	81	76



Longevity

If you're 65 today, the probability of living to a specific age or beyond



COUNT ON LONGEVITY

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

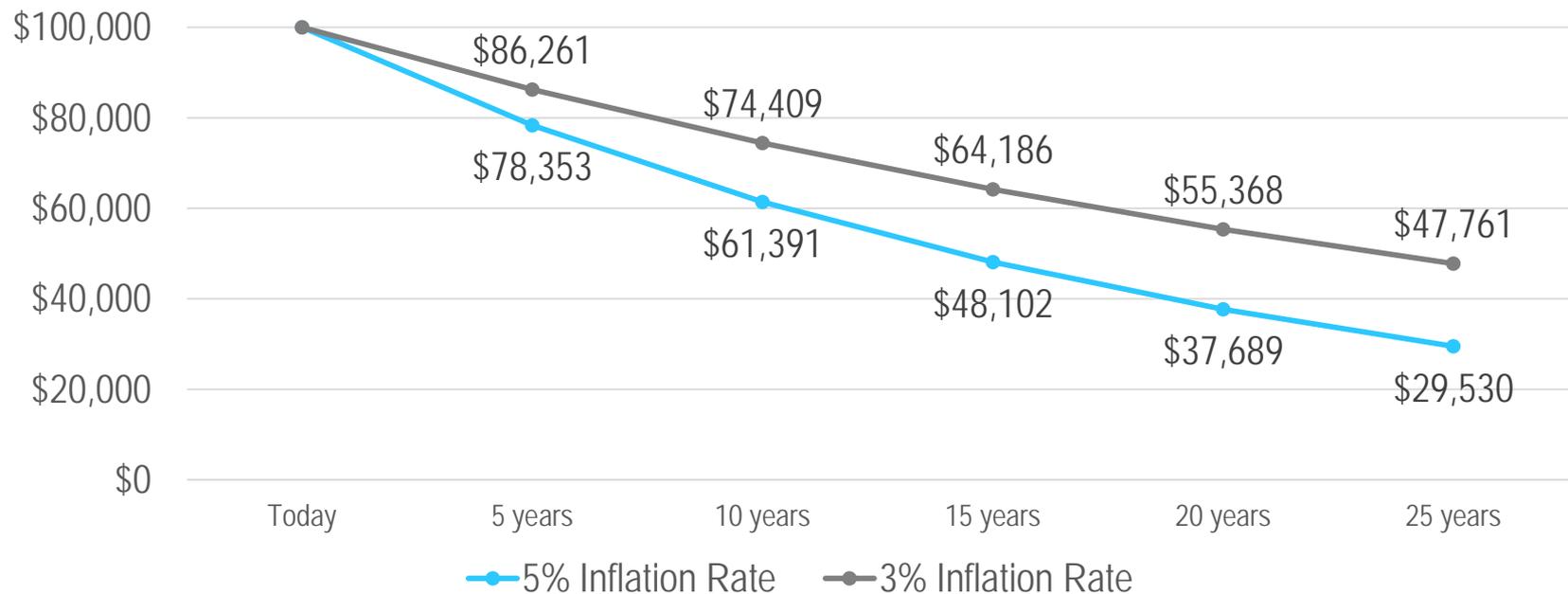
For example, there is a 47% chance that one spouse will live to age 90 or beyond.

Source: JP Morgan.



Inflation

An average 3% inflation rate reduces the value of your dollar by more than half in just 25 years





Inflation

The effect of inflation on your purchasing power is real



1998



2005



2014



Market Volatility

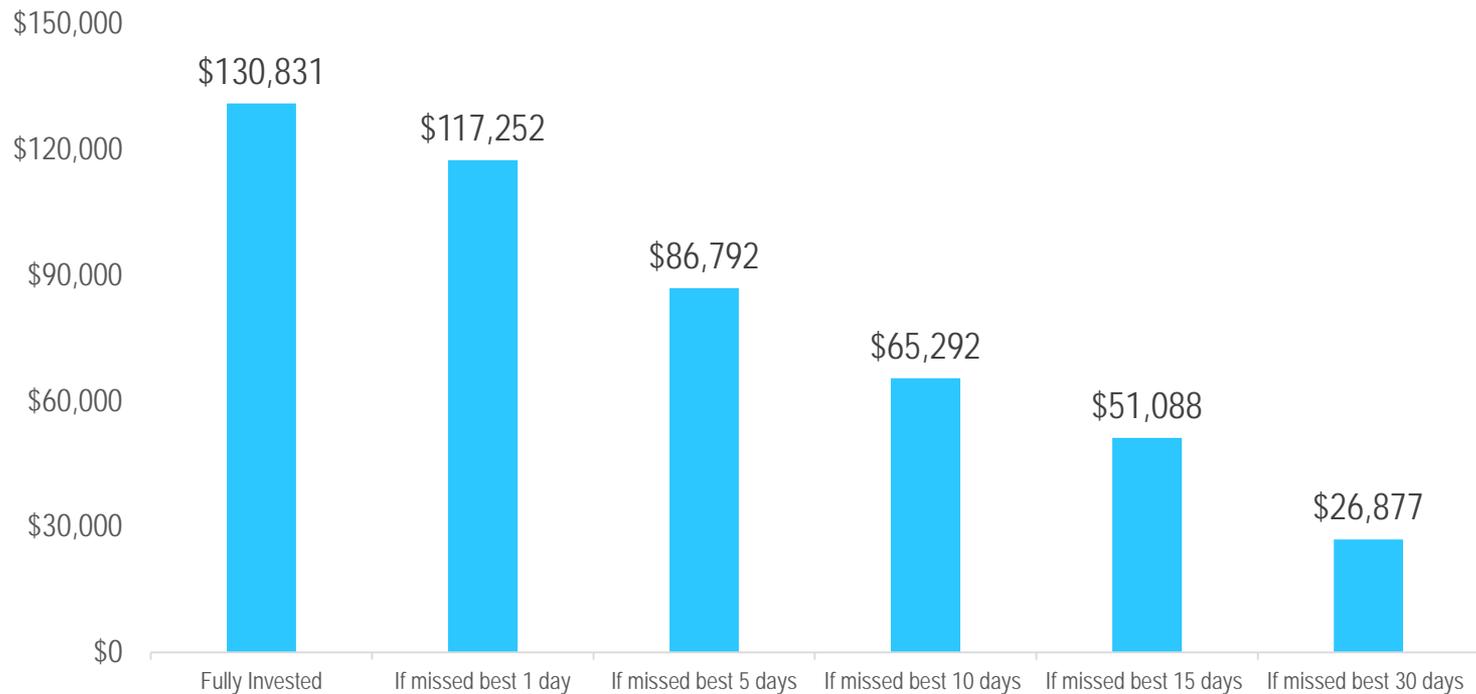
- When the market becomes volatile, resist the temptation to pull out your funds
- Stay focused on a long-term investment strategy; “time” in the market, not “timing” the market
- Recoveries aren’t marked by an “all clear” sign
- Missing only a few days in the market can impact returns dramatically



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.

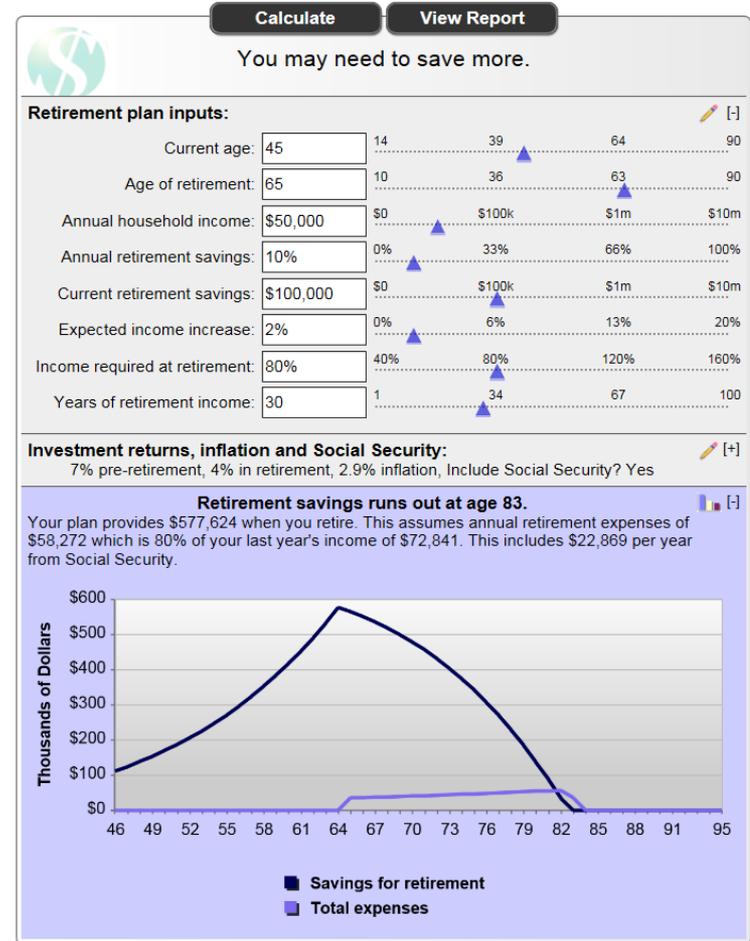


Savings Shortfall

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



Retirement Readiness

- 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

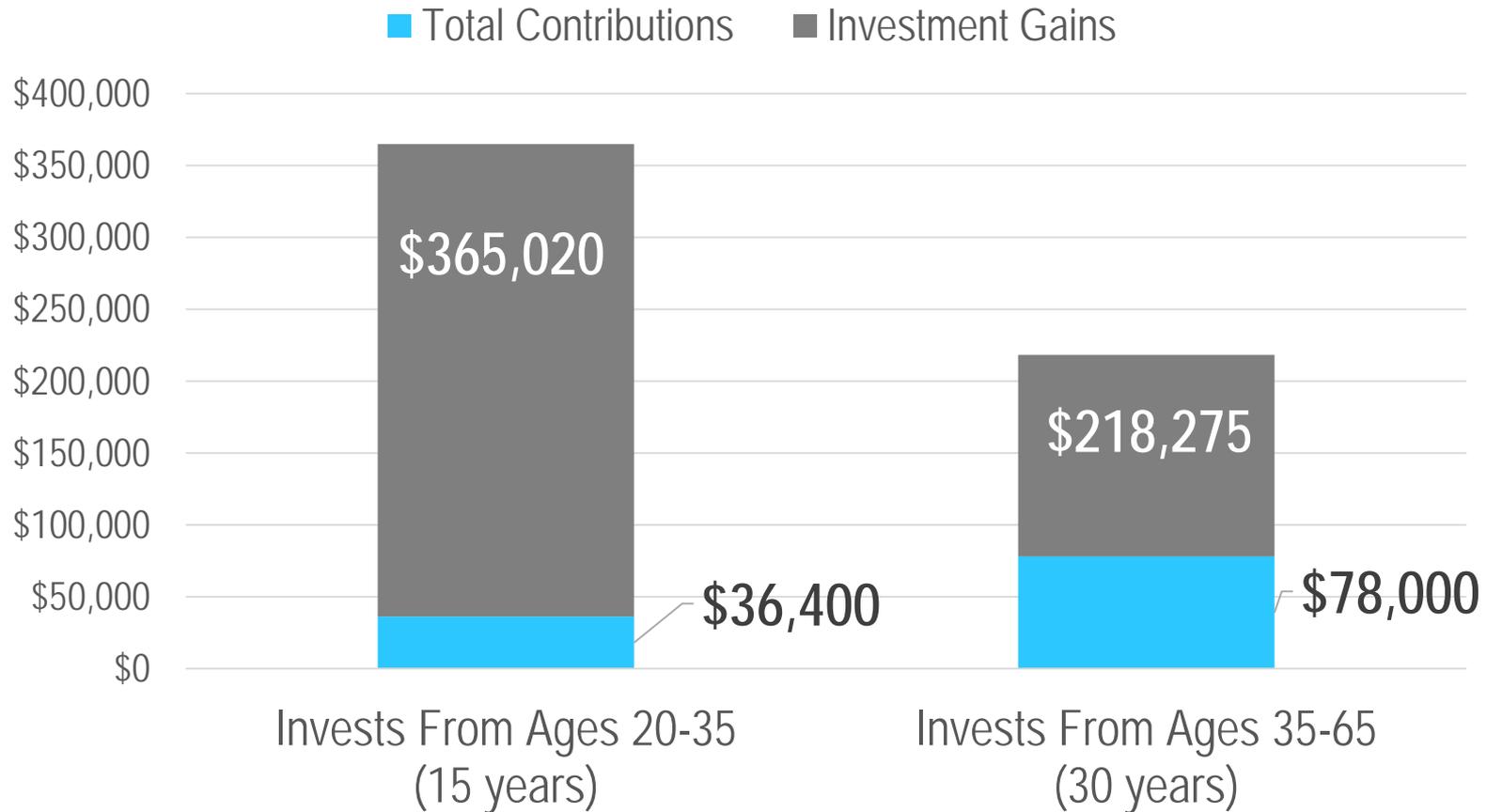
The “Full Picture” report builder allows you to expand on the information contained in your Snapshot report

- ⊕ 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

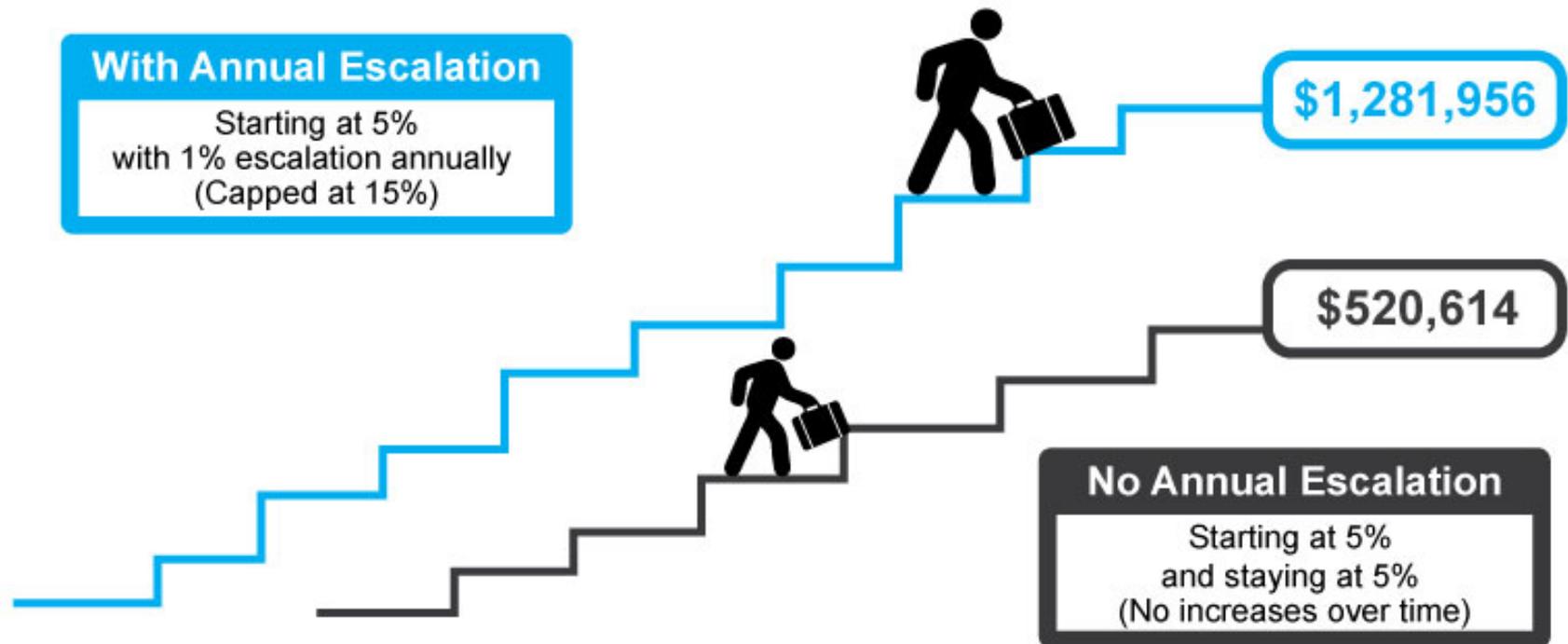
Account balance at retirement



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

2010 Retirement Confidence Survey, Employee Benefits Research Institute

PLANNING
RETIREMENT
TOGETHER FOR

70
YEARS

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

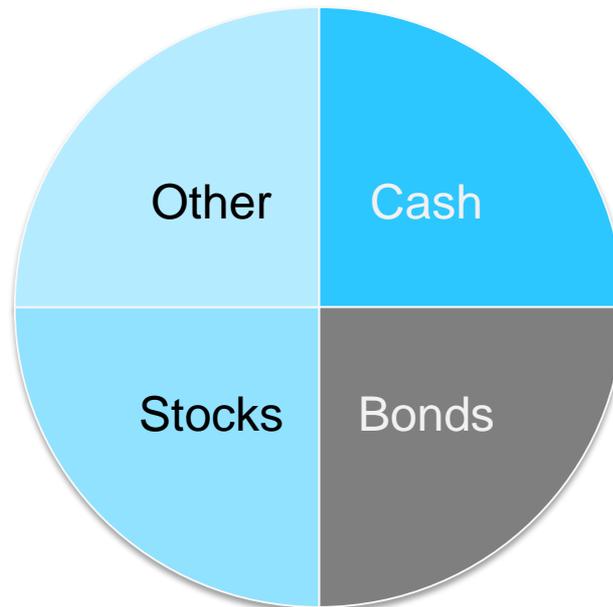
Bonds

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

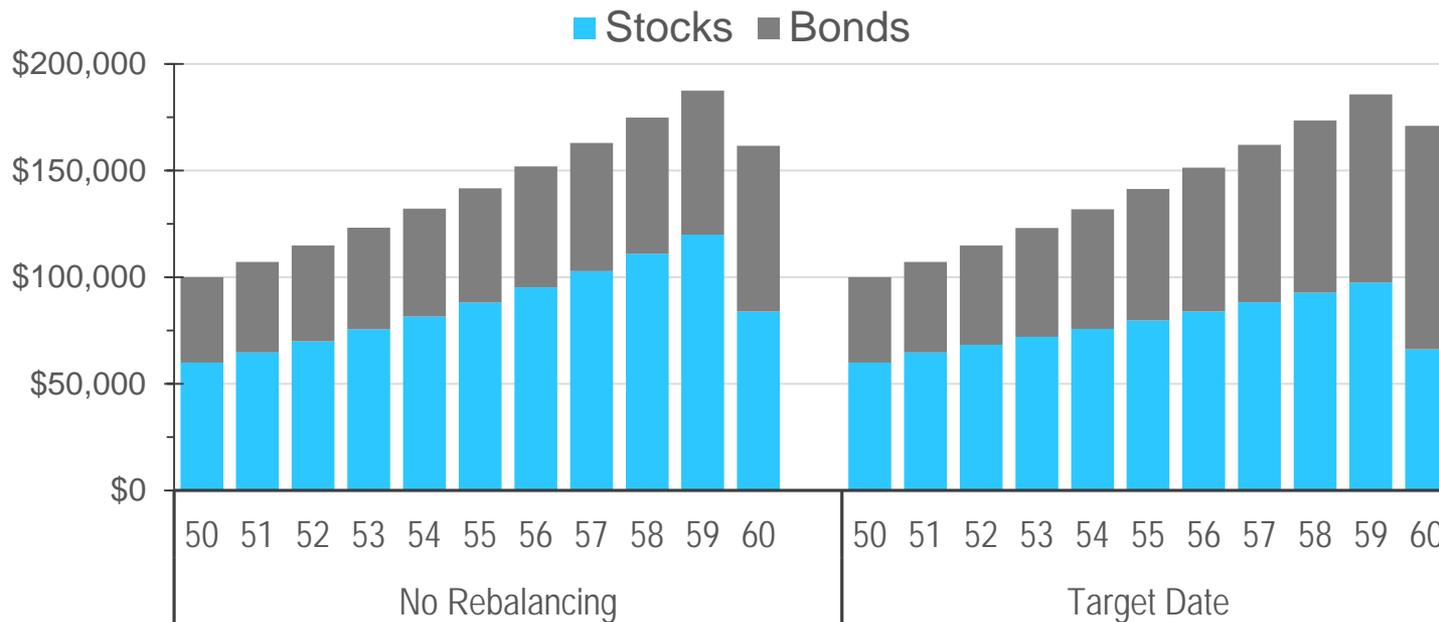


Importance of Diversification

- 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

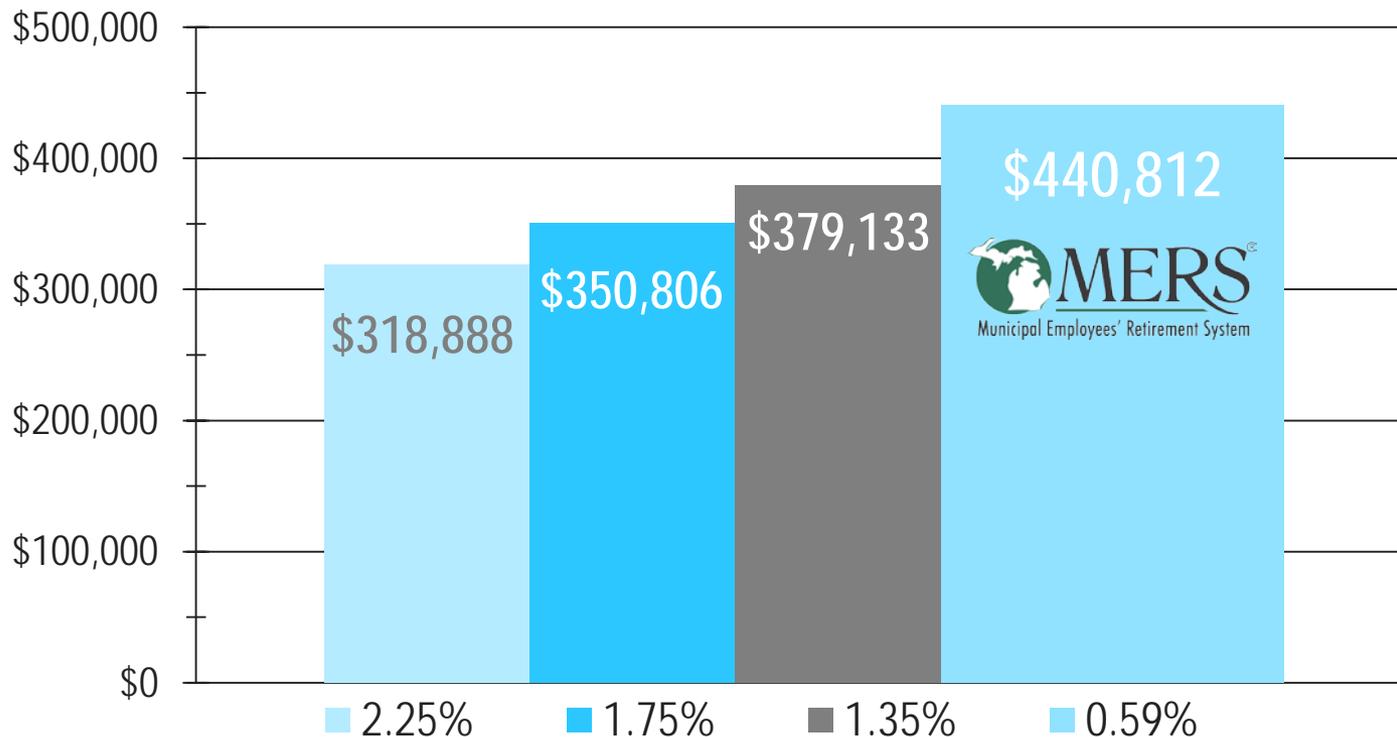
- Asset allocations can shift over time as one investment does well, making it a larger part of your total portfolio and exposing you to more risk than you're willing to take
- Rebalancing ensures that your portfolio remains invested as you intended



Impact of Fees on Account Balance

Investing More Dollars Makes a Lot of Sense

Account Balance at Retirement (After Fund Expenses)



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%.

PLANNING
RETIREMENT
TOGETHER FOR

70
YEARS

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

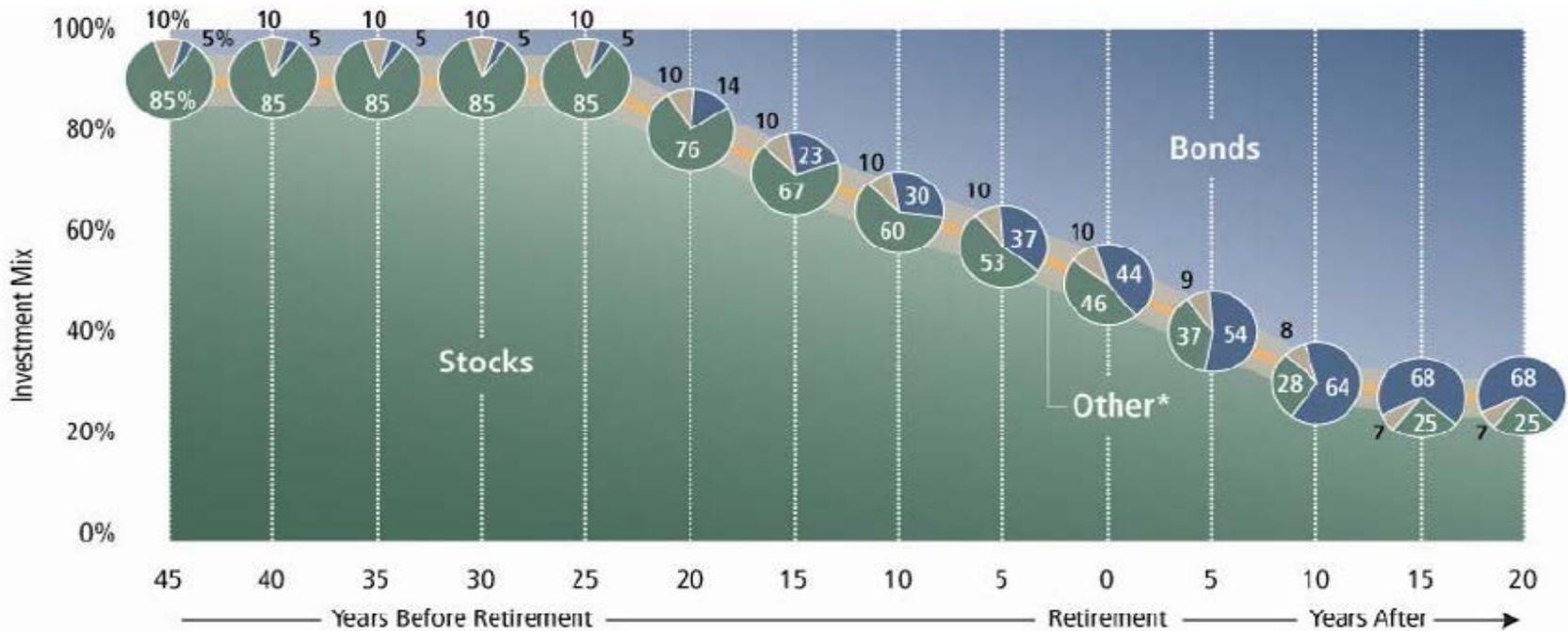


Video: Retirement Strategies Overview



“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

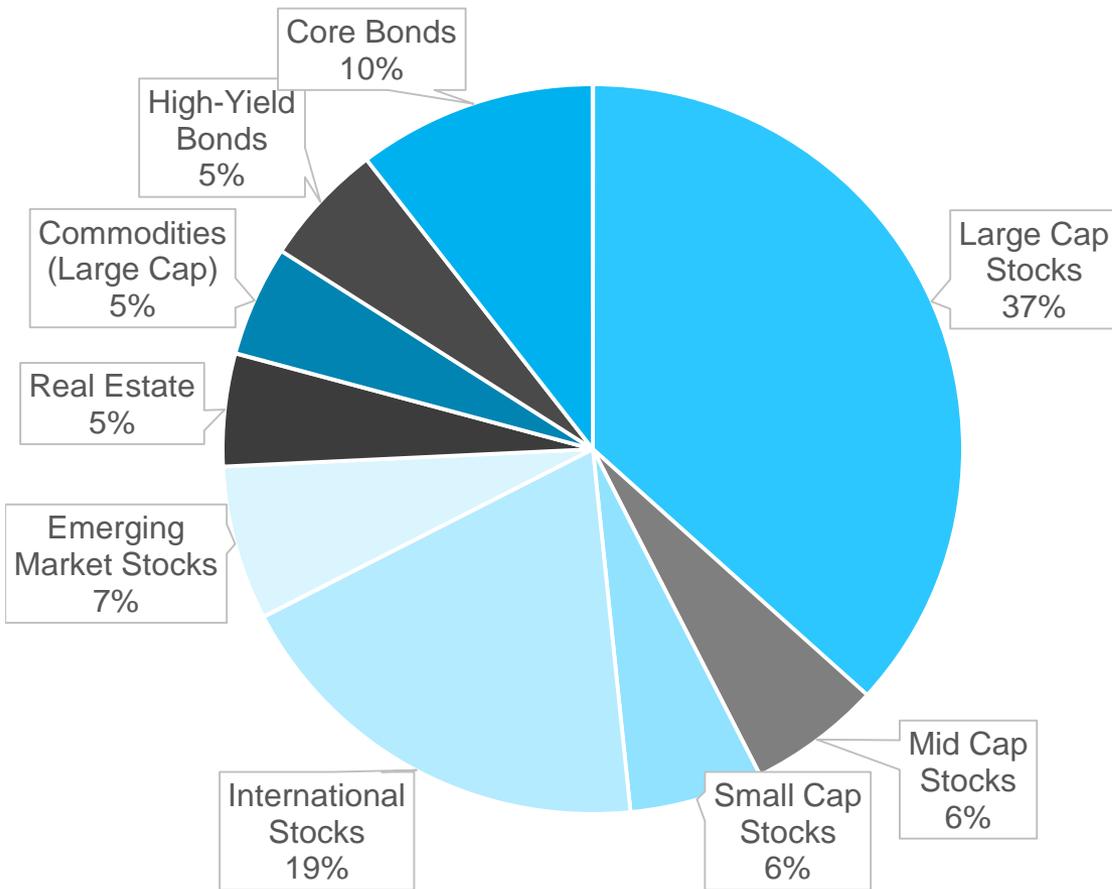
Advantages of MERS Retirement Strategies

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



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%
------------------------------------	-------



“Help me do it”

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



“I’ll do it myself”

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

PLANNING
RETIREMENT
TOGETHER FOR

70
YEARS

Spending Down Your Retirement Account

Preparing a Retirement Budget

Evaluate Your Income

- Pension
- Social Security
- Spousal income
- Other income

Know Your Current Assets

- Retirement accounts
- Spouse's retirement accounts

Prioritize Your Needs and Wants

- Travel
- Second home
- Hobbies
- Leisure time
- Family

Plan for Your Legacy and Estate

- Charitable giving
- Inheritance left for children or grandchildren

Considerations to Make Savings Last

Spend Wisely

- Make sure you have a realistic budget
- Live within your means

Have an Emergency Fund

- In addition to your retirement fund, you should have an emergency fund
- Suggested savings to cover 3-6 months of living expenses

Continue Investing

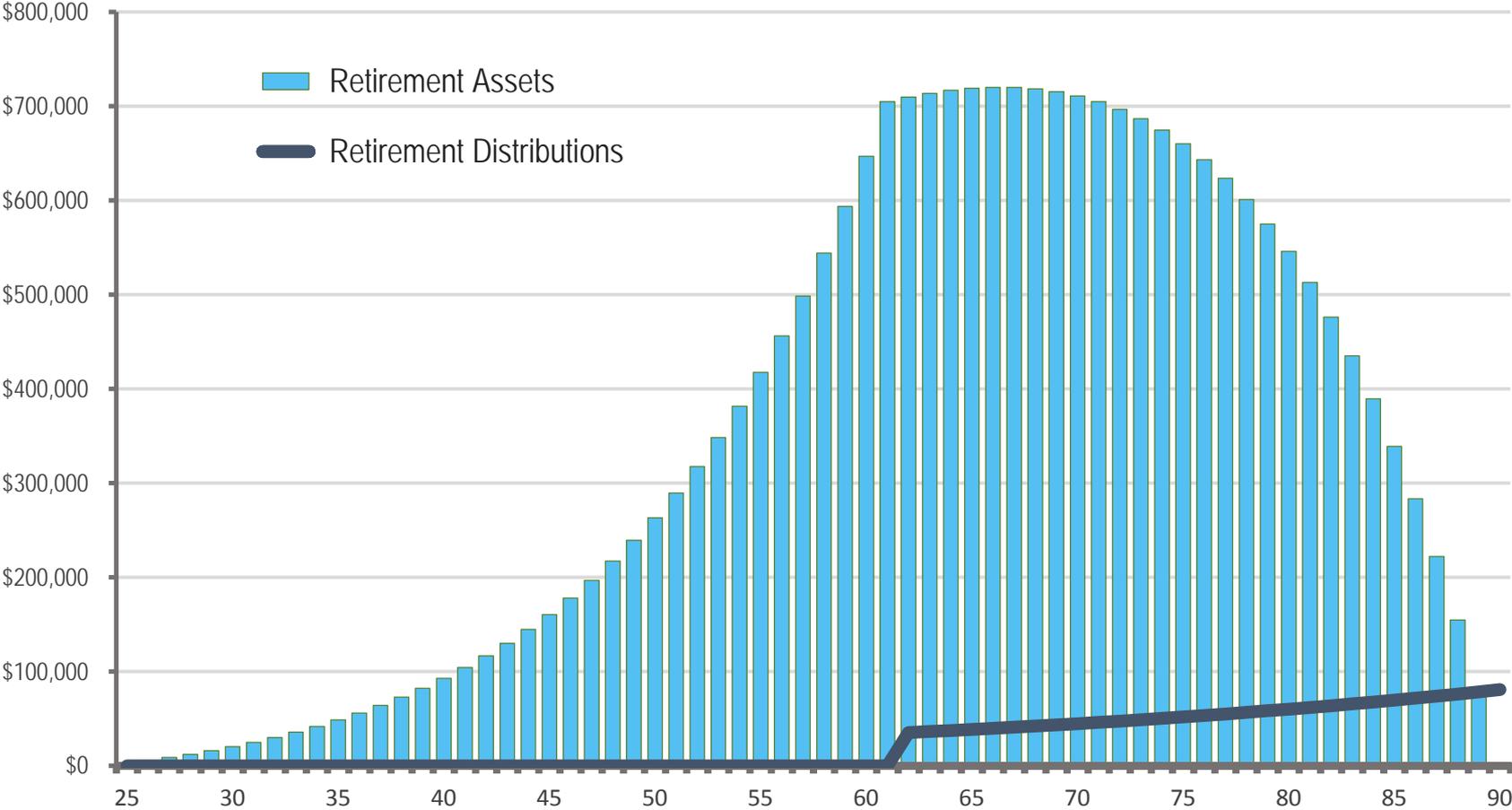
- Because you're retired does not mean you should stop investing
- Keep all your options open

Consider Different Income Options

- Many baby boomers intend to work after retirement
- Purchasing an annuity, like the MERS Stable Income Annuity, can provide a guaranteed monthly income for retirement

Decumulation

Spending down your retirement savings strategically



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



PLANNING
RETIREMENT
TOGETHER FOR

70
YEARS

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

The screenshot displays the MERS Financial Resource Center website interface, organized into four age-based sections:

- Imagine AGE 20-30:** Features a navigation menu with links for HOME, YOU AND YOUR MONEY, INVESTING FOR YOUR FUTURE, and TAX PLANNING. The main heading is "The early years of your working career." Below this is a "Prepare AGE 30-50" section with a navigation menu for HOME, LOOKING AHEAD, INVESTING YOUR MONEY, TAX PLANNING, and LEGACY PLANNING.
- Anticipate AGE 50-65:** Features a navigation menu for HOME, LOOKING AHEAD, INVESTING YOUR MONEY, TAX PLANNING, and LEGACY PLANNING.
- Realize AGE 65+:** This section is highlighted and contains the following text:

You've reached the magic age! Whether you're already retired or thinking about it, your life is changing. Retirement can be a rewarding and fulfilling time of life. To make the most of the years ahead, you'll need some new financial management skills.

The Financial Resource Center provides you with information to help you master the financial strategies you need at this point in your life. To learn about successfully managing your money in retirement, investing for today and for the future, keeping taxes at a minimum, and planning your legacy, just follow the links below.

At the bottom of the Realize section, there are four navigation links:

- Living Well in Retirement
- Investing Your Money
- Tax Planning
- Legacy Planning

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

Questions?



Contacting MERS

MERS of Michigan
1134 Municipal Way
Lansing, MI 48917

Phone: 800.767.6377
www.mersofmich.com

LET'S GET SOCIAL!

