



2017 RETIREMENT CONFERENCE

Rock 'n' Roll to a Successful Retirement Using AC/DC Strategies

Presented by:

Debbie Rochester



Today's Agenda

- Why We Save and Invest
- Investing Basics
- Accumulation (AC) Strategies
- Decumulation (DC) Strategies
- Evaluating our Readiness for Retirement



Why We Save



Why We Save

To ultimately reach our financial goals



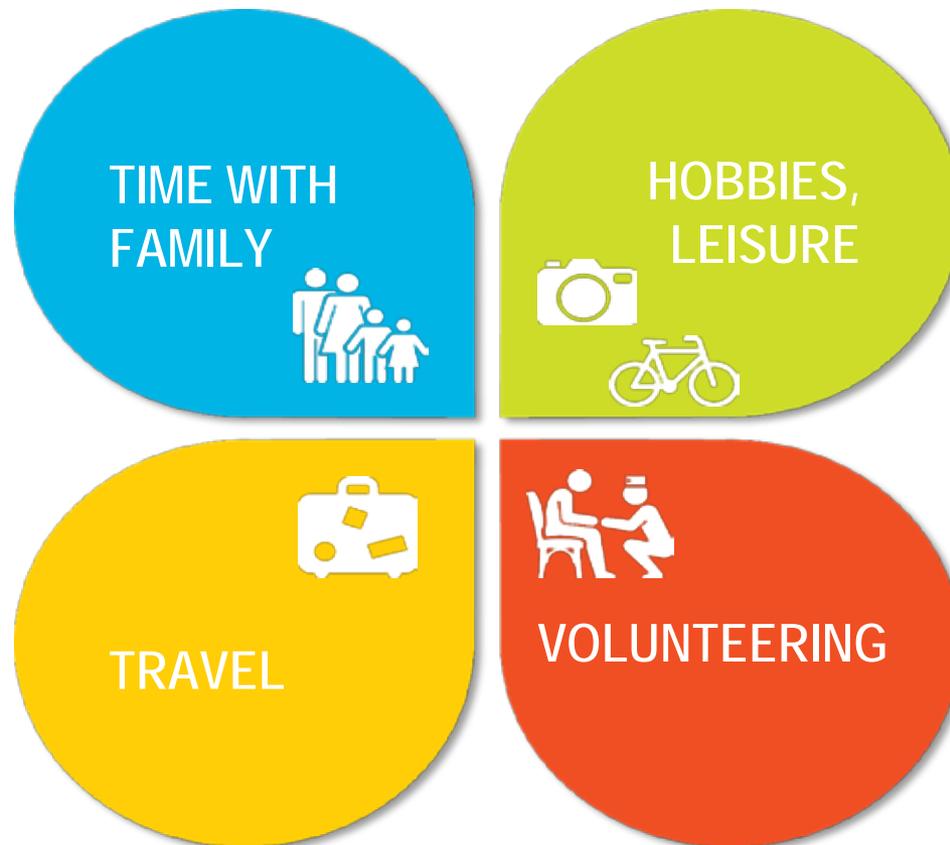
Why We Save, cont'd.

While it may be clear that someday we will retire, how we get there isn't always so clear.

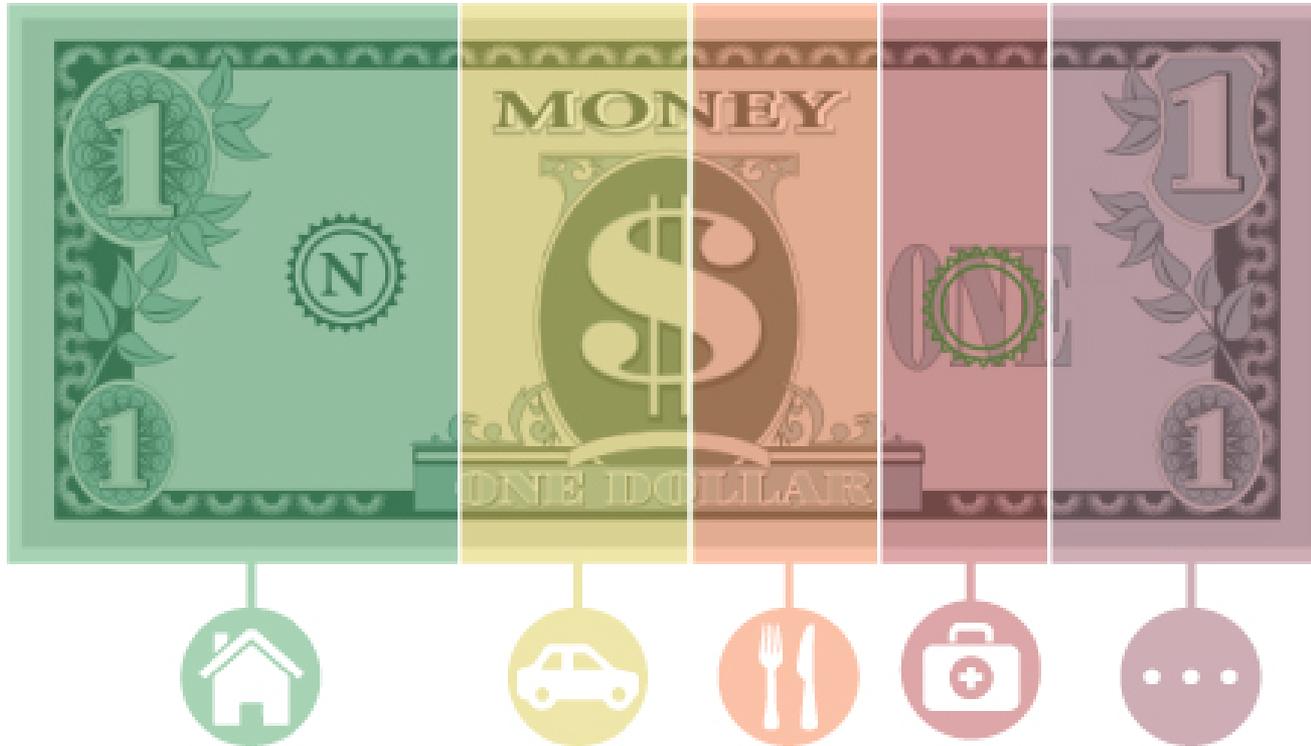


Why We Save, cont'd.

Retirement Goal: Have enough money set aside at retirement to feel comfortable that you will be able to cover your expected expenses.



Breakdown of Living Expenses



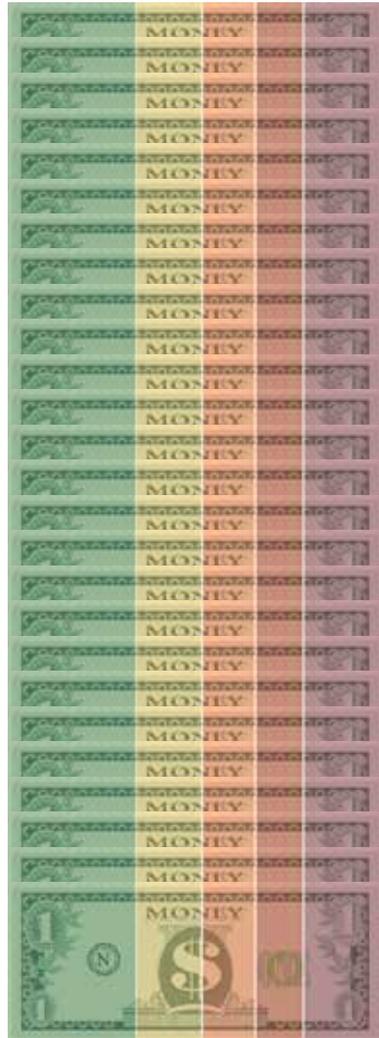
Building Your Retirement Account

Multiply your retirement paycheck by how many years you will have during retirement.



Building Your Retirement Account, cont'd.

Stack all of your paychecks together.



Total Account
Balance Needed
at Retirement



Determining Your Retirement Paycheck



Rule of Thumb:
You'll need 80% of your
pre-retirement income.



Determining Your Retirement Paycheck, cont'd.

Step 1: Estimate your pre-retirement income.

What We Know Today

Current Age: 45

Current Salary: \$50,000

What We Can Assume

Retirement Age: 65

Estimated Salary: \$75,000*

**Assumes an annual 2% salary increase.*



Determining Your Retirement Paycheck, cont'd.

Step 2: Calculate 80% of your pre-retirement income.



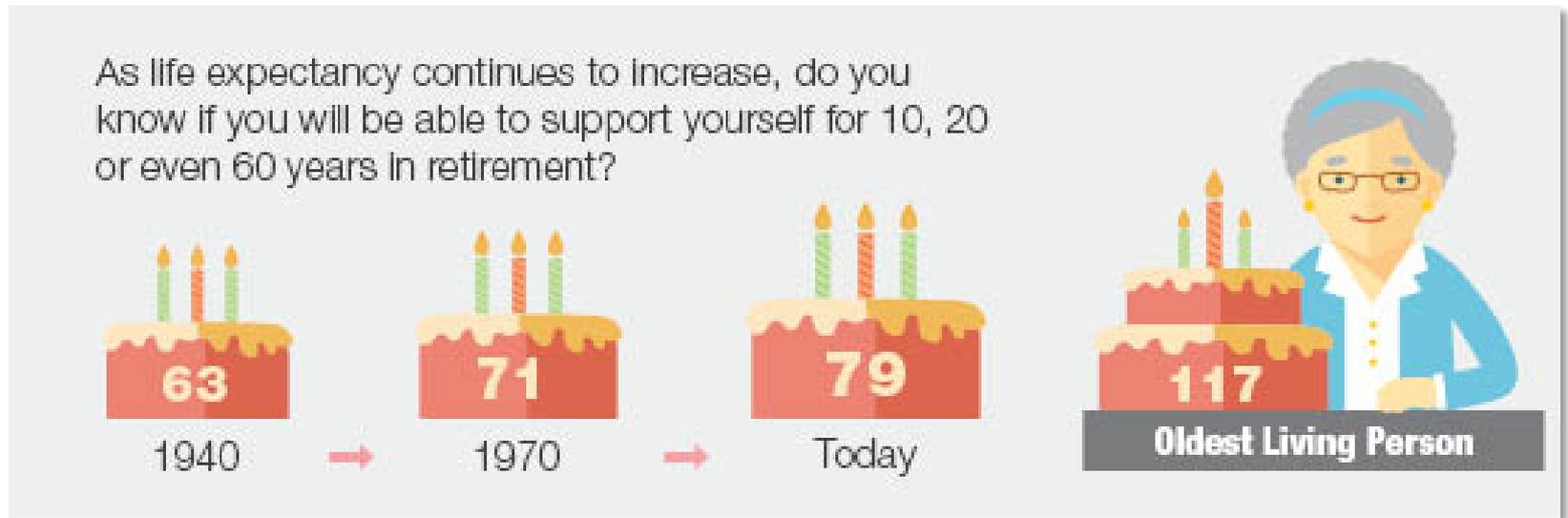
$$\begin{array}{r} \$75,000 \\ \times 80\% \\ \hline \mathbf{\$60,000} \end{array}$$

“Retirement Paycheck”

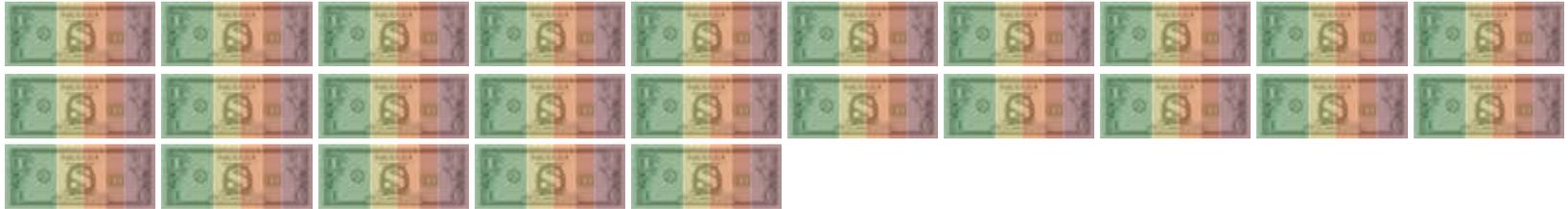


Determining Your Retirement Paycheck, cont'd.

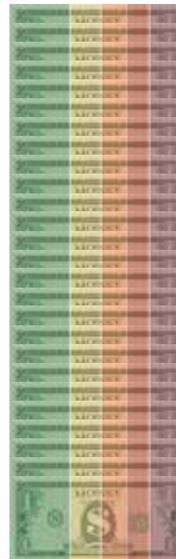
Step 3: Guess how many retirement paychecks you need.



Determining Your Account Balance



25 Years of “Retirement Paychecks”



\$60,000

x 25

\$1,500,000

“Account Balance”

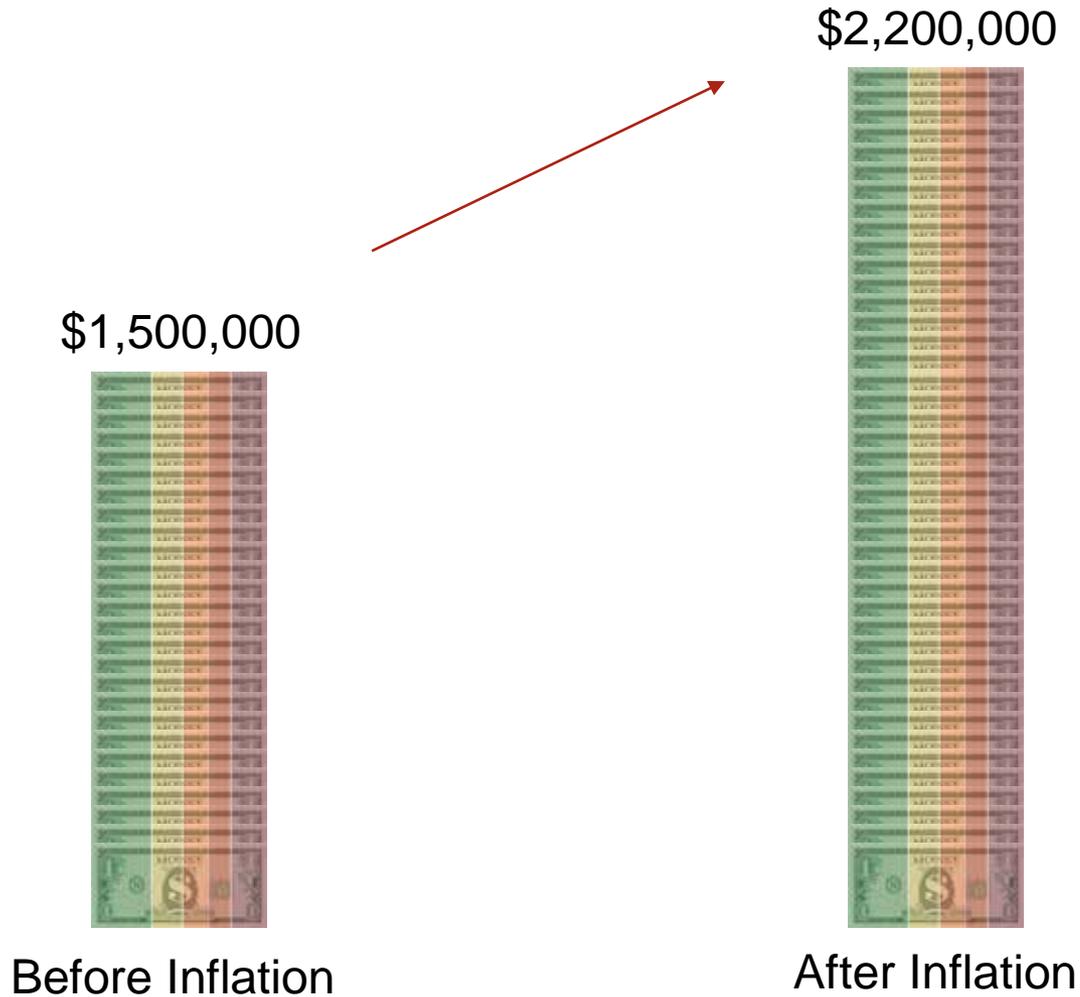


Rising Costs

The effect of inflation on your purchasing power is real. The money you spent on a full cart of groceries 20 years ago may only buy you a few items today.

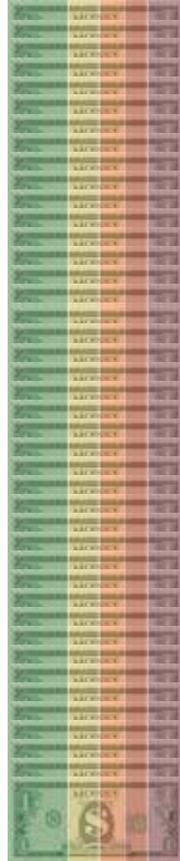


Factor Inflation into Account Balance



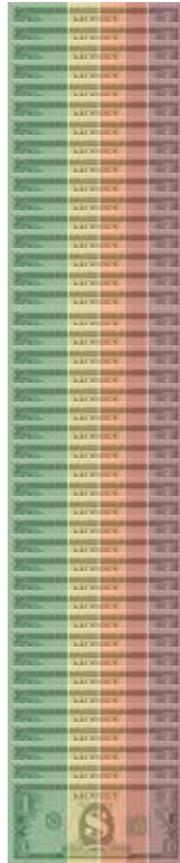
Account Balance Breakdown

Money Needed
\$2,200,000



Account Balance Breakdown, cont'd.

Money Needed
\$2,200,000

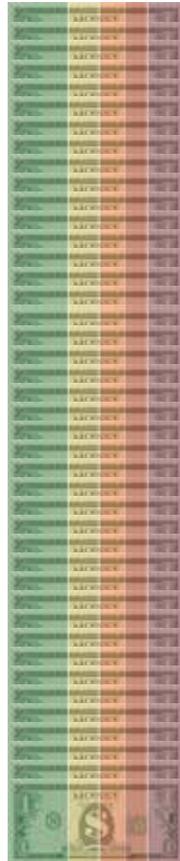


Social Security
\$900,000



Account Balance Breakdown, cont'd.

Money Needed
\$2,200,000



(Pension)
\$875,000

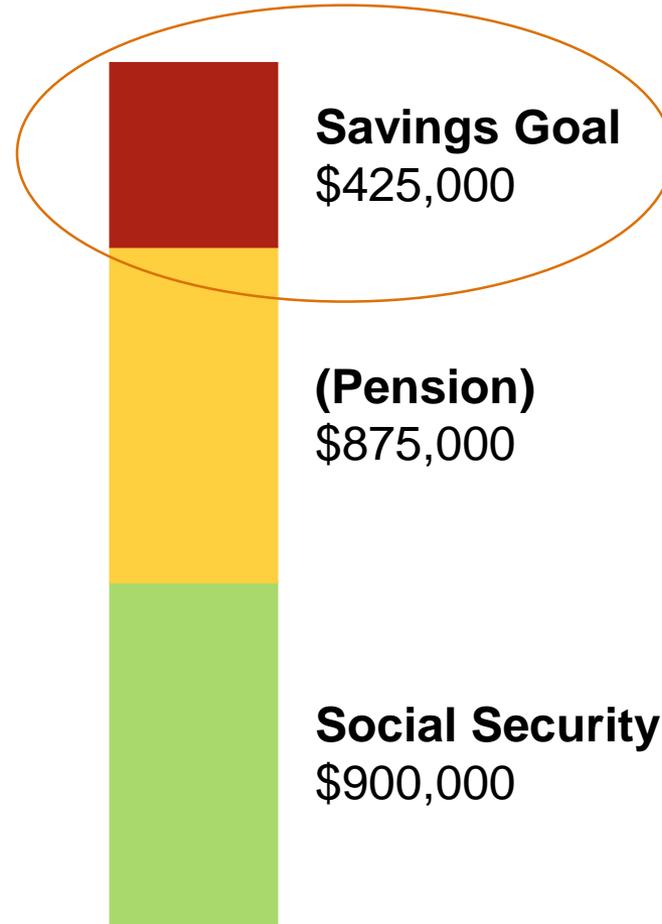
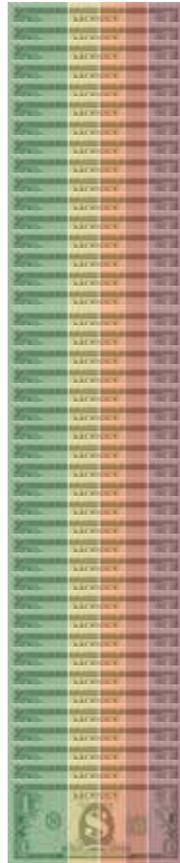


Social Security
\$900,000



Account Balance Breakdown, cont'd.

Money Needed
\$2,200,000

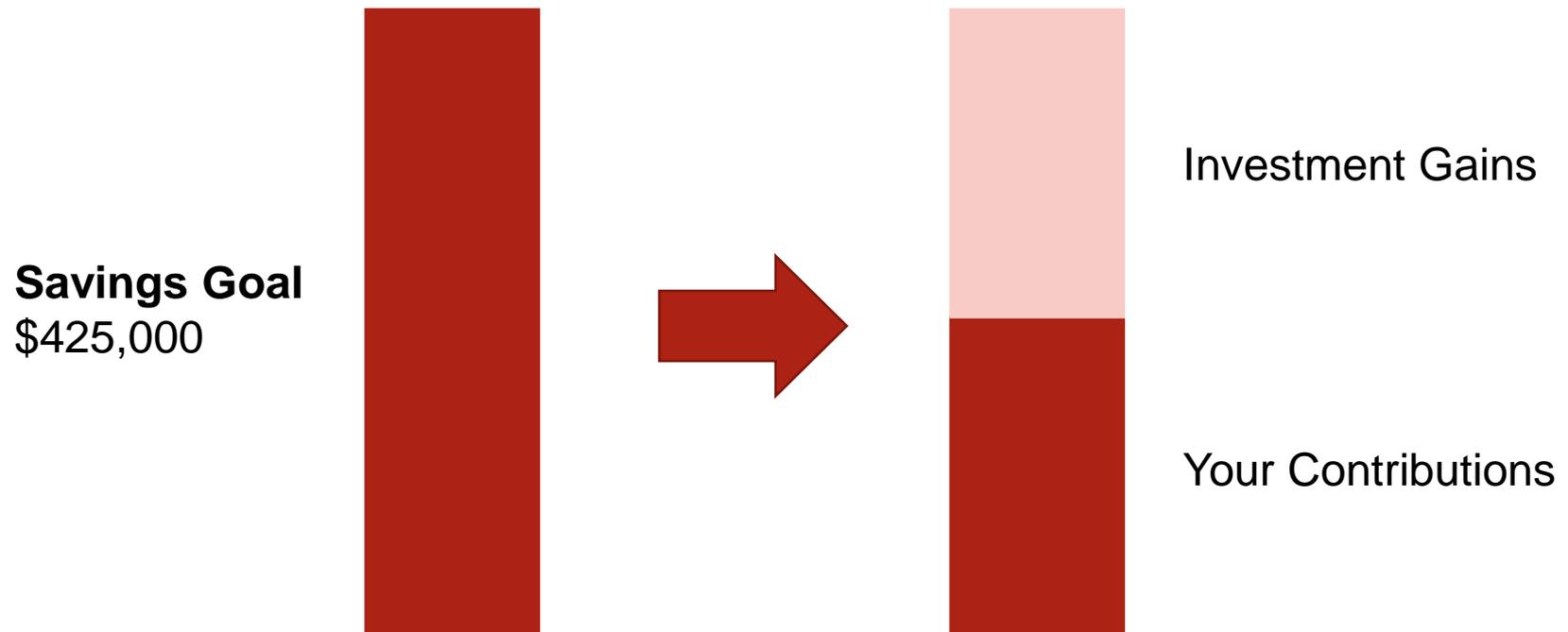


Why We Invest



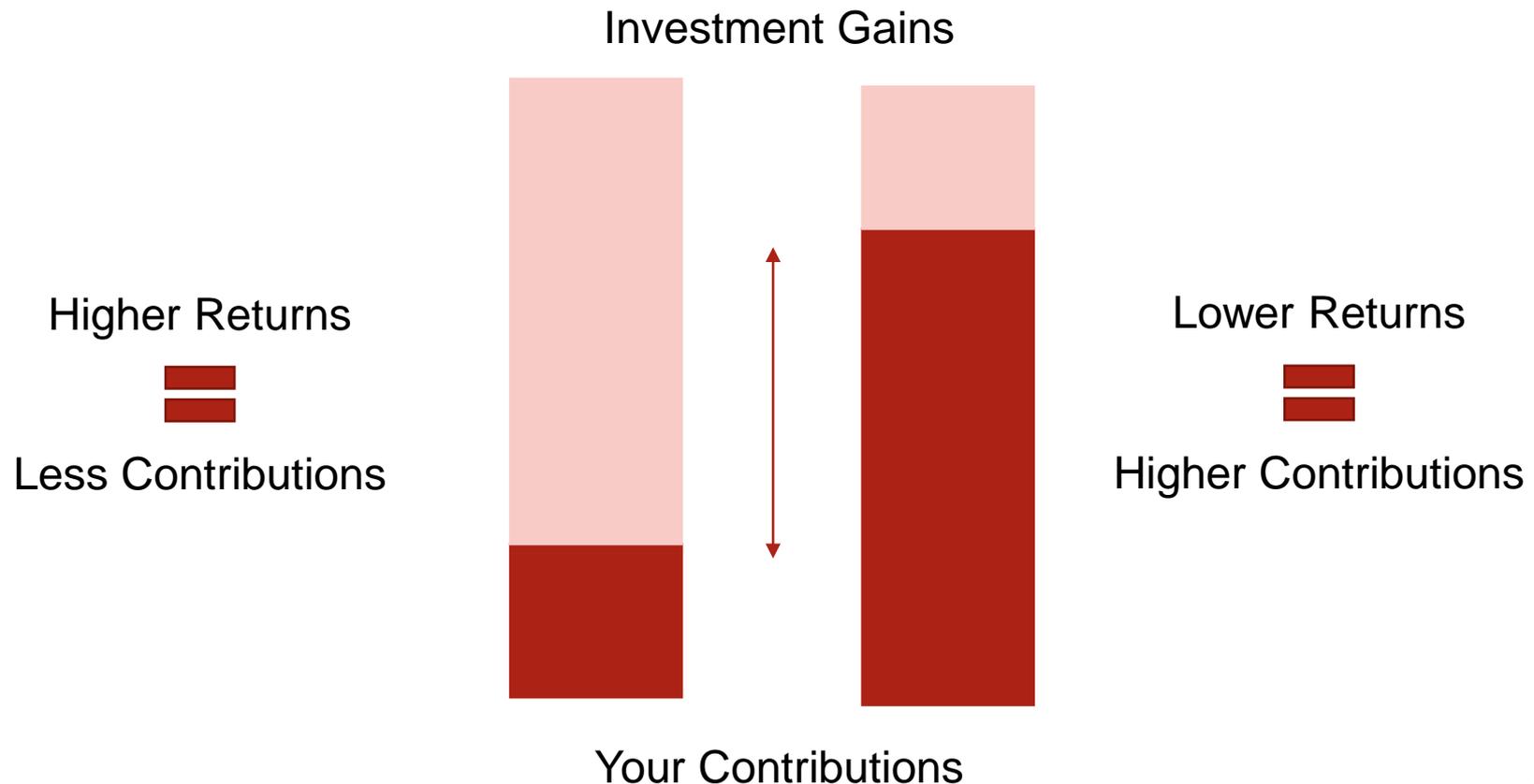
Why We Invest

By investing your money in the market, you allow the money that you contribute to work for you and grow.



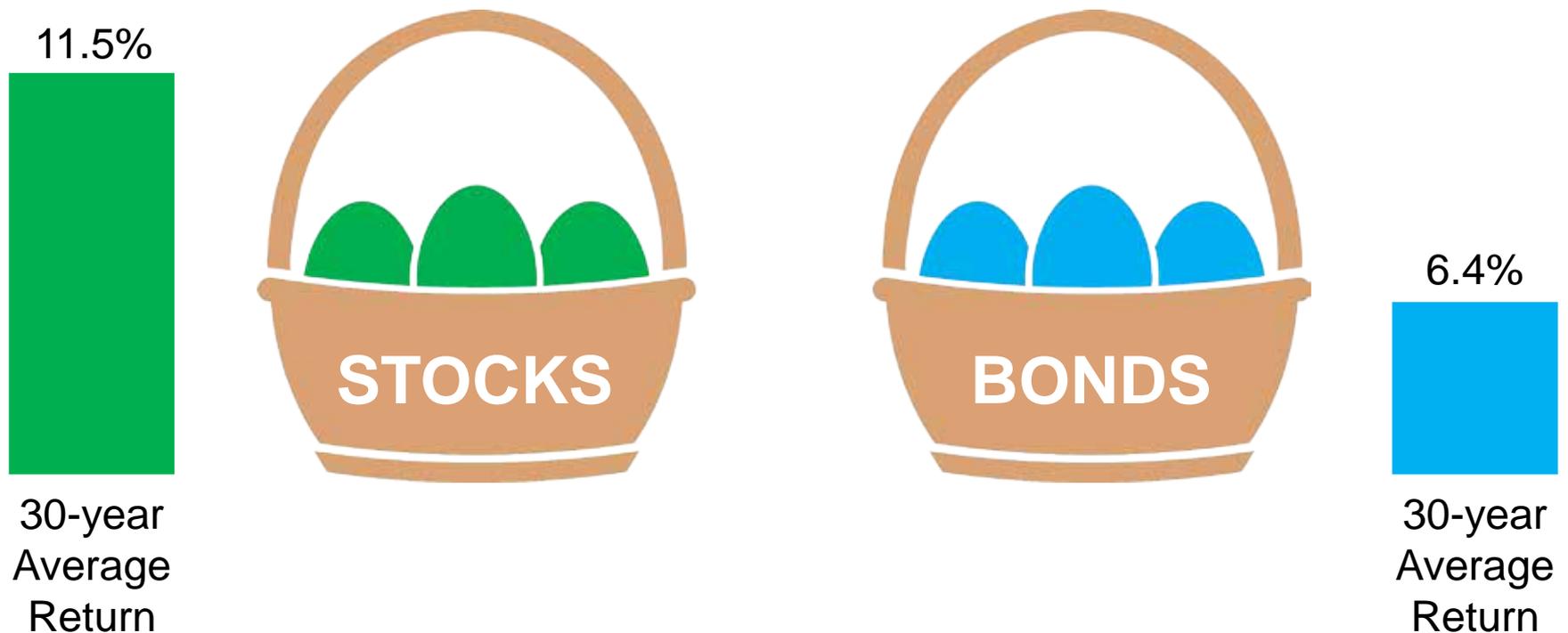
Why We Invest, cont'd.

Your investment choices impact how much you may need to save and how much your savings will work for you.



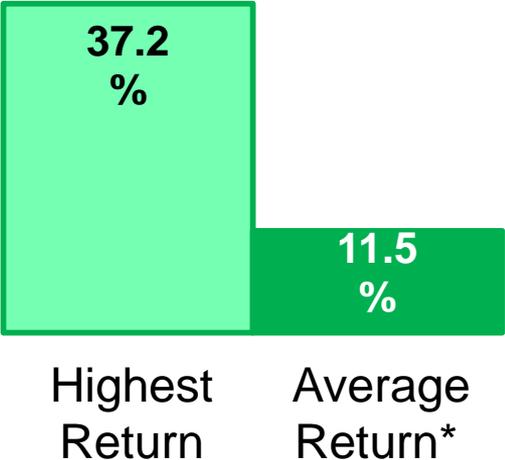
What Determines Your Expected Returns?

As an investor, your savings will typically be invested in either stocks or bonds.

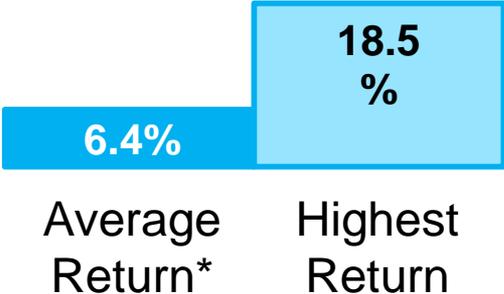


Other Factors to Consider

Stocks



Bonds

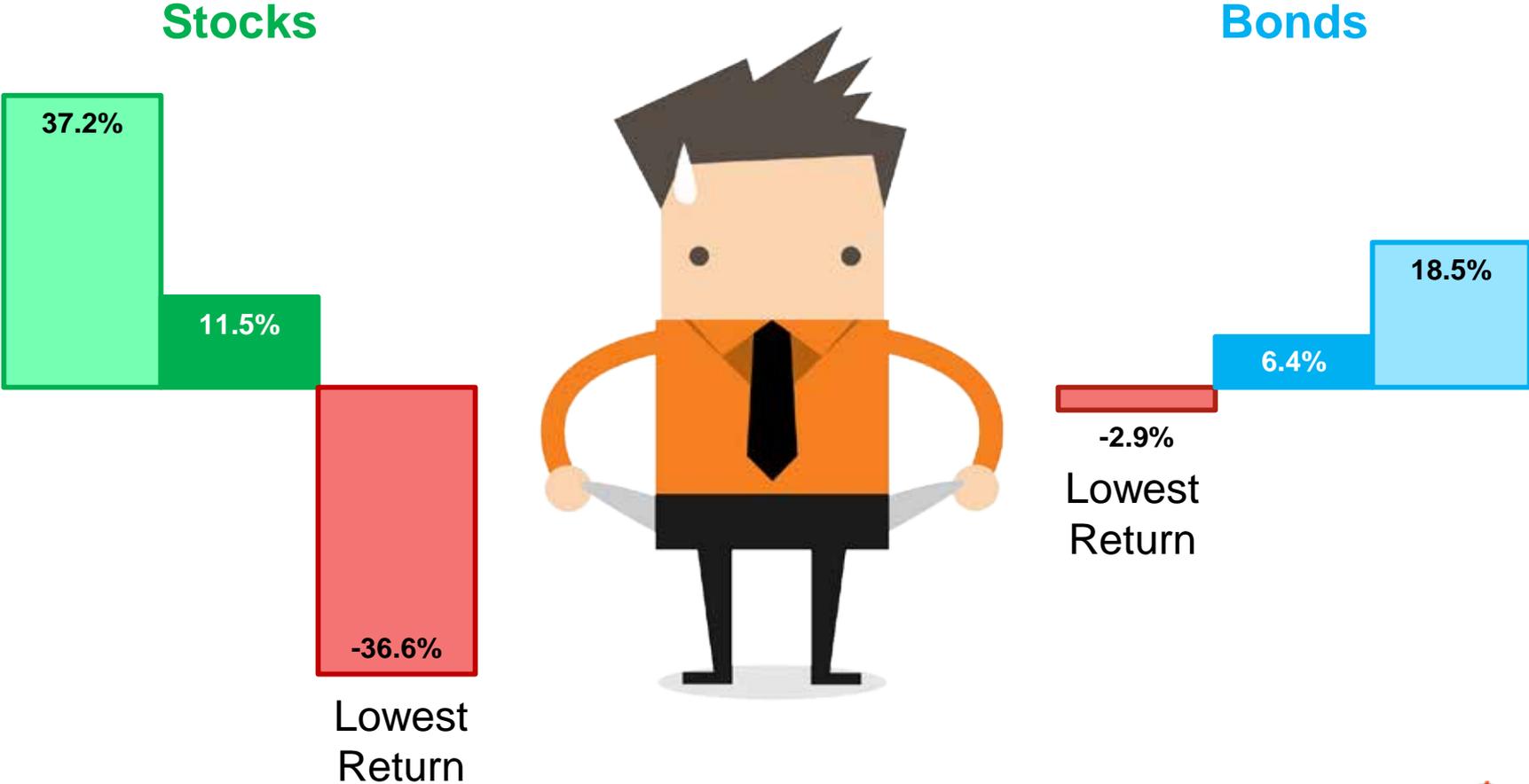


Returns over last 30 Years (1987-2016)



Other Factors to Consider, cont'd.

How comfortable are you with risk?



Returns over last 30 Years (1987-2016)



Which Will You Choose?



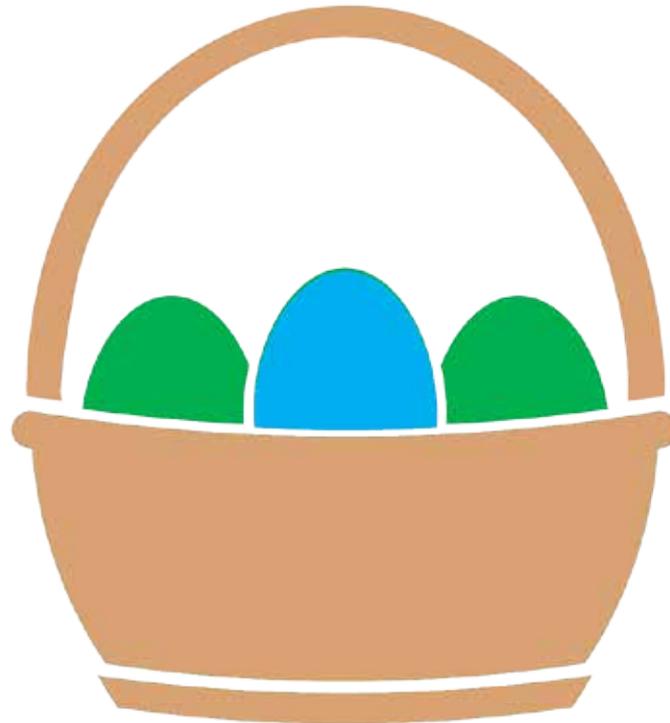
Other Factors to Consider

How much time do you have before using your money?

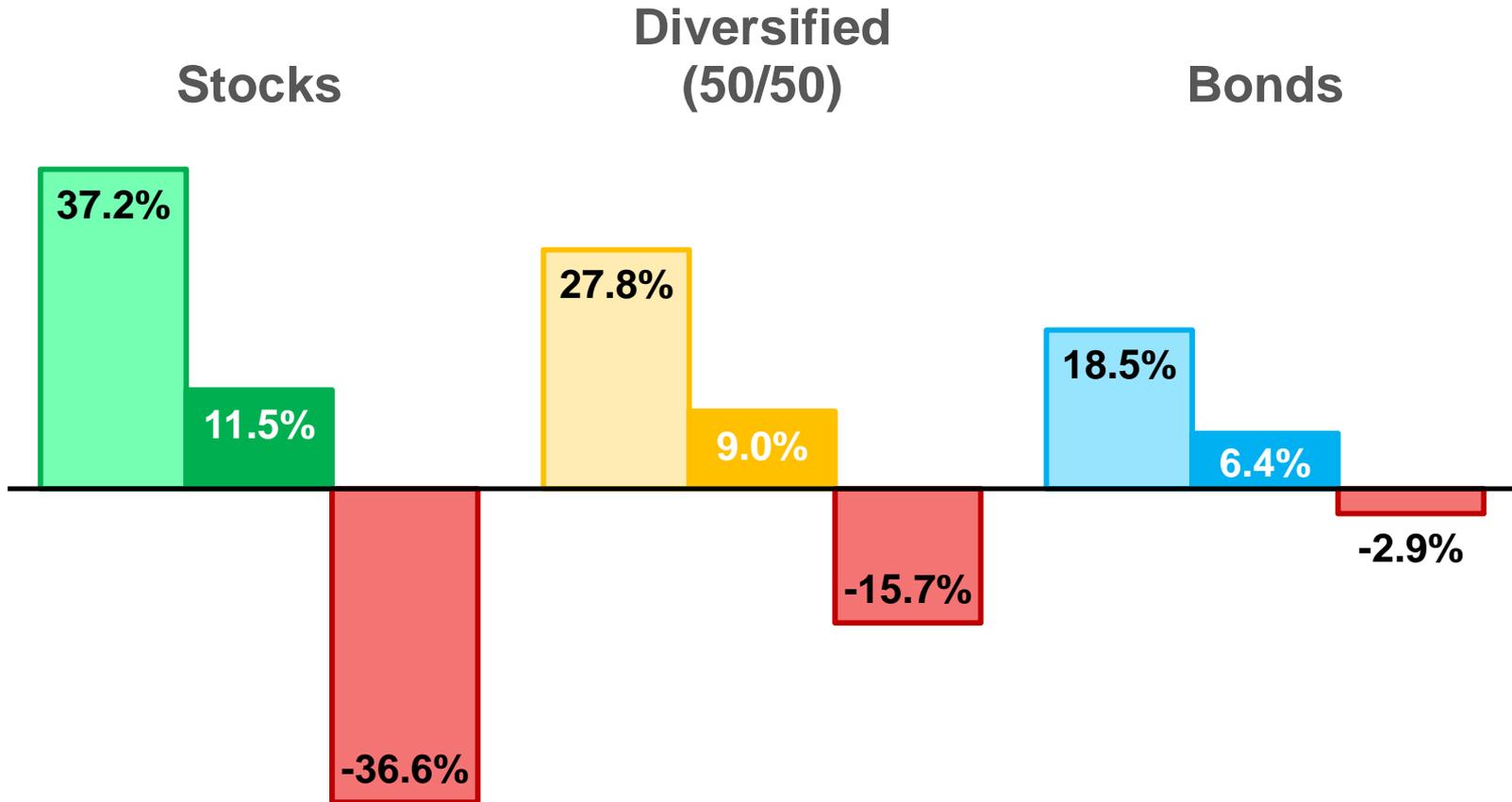


Diversification

An investor can lower their risk, while still reaching higher returns, by diversifying their portfolio of investment funds.



Diversification, cont'd.

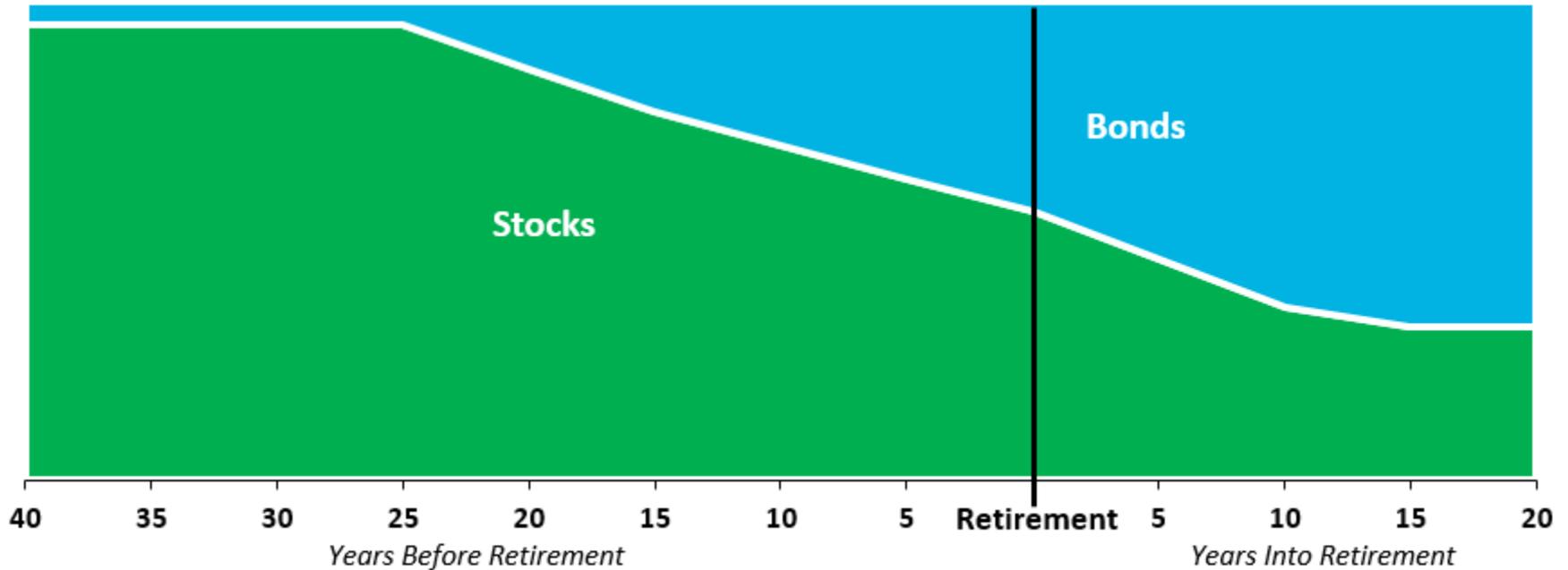


Returns over last 30 Years (1987-2016)



Glide Path

Bringing “time” and “diversification” together



Accumulation Strategies



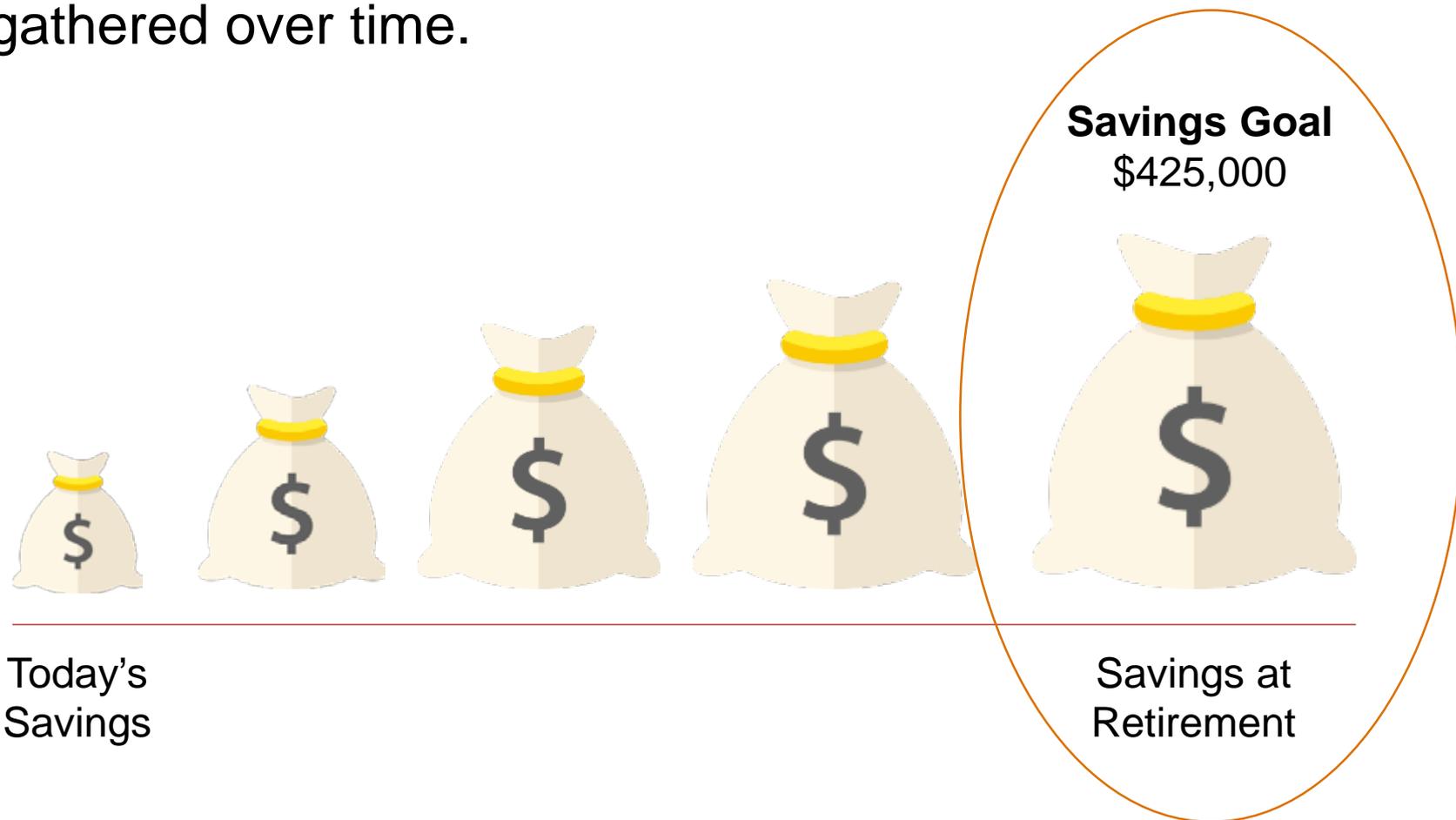
What is Accumulation?

A mass or quantity of something that has gradually gathered over time.



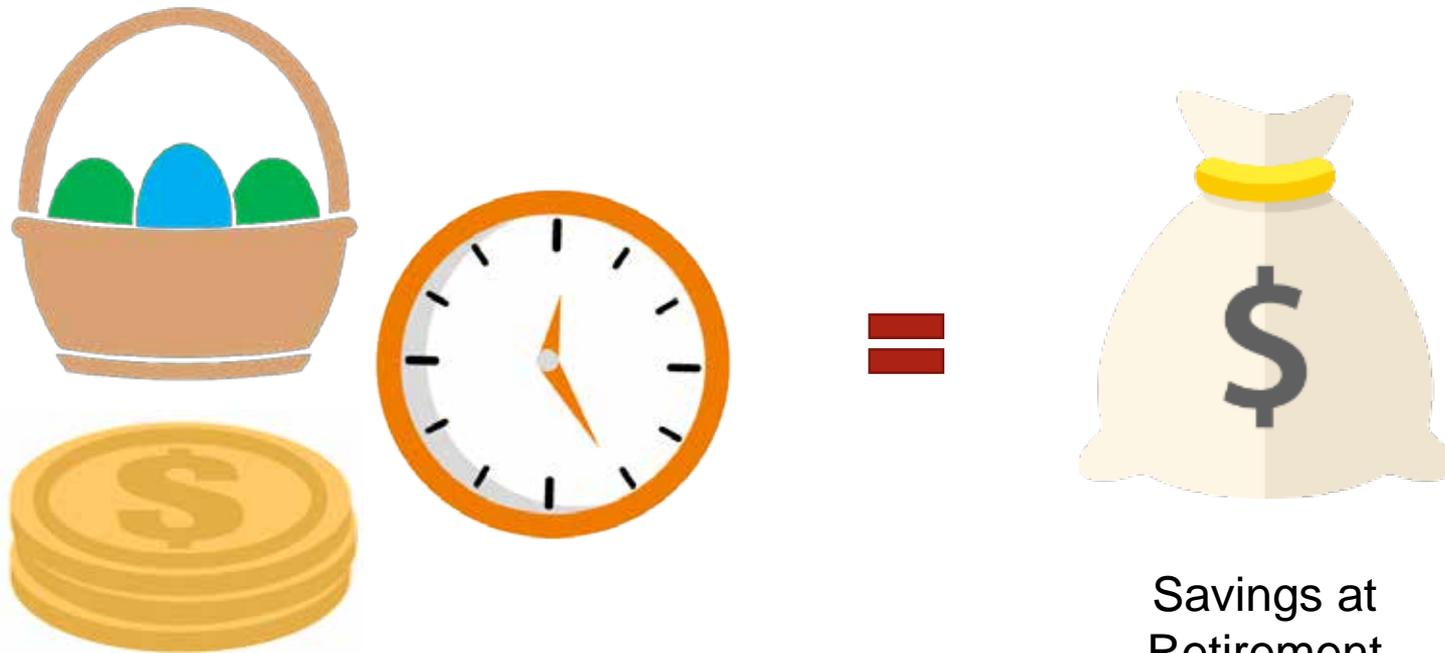
What is Accumulation? cont'd.

A mass or quantity of something that has gradually gathered over time.



How to Reach Savings Goal

3 Key Factors for Accumulation:



Determining Where to Start

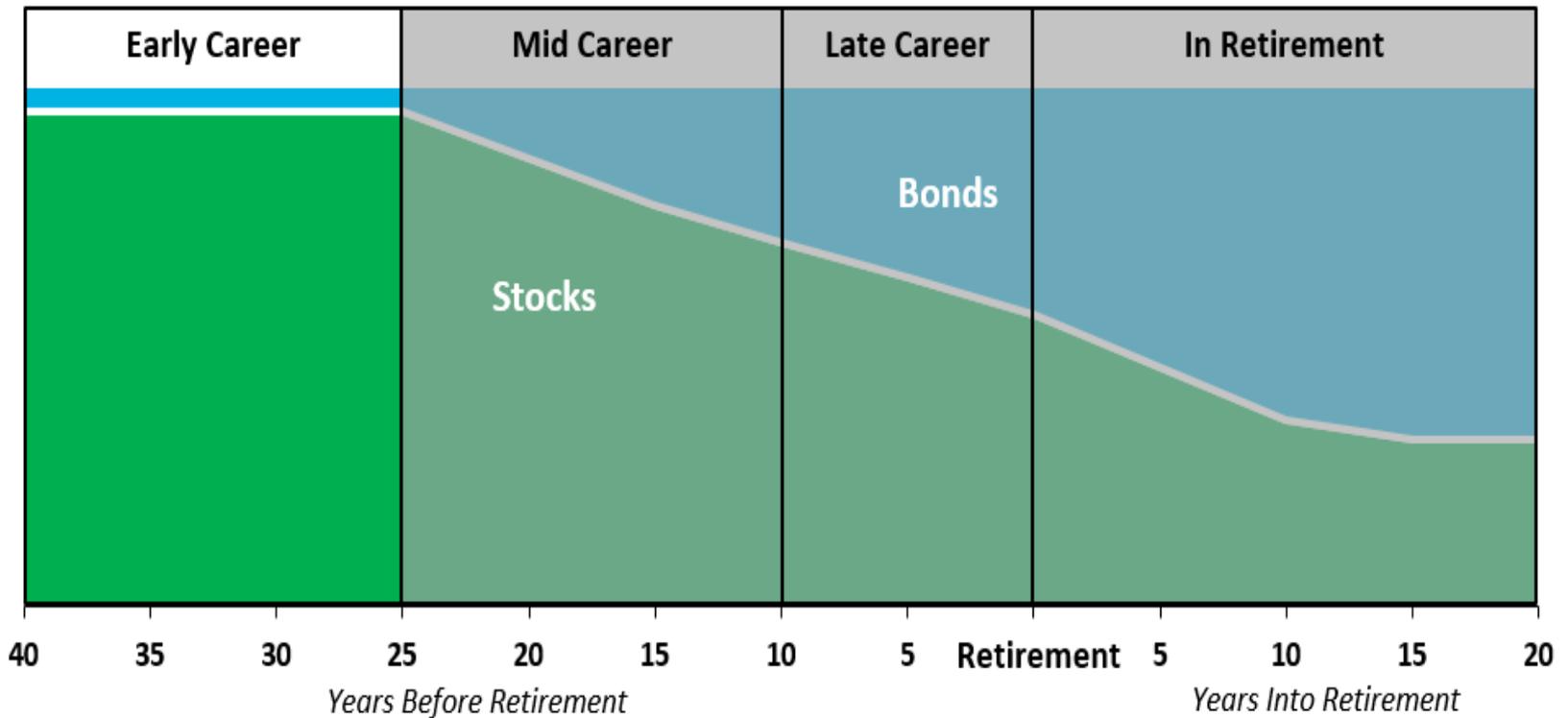


Determining Where to Start, cont'd.



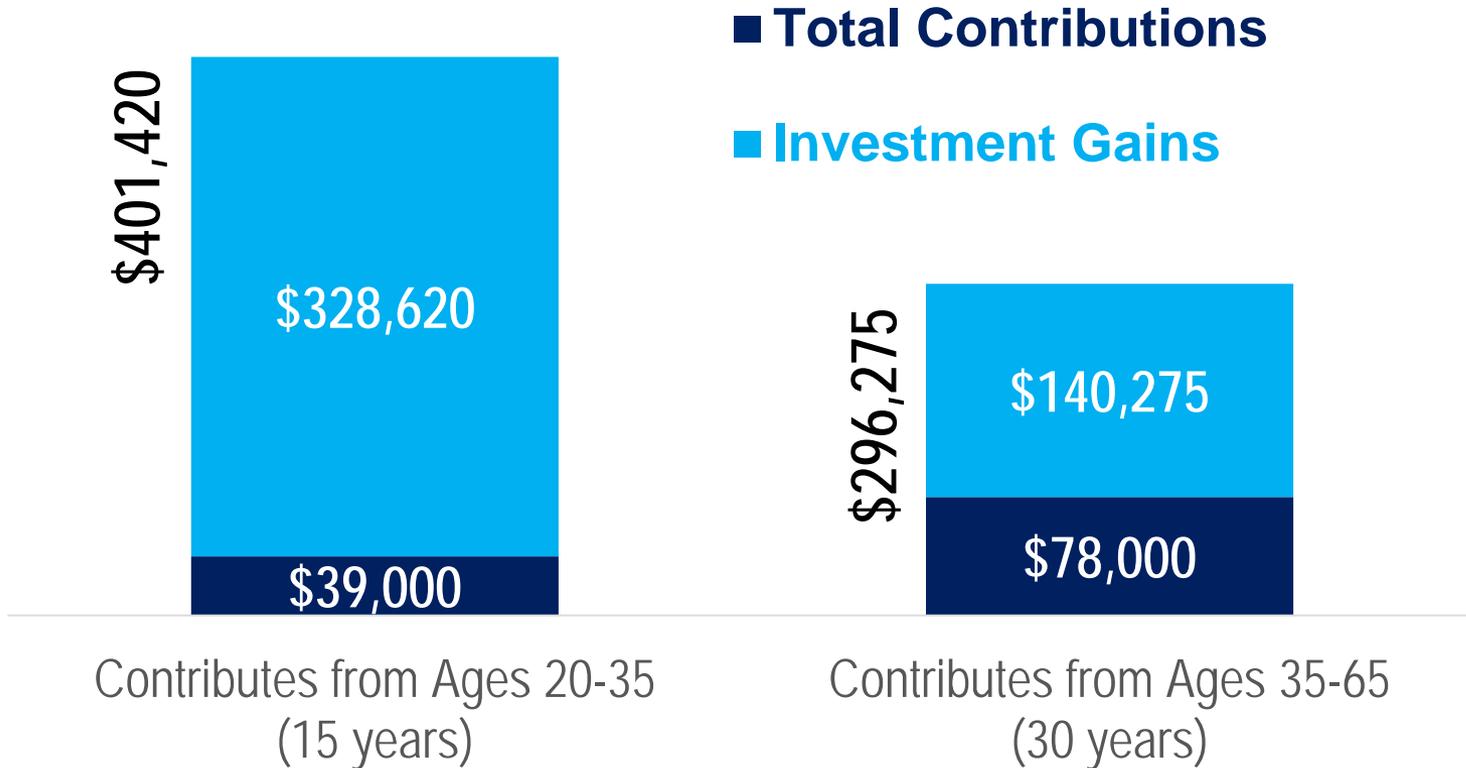
Early Career *(Over 25 Years until Retirement)*

Using Time as Your Investing Partner



Early Career (Over 25 Years until Retirement) cont'd.

When to Start Contributing



Example shows a \$100 bi-weekly contribution at a 6% market return and retirement at age 65



Early Career *(Over 25 Years until Retirement)* cont'd.

Invest **\$1** today and it could grow to **\$16** over 40 years.



Assumes 7% return to double every 10 years



Early Career *(Over 25 Years until Retirement)* cont'd.

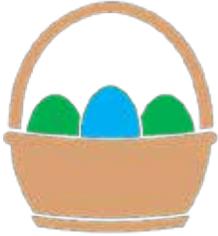
Invest **\$1** in 20 years and it could grow to **\$4** over 20 years.



Assumes 7% return to double every 10 years



Early Career Accumulation Summary



You can take on more ***investment risk*** to maximize returns to meet your retirement goal



With more than 25 years before retirement, allow ***time*** to work with you

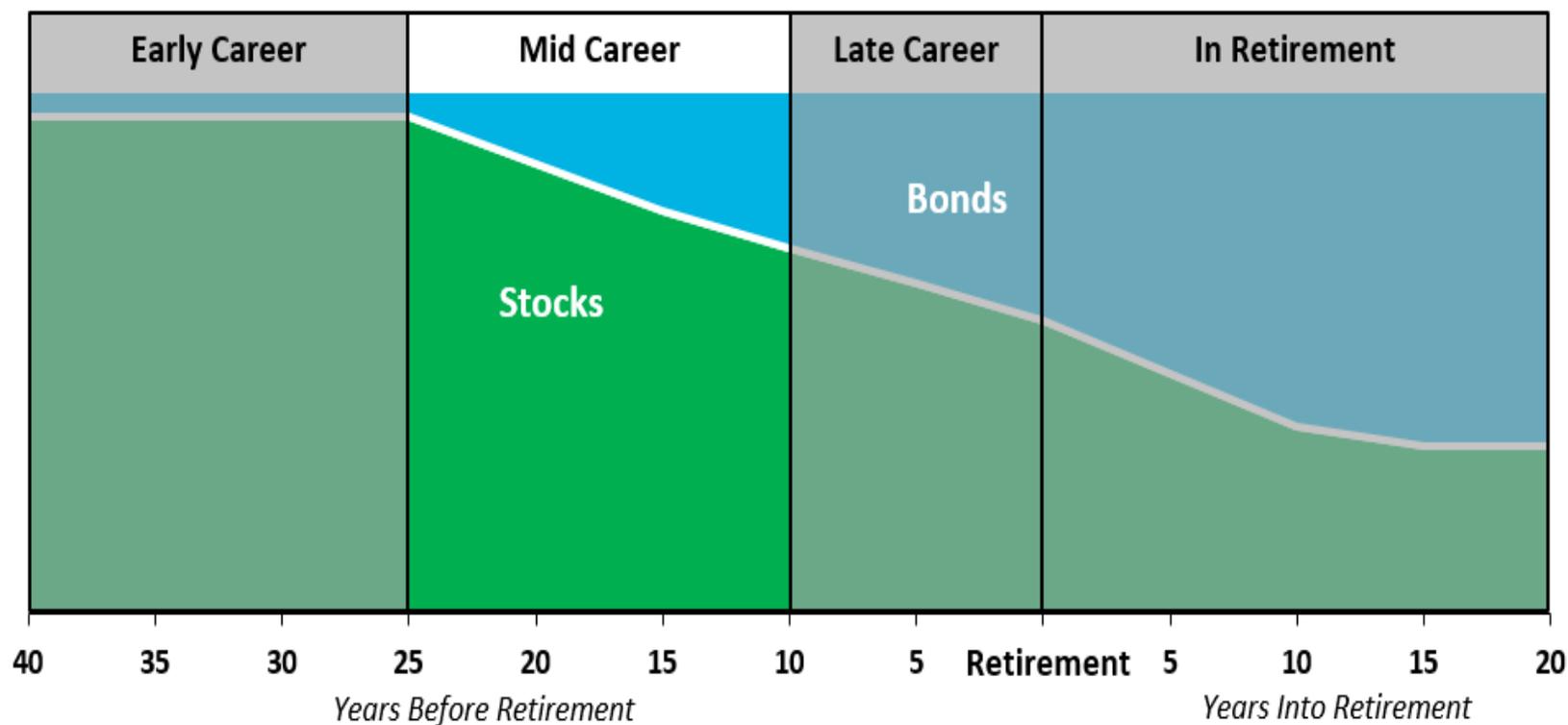


Small ***contributions*** now can have a large impact to your anticipated retirement balance



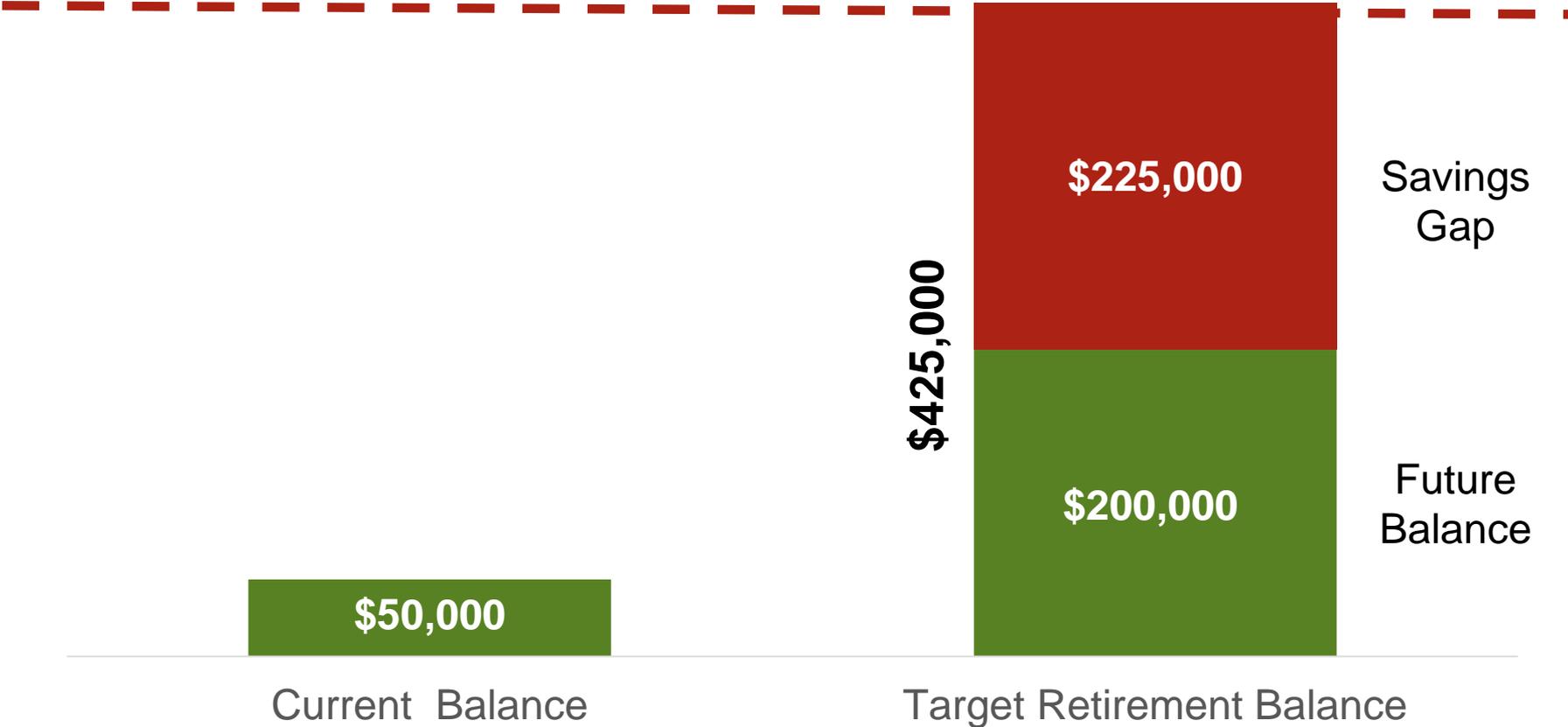
Mid-Career (10 to 25 Years until Retirement)

As your retirement account balance grows larger, begin the process of reducing risk



Mid-Career (10 to 25 Years until Retirement) cont'd.

Goal: \$425,000

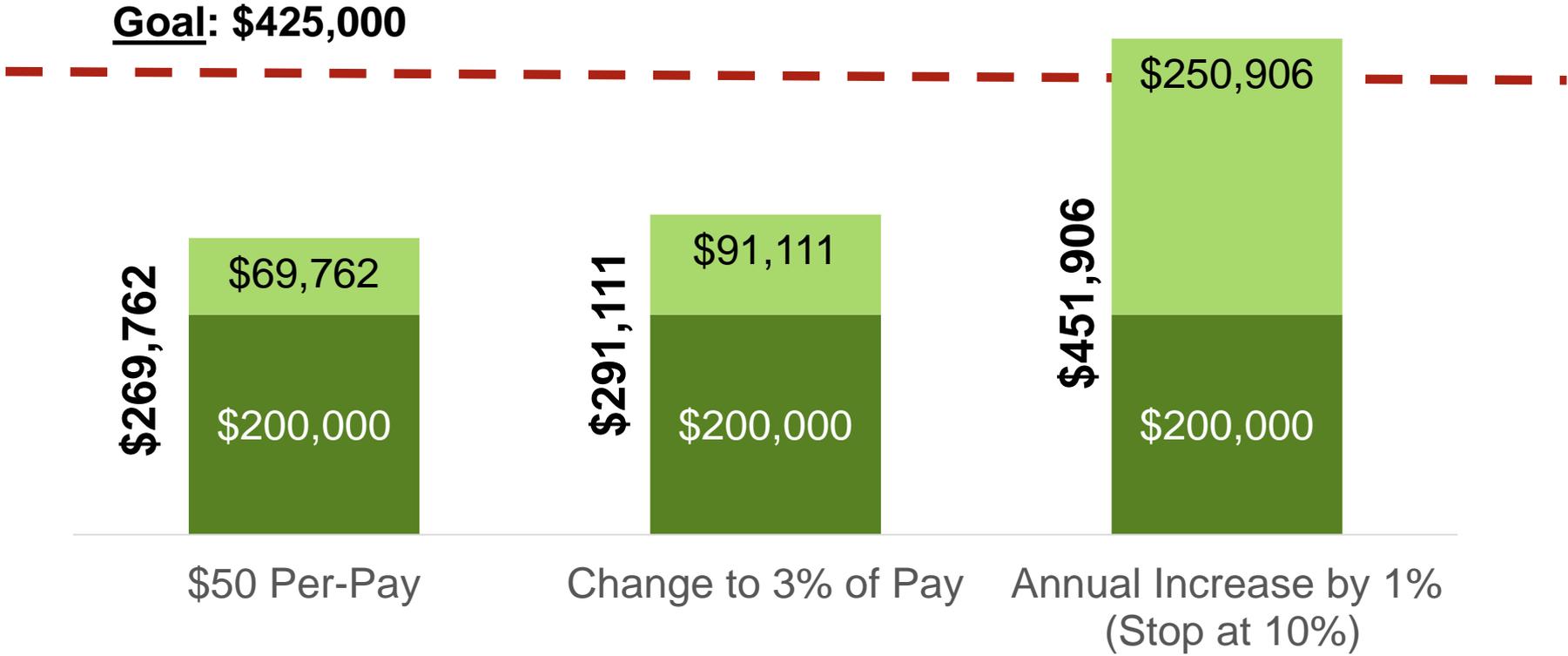


*Assumes 7% return to double every 10 years.



Mid-Career (10 to 25 Years until Retirement) cont'd.

Evaluating How You Contribute:

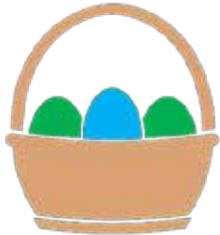


Example: 45 Year old participant making \$43,500, salary growth rate of 2%, retiring at age 65, and investment returns of 7%.

Additional Money by Taking Action
 Future Balance Without Taking Action



Mid-Career Accumulation Summary



Start to reduce some ***investment risk***



Time still allows contributions and investment gains to help you meet your retirement goal

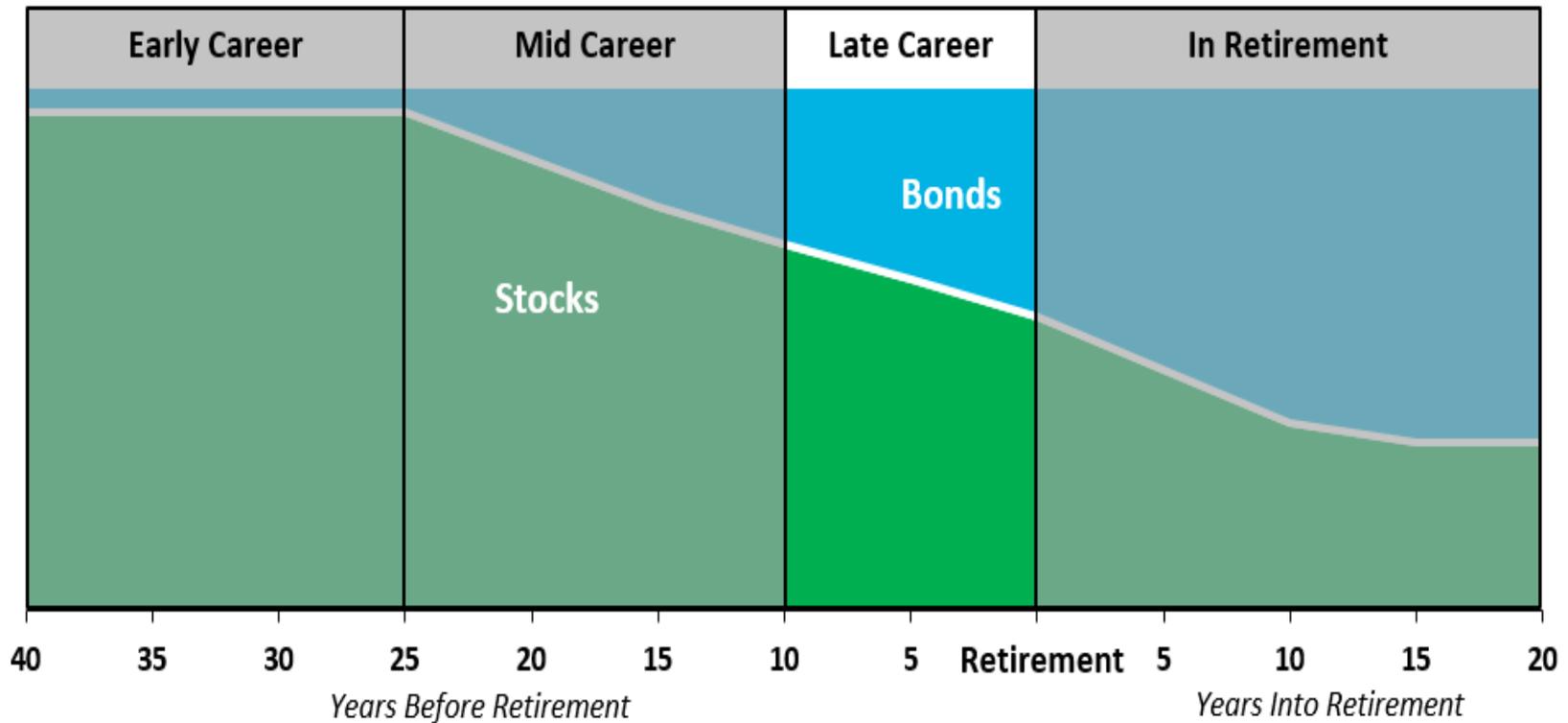


Consider how you ***contribute***



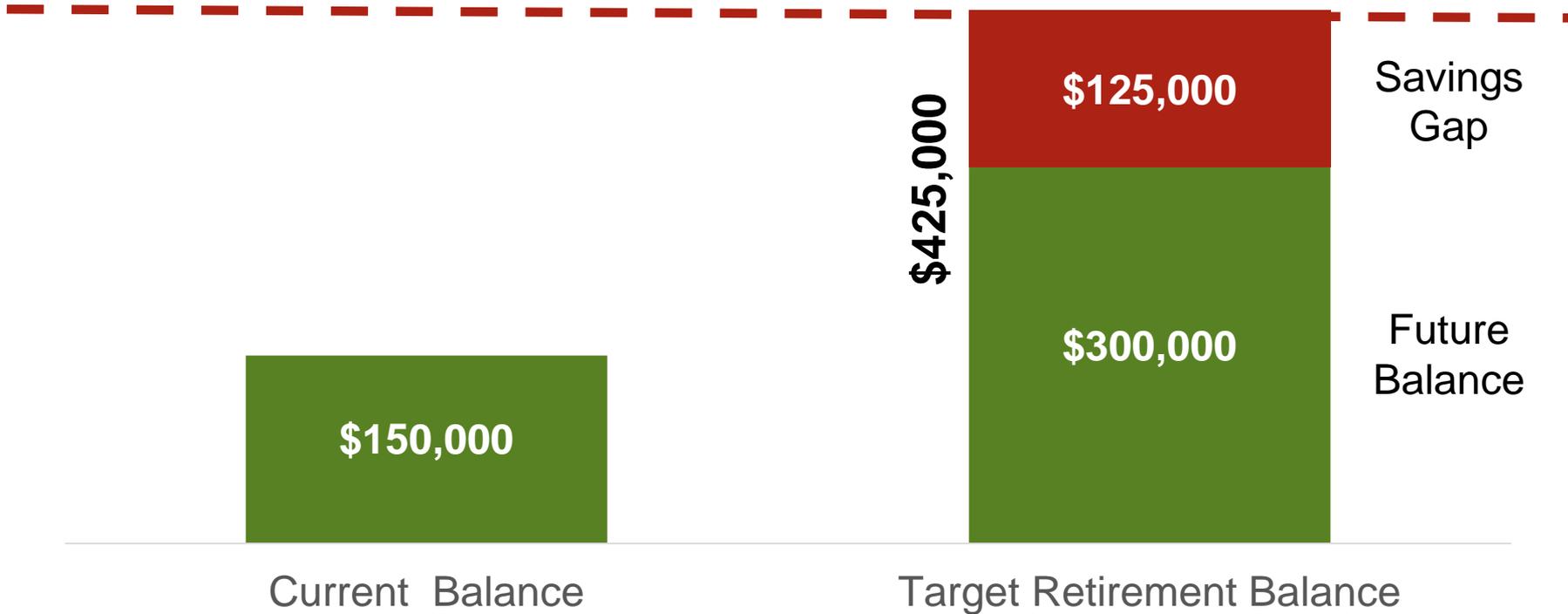
Late Career *(Under 10 Years until Retirement)*

Continue to reduce risk on your accumulated balance



Late Career (*Under 10 Years until Retirement*) cont'd.

Goal: \$425,000

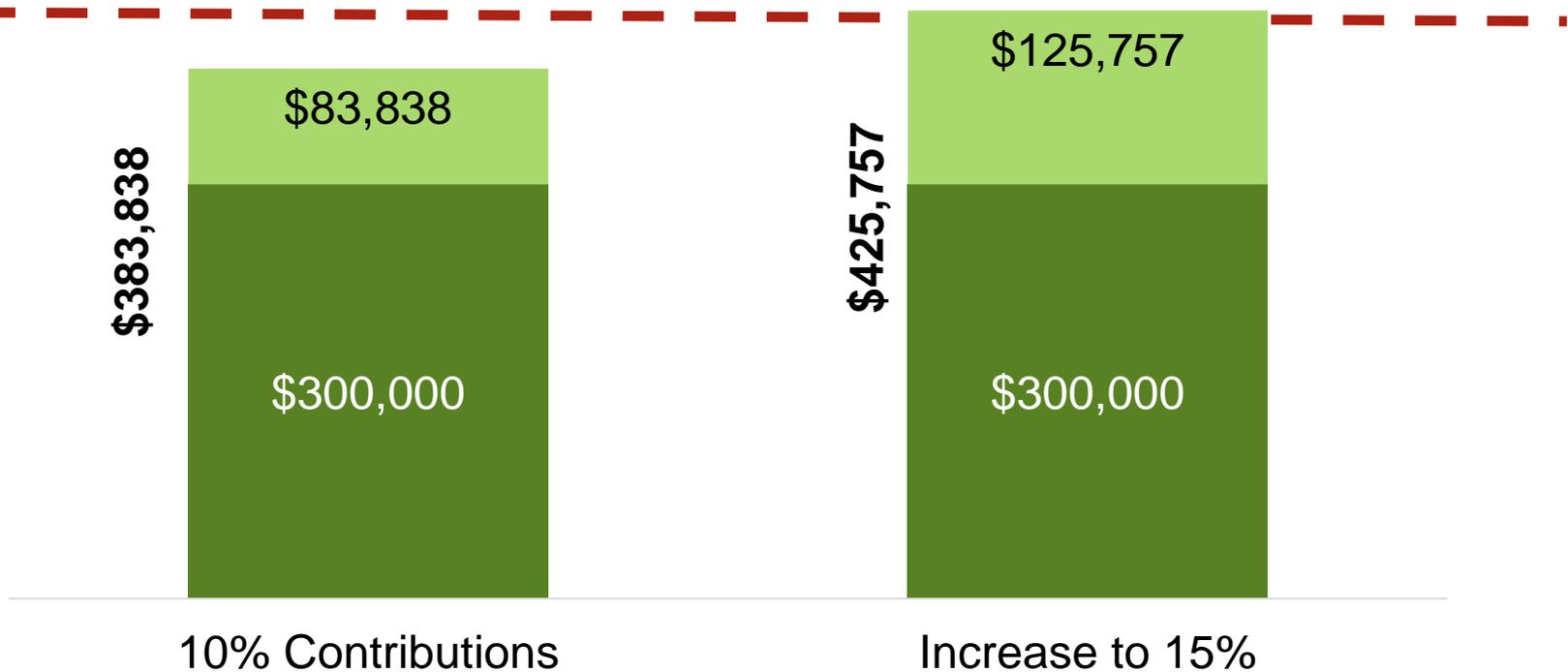


Assumes 7% return to double every 10 years



Late Career *(Under 10 Years until Retirement)* cont'd.

Goal: \$425,000



Example: 55 Year old participant making \$43,500, with a salary growth rate of 2%, retiring at age 65, and with investment returns of 7%.

- Additional Money by Taking Action
- Future Balance Without Taking Action



Late Career (*Under 10 Years until Retirement*) cont'd.

Goal: \$425,000



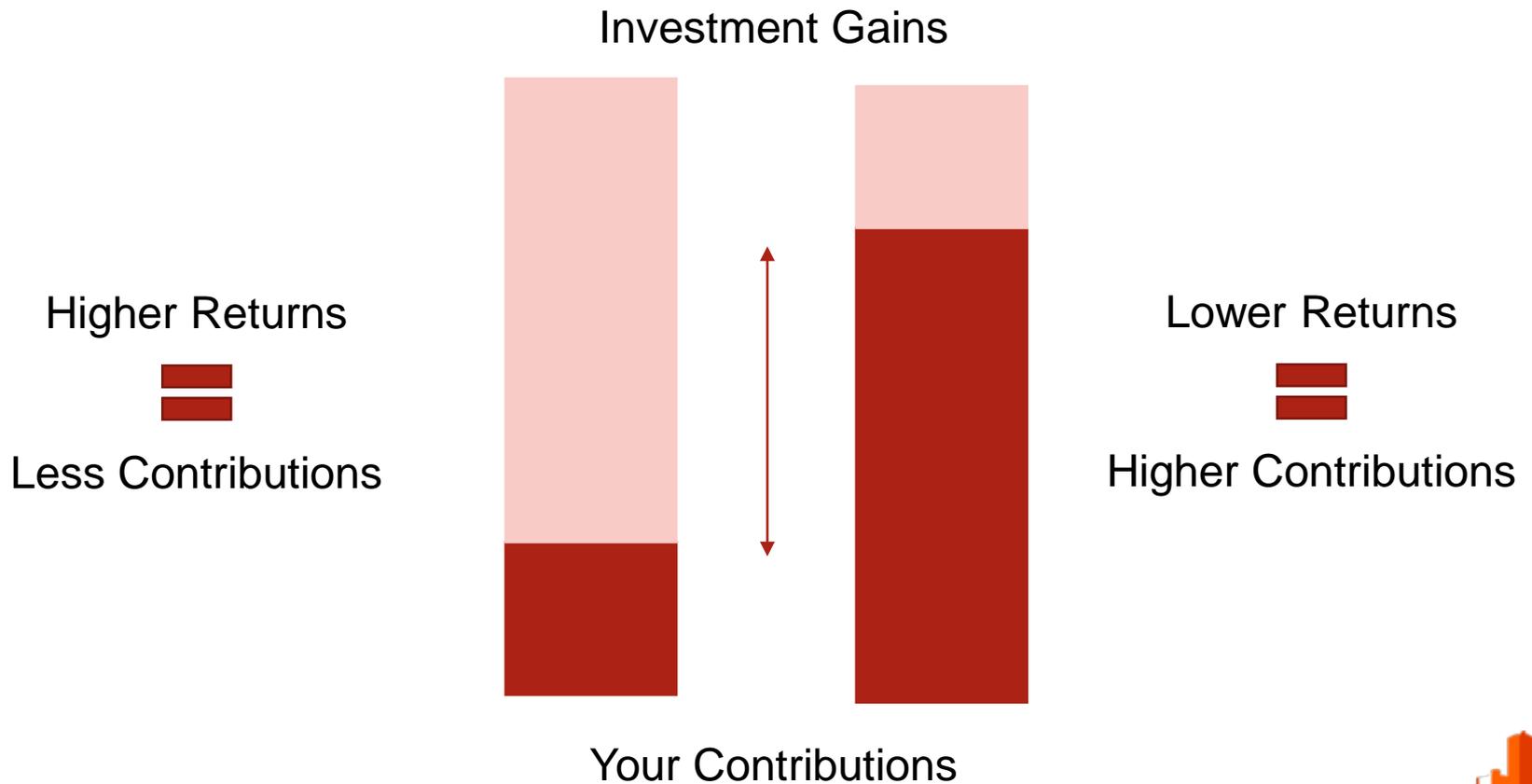
\$350,797

Maximum Contributions

Example: 55 Year old participant, \$0 balance, contributing 457 Contribution Maximum (\$18,000) and additional Age-50 Catch-up (\$6,000), for a total of \$24,000 for 10 years, and investment returns of 7%.

Late Career (*Under 10 Years until Retirement*) cont'd.

Option 1: Consider investing more aggressively



Late Career *(Under 10 Years until Retirement)* cont'd.

Option 2: Reduce Expenses in Retirement

\$75,000

x 80%

\$60,000

Savings Goal: \$425,000



\$75,000

x 75%

\$56,250

New Savings Goal: \$275,000

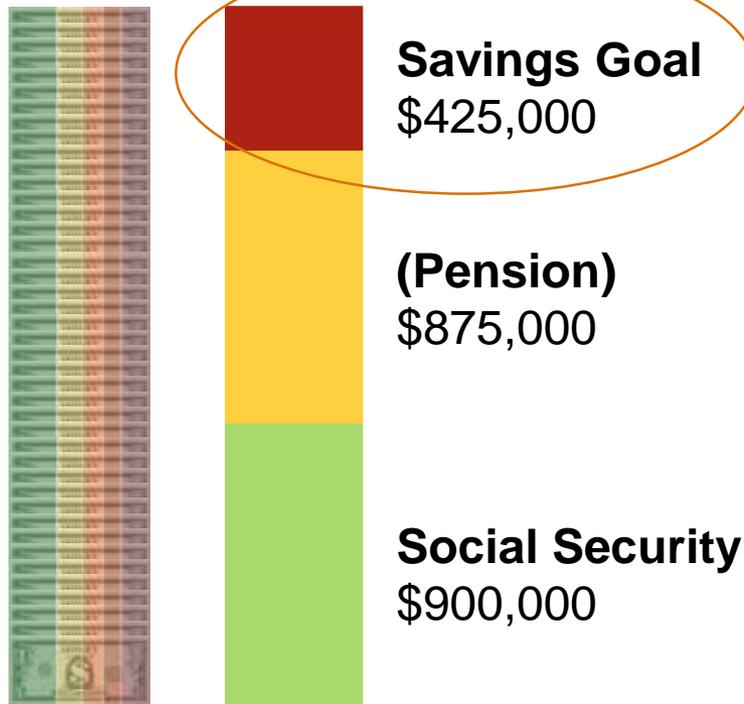


Late Career *(Under 10 Years until Retirement)* cont'd.

Option 3: Consider Working Longer or Part-Time

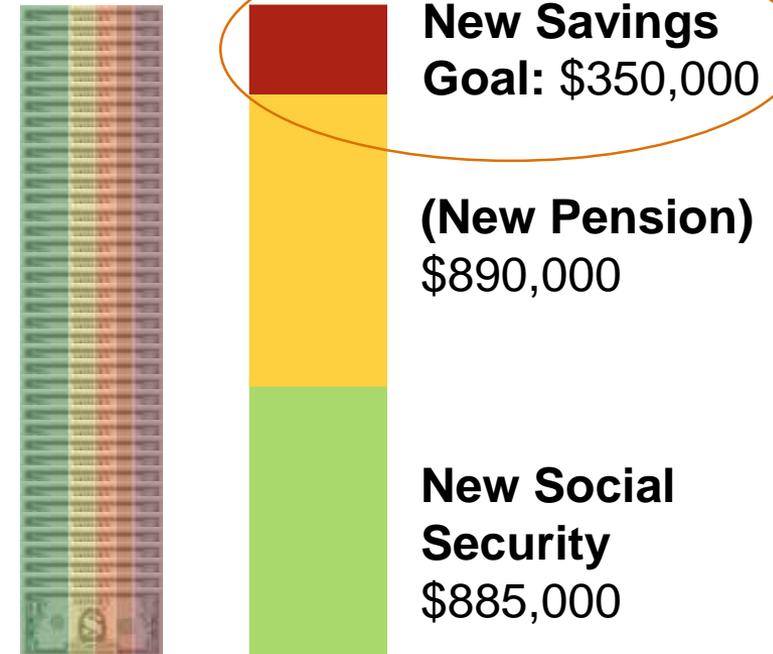
Money Needed

\$2,200,000



Money Needed

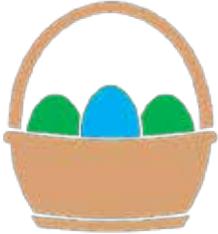
\$2,125,000



Example: Result of working 1 year longer.



Late Career Accumulation Summary



Continue to reduce *investment risk*



Your last 10 years are the *time* to evaluate and make adjustments



Consider increasing your *contributions* to reduce any projected savings gaps



Other strategies to consider to *reduce shortfalls*

- Invest Aggressively
- Reduce Income Replacement Ratio
- Consider Working Longer



Decumulation Strategies



Life in Retirement

What to consider about spending your savings:



Investing and Diversification



Making Your Account Last

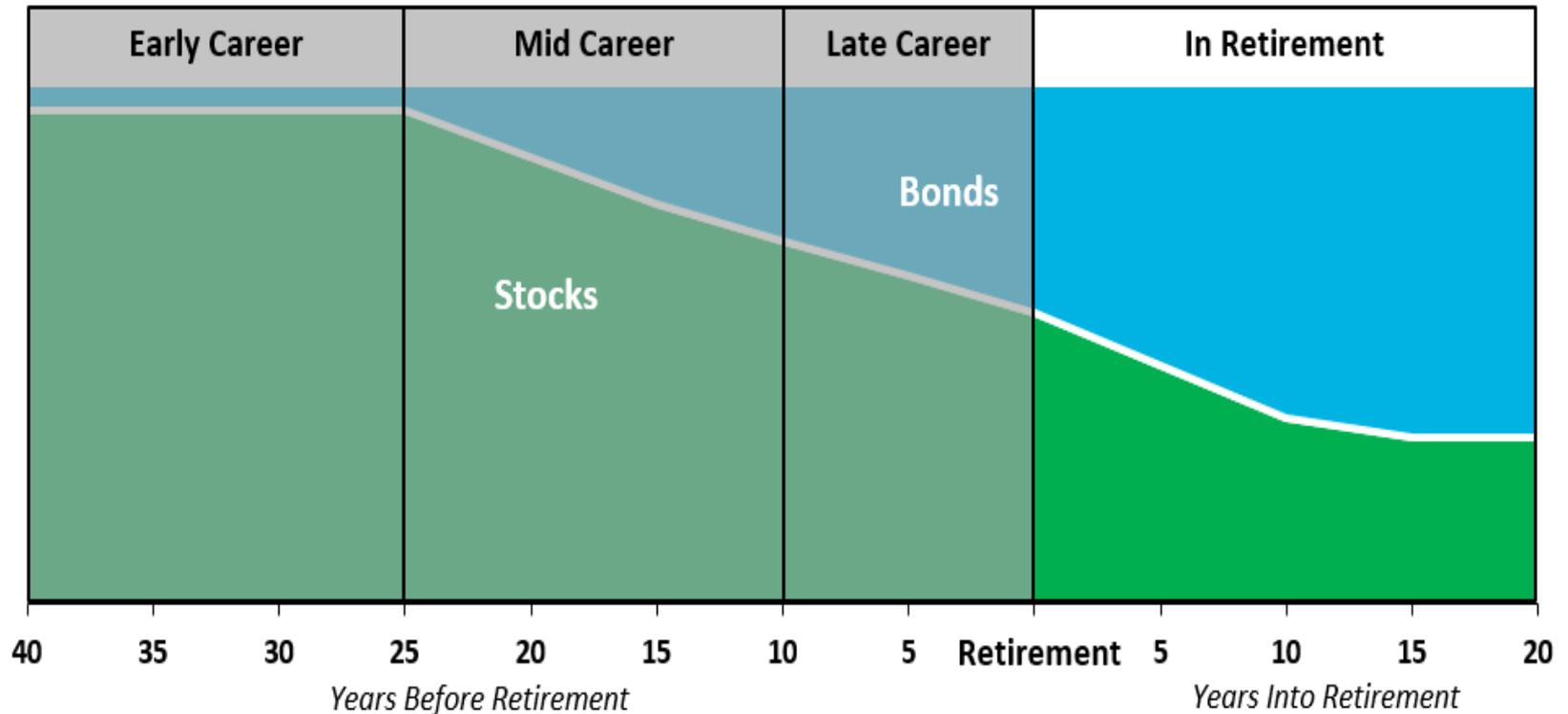


Planning for Inflation



Decumulation *(Years in Retirement)*

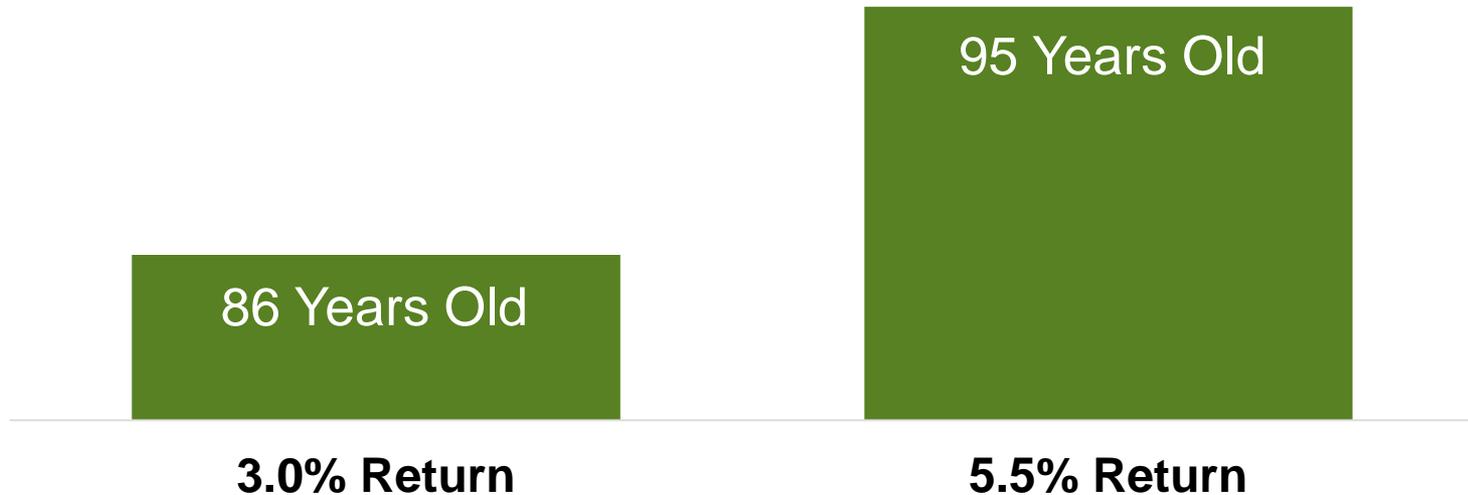
Continue to reduce risk on your accumulated balance



Decumulation *(Years in Retirement)* cont'd.

Should I move all of my retirement savings into the **lowest risk** investment?

How Long Would Monthly Payments Last?



Example: Participant retires at age 65, and draws down a \$500,000 account balance by taking a \$1,900 monthly payment, adjusting it upward with inflation at 3.22% each year.



Decumulation *(Years in Retirement)* cont'd.

How long do I need my retirement savings to last?

	65-year-old Male	65-year-old Female	65-year-old Couple
Life Expectancy	86 years	88 years	92 years
Target Age to Save For	92 years	94 years	96 years

Source: Society of Actuaries RP-2014 Mortality Tables. "Life Expectancy" is 50% of living to this age. "Target Age to Save For" is 25% of living to this age.



Decumulation *(Years in Retirement)* cont'd.

If I have a traditional DB pension, do I need to rely on savings for my retirement?

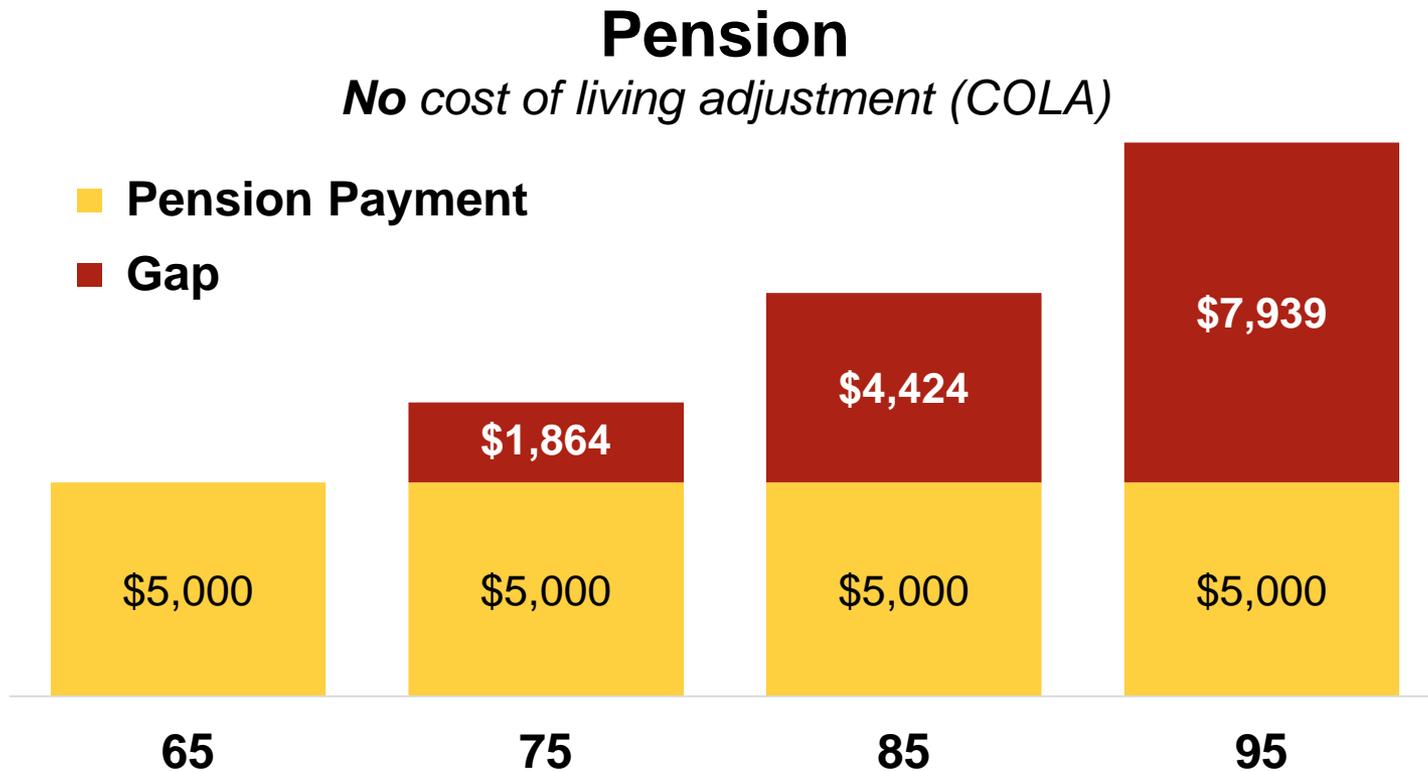
Consider how long you plan on working at your employer

- To reach 80% of income replacement a participant would need to work approximately 32 years (with a 2.5% multiplier)



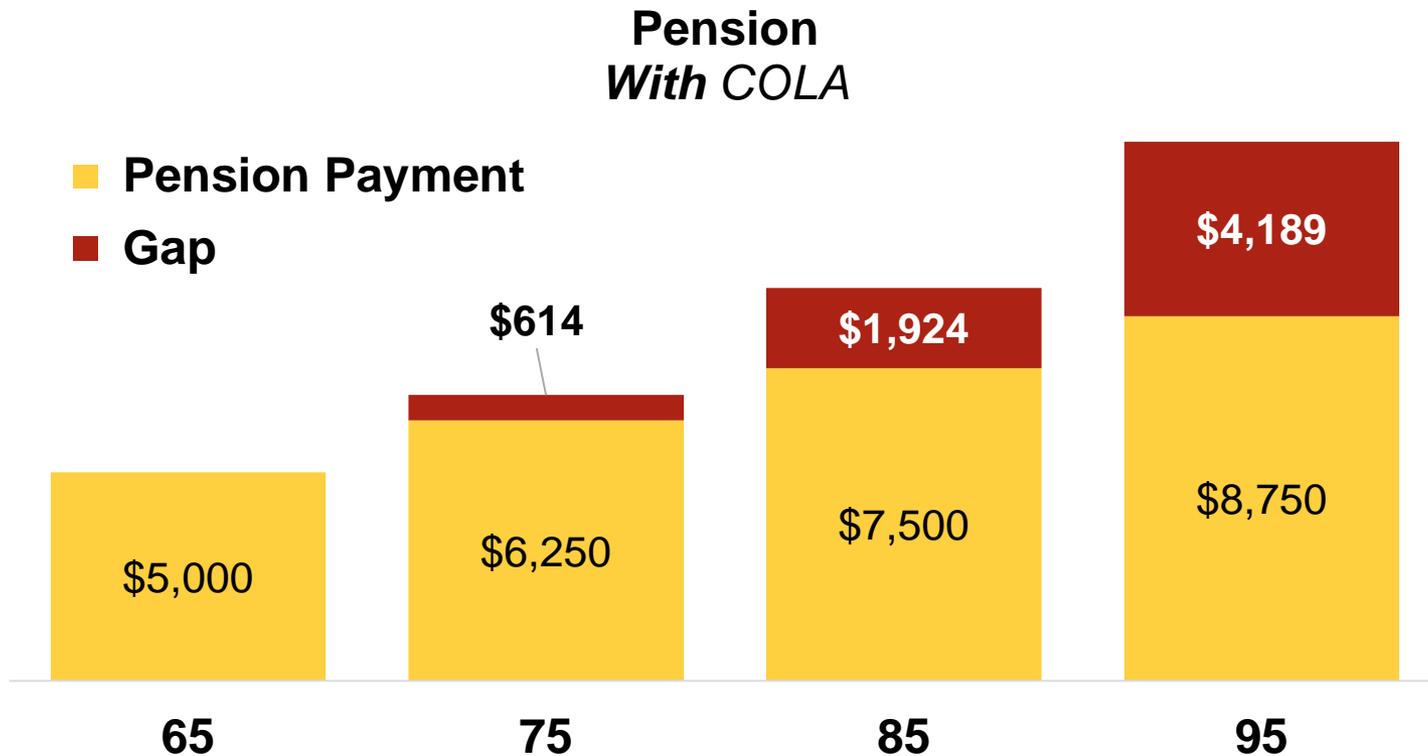
Decumulation *(Years in Retirement)* cont'd.

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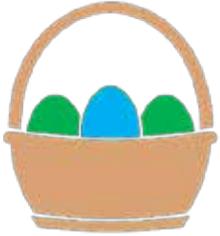


Decumulation *(Years in Retirement)* cont'd.

If my traditional DB pension has a COLA, do I need to rely on savings for my retirement?



Decumulation Summary



Investment gains are still important



Factor longevity into your ***time*** during retirement



Plan for ***inflation*** with your retirement account



Your Retirement Picture



Your Retirement Picture

PARTICIPANT

CURRENT

Name: Test Participant

Gender: Male

Birth Date (mm/dd/yyyy): 08/20/1982

Annual Salary (\$): 50000

FUTURE

Planned Retirement Age: 65

ADD A SPOUSE

CURRENT ACCOUNTS

Account Name	Balance	Contribution Amount*
MERS OF MICHIGAN 457 ALL EMPLOYEES	\$10,760.14	\$3,500
Bank IRA	\$1,800.00	\$0
MERS DC Plan	\$36,000.00	\$3,500
TOTAL BALANCE	\$48,560.14	\$7,000

STARTING ASSUMPTIONS

	Participant
Annual Salary Growth	2 %
Life Expectancy*	95
Social Security Start Age*	65
Social Security Monthly Benefit*	<input checked="" type="radio"/> Calculate benefit <input type="radio"/> Use my estimate \$
Legacy At Death	\$ 0

Calculating Your Retirement Picture—Made Easy

Information already entered:

- Age
- Income
- MERS Benefits

Information you may add:

- Spouse's Information
- Outside Accounts
- Other Contributions



Your Retirement Picture, cont'd.

WELCOME TO YOUR RETIREMENT READINESS FULL PICTURE REPORT!



Test Participant
xxx
Lansing, MI 55555

Your Retirement Readiness Full Picture Report can help you decide how much to save for retirement and how to invest your plan account. The sections below provide an analysis of your current savings and investments, offer some suggestions to help you reach your goals, and show you how to make changes to your retirement account.

In this retirement plan analysis you will receive:

1. A personalized assessment of your current retirement savings and investments.
2. An indication if you are on track to meet your retirement goals.
3. Suggestions on how to improve the probability of achieving your retirement objectives.
4. Simple steps to implement your new strategy.

Assumptions used for this analysis:

Participant:

Current age	34
Retirement year (age)	2048 (Age 65)
Years in retirement	30
Annual salary	\$50,000

Assumptions have been made to create this personal projector. Assumptions are not guaranteed. For example, your salary may or may not increase at the stated rate, your employer contribution may change or be eliminated, and/or inflation may or may not grow at the assumed rate of 2%. Also, the personal projector is only based on limited information your record keeper has about your retirement account services.

Full Personalized Report

- Determines your retirement income needs
- Calculates your retirement savings target
- Evaluates your investment mix based on your risk tolerance



Your Retirement Picture, cont'd.

WELCOME TO YOUR RETIREMENT READINESS FULL PICTURE REPORT!

 MERS
Michigan Employees' Retirement System

Test Participant
xxx
Lansing, MI 55555



Your Retirement Readiness Full Picture Report can help you decide how much to save for retirement and how to invest your plan account. The sections below provide an analysis of your current savings and investments, offer some suggestions to help you reach your goals, and show you how to make changes to your retirement account.

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Suggested strategies

- Change investment mix
- Change contribution rate
- Change retirement age
- Change income replacement ratio



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Full Picture Report Builder Demonstration



SEPT 27 | 7:00 PM

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