



# 2018

## RETIREMENT CONFERENCE

# Financial Planning for your Future Self

*Presented by  
Andrew Smith*

# Agenda

---

- Understand the importance of having a financial plan
- Review steps to creating a financial plan
- Discuss how to identify potential gaps
- Outline strategies to address those gaps
- Put your plan into action



# The Importance of Planning



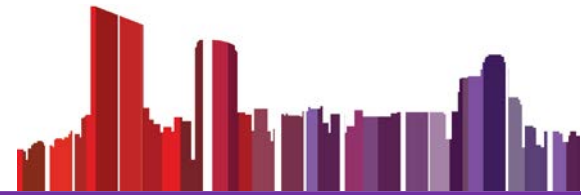
"A goal without a plan  
is just a wish."

-Antoine de Saint-Exupry



# Steps to Creating a Plan

---



# Establish Goals



# Why Set Goals?

---

Goals can:



Provide guidance and direction



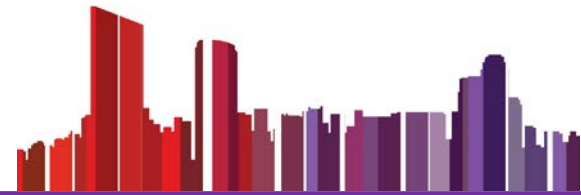
Facilitate planning



Motivate and inspire action



Help evaluate progress



# Financial Goals Worksheet

 **Financial Goals Worksheet**

 **MERS**  
Managed Employee Retirement System

Identify the obstacles you may face when working to achieve your goals – then find solutions.

Potential Obstacles	Potential Solutions

 **Resources for guidance or help:**

 **Action steps**

	Expected completion date	





# Gather Information on Your Income & Expenses



# Complete a Household Budgeting Worksheet



## Household Budgeting Worksheet



Enter monthly expenses for the following items. Total each category and calculate monthly expenses.

### Housing/Utility

Rent/mortgage	\$ 1025
Heating	\$ 75
Electricity	\$ 75
Water/sewage	\$ 50
Renter/homeowner insurance	\$ 75
Trash service	\$ 25
Telephone and cell phone	\$ 75
Home maintenance	\$ 200
<b>TOTAL</b>	<b>\$ 1600</b>

### Transportation

Gas	\$ 100
Car payment(s)	\$ 250
Car insurance	\$ 80
Car maintenance	\$ 50
Car registration	\$ 20
Public transportation	\$ 50
Parking and tolls	\$ 50
<b>TOTAL</b>	<b>\$ 600</b>

### Insurance

Health	\$ 100
Life	\$ 25
Disability	\$ 25
<b>TOTAL</b>	<b>\$ 150</b>

### Food

Groceries	\$ 600
Work related (lunch/snacks)	\$ 100
<b>TOTAL</b>	<b>\$ 700</b>

### Medical

Doctor visits	\$ 50
Dental & Vision	\$ 50
Prescriptions	\$ 50
<b>TOTAL</b>	<b>\$ 150</b>

### Childcare

Daycare/babysitting	\$ 0
Child support/alimony	\$ 0
<b>TOTAL</b>	<b>\$ 0</b>

### Education

Tuition	\$ 0
Books/supplies	\$ 0
News & media subscriptions	\$ 0
<b>TOTAL</b>	<b>\$ 0</b>

### Personal

Barber/salon services	\$ 100
Toiletries/cosmetics	\$ 100
Children's allowances	\$ 0
Tobacco products	\$ 0
Beer/wine/liquor	\$ 100
Clothing	\$ 200
Laundry/dry cleaning	\$ 38
<b>TOTAL</b>	<b>\$ 538</b>

### Entertainment

Sporting events/concerts/etc.	\$ 50
Movies	\$ 25
Restaurant/take-out	\$ 150
Internet service	\$ 75
TV subscription	\$ 50
Gambling/lottery	\$ 0
Fitness/social clubs	\$ 50
Vacation/travel	\$ 200
Hobbies	\$ 100
<b>TOTAL</b>	<b>\$ 700</b>

### Debts

Student loan	\$ 50
Credit card	\$ 50
Medical bills	\$ 0
Personal loans	\$ 0
<b>TOTAL</b>	<b>\$ 100</b>

### Savings

Emergency fund	\$ 300
Down payment fund	\$ 0
<b>TOTAL</b>	<b>\$ 300</b>

Net Monthly Income	\$ 4,688.00
- Total Monthly Expenses	\$ 4,838.00
= Cash Flow (disposable/deficit)	\$ (150.00)

Compare

**EXPENSES** vs **INCOME**



# Sources to Consider

---

## Savings

- Pension
- Supplement savings account (457)
- 401(k)/401(a)
- IRA
- Stocks and Bonds
- Emergency fund

## Income

- Current salary
- Income from rentals
- Side jobs



# Sources to Consider, cont'd

---

## Expenses

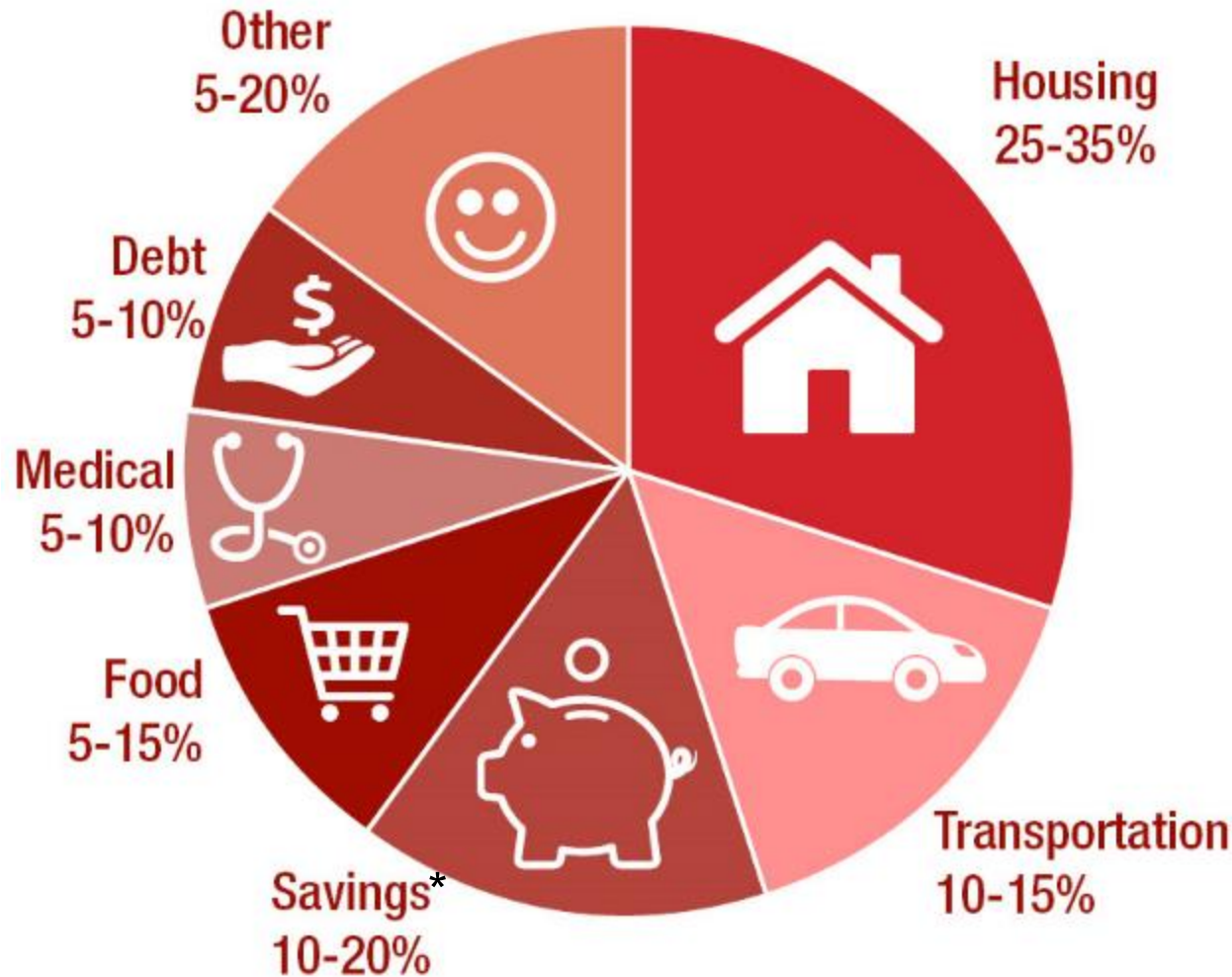
- Housing (mortgage)
- Transportation (gas, auto loans, insurance)
- Insurance/Healthcare
- Food
- Miscellaneous
  - Personal care
  - Clothing
  - Hobbies
  - Travel
- Debts
  - Student loans
  - Credit cards
  - Medical bills
  - Loans



# Identify Your Gaps



# Average Household Expense Ranges

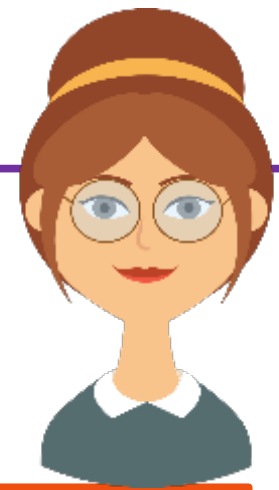


\* Includes emergency fund savings, retirement savings, etc.

Source: US Bureau of Labor Statistics Consumer Expenditure Survey

# Example: Meet Karen

---



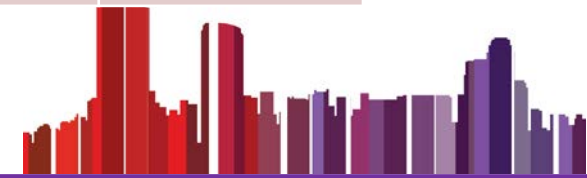
- Karen's net monthly income is \$4,688 (\$56,258 annually)
- Karen would like to establish a budget and set some spending goals for herself



# Determining Your Gaps



Budgeted Expense	Karen's Goal	Expense Target (net income x Karen's goals %)	Actual Expense	Area of Concern?
Housing (25 – 35%)	35 %	<b>\$4,688 x .35</b>	\$ 1,600	
Transportation (10 – 15%)	15 %	<b>\$4,688 x .15</b>	\$ 600	
Savings (10 – 20%)	20 %	<b>\$4,688 x .20</b>	\$ 300	
Food (5 – 15%)	6 %	<b>\$4,688 x .06</b>	\$ 700	
Medical (5 – 10%)	4 %	<b>\$4,688 x .04</b>	\$ 150	
Debt Payments (5 – 10%)	5 %	<b>\$4,688 x .05</b>	\$ 100	
All Other (5 -20%)	15 %	<b>\$4,688 x .15</b>	\$ 1,238	

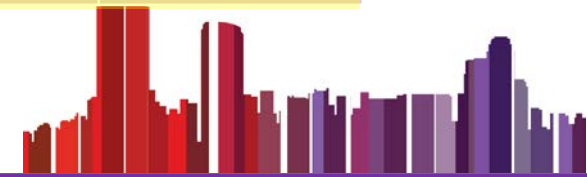


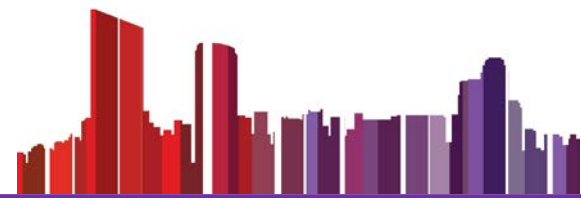
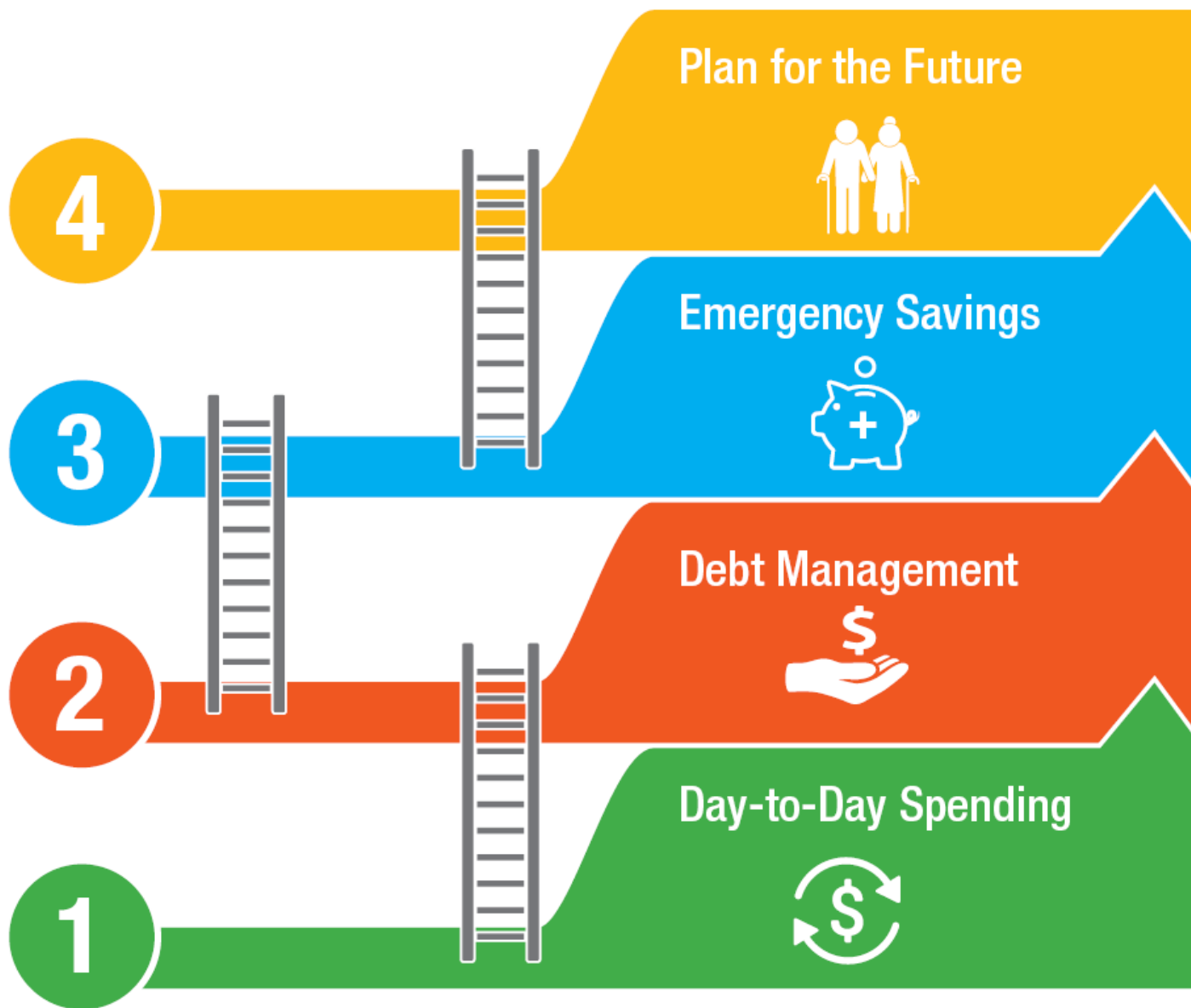


# Determining Your Gaps, cont'd



Budgeted Expense	Karen's Goals	Expense Target (net income x Karen's goals %)	Actual Expense	Area of Concern?
Housing (25 – 35%)	35%	\$1,641	\$1,600	
Transportation (10 – 15%)	15%	\$703	\$600	
Savings (10 – 20%)	20%	\$938	\$300	Yes
Food (5 – 15%)	6%	\$281	\$700	Yes
Medical (5 – 10%)	4%	\$188	\$150	
Debt Payments (5 – 10%)	5%	\$234	\$100	
All Other (5 -20%)	15%	\$703	\$1,238	Yes





# Analysis

---

Based on this analysis, Karen should take the following steps to adjust her monthly budget:

1. Reduce her food and miscellaneous monthly expenses
2. Consider increasing the amount she is setting aside for savings



# Strategies to Reduce or Eliminate Your Gaps – Creating an Action Plan



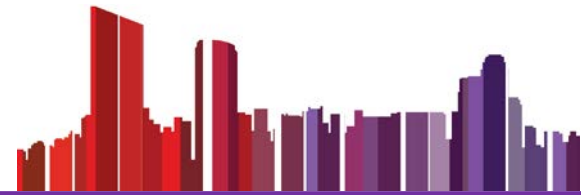
# 1

## Manage Your Day-to-Day Spending

---



- To spend “within your means” is to spend less than or equal to the amount of money you bring in
- The first step is to know your income and expenses. You can do this by creating a budget
- **Budgeting** is a tool that tells your money where to go ahead of time versus wondering where it all went after you spent it



# Budgeting Tools

---

- **Online tools through your bank**
- **Microsoft Office templates**
- **Organizations such as:**
  - National Credit Union Administration ([mycreditunion.gov](http://mycreditunion.gov))
  - Visa ([practicalmoneyskills.com](http://practicalmoneyskills.com))
- **Apps**
  - Mint
  - You Need a Budget (1 month free trial subscription)
  - Wally



# Ideas to Reduce Expenses

---

## Household

- Shop around for a better rate on things like homeowners insurance and propane
- Consider refinancing your mortgage
- Improve water and energy efficiency



# Ideas to Reduce Expenses, cont'd

---



## Transportation

- Consider carpooling or public transportation
- Shop around for a better rate on auto insurance
- Keep up on routine maintenance to avoid unnecessary auto repairs
- Consider a longer replacement time between vehicles to avoid car payments





# Ideas to Reduce Expenses, cont'd

---



## Other Discretionary Expenses

- Cancel memberships that you don't use regularly such as gym and club grocery stores
- Shop around for a better deal on television, or reduce your current package
- Shop thrift stores for clothing and home goods
- Make your own coffee and bring your lunch to work – doing so can save you hundreds each year!

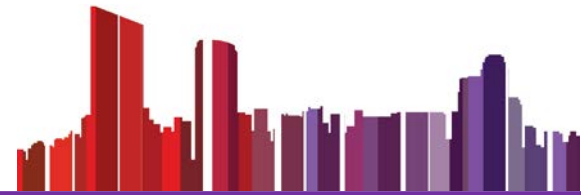


# 2 Debt Management

---



- Debt can come in many forms and includes; credit cards, college or student loans, and other types of loans
- Debt management is simply creating a plan to repay debt in a meaningful way



# Debt Payoff Strategies

---

- Two primary strategies
  1. Pay off debt with the highest interest rates first
  2. Tackle the smallest debts first then move on to the second smallest, and so on
- While paying off your smallest debts first may be less financially savvy, it can give you the feeling of progress
- Key is to figure out which strategy works best for you



# Paying More Than the Minimum Has an Impact

## DID YOU KNOW?

Paying even just \$25 over your minimum monthly payment can have a big impact on the time it takes you to pay off your credit card bill.

### Example:

Joe has \$4,000 in credit card debt with a 15% interest rate

Monthly Payment	Time to Pay Off Card <i>(if no additional purchases made)</i>	Total Interest Paid
First Payment of \$120, then Minimum Payment (3% of balance or \$25 whichever is greater)	Over 11 years	\$2,513
\$145	2 years 6 months	\$935
\$220	1 year 9 months	\$566



# Debt Consolidation

---



- Plans involve combining debts into one loan in an attempt to lower monthly payments and interest charges
- Can make a lot of sense for people with a high level of debt or paying multiple bills



National Debt Relief: [nationaldebtrelief.com](http://nationaldebtrelief.com)



# Debt Settlement

---

- Can eliminate all or a portion of your outstanding debt
- Programs are typically offered by for-profit companies and involve a company negotiating with your creditors to pay a settlement resolving your debt
- Avoid doing business with companies which:
  - Charges fees before it settles your debts
  - Touts a "new government program"
  - Guarantees it can make your debt go away
  - Guarantees that your debts can be paid off for pennies on the dollar
  - Tells you to stop communicating with your creditors, but doesn't explain the serious consequences
  - Tells you it can stop all debt collection calls and lawsuits



# 3 Emergency Savings

---



- An emergency fund is essentially money that's been set aside to cover any of life's unexpected events
- Should be able to access quickly and easily if an unfortunate event occurs



# How Much Should You Save?

3<sub>mo</sub>



- Single
- No dependents
- Renter
- Back up support available (ex: parents)

6<sub>mo</sub>



- Applies to the majority of people
- Single or Married
- Dependent(s)
- Mortgage
- Steady income

9<sub>mo</sub>



- Single or Married
- Dependent(s)
- Mortgage
- Work freelance or on commission

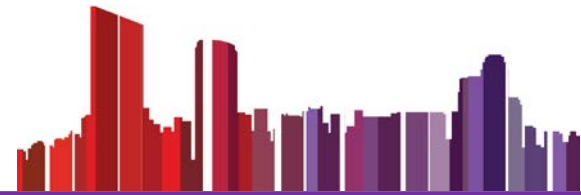




# 4 A Plan for the Future



As a participant enrolled in a MERS retirement plan, you have access to free tools and resources to assist you in your retirement readiness planning. One of these tools is the retirement readiness **Snapshot Report**.



Johnathan Participant  
123 Street  
City, ST 12345

## Welcome to your Retirement R



### JOHNATHAN, YOU YOUR RETIREMENT

This report is intended to give you a "snapshot" of your retirement readiness using the information we have along with a projected Social Security benefit. We encourage you to build your *Full Picture Report* online, by adding other retirement assets, customizing your assumptions, and providing spousal information (if applicable).

Based on the information we have, you have a **59% chance** of meeting the recommended income replacement rate each year in retirement\*.

\* The industry standard income replacement rate is 80% of your income at retirement. This report assumes that you will **retire at age 62** and assumes a **90 year life span**. Your income target increases each year based on an assumed **2% inflationary factor**.

1134 Municipal Way | Lansing, MI 48917 | [www.mersofmich.com](http://www.mersofmich.com) | 800.767.MERS (6377)

Johnathan Participant  
123 Street  
City, ST 12345

## Welcome to your Retirement Readiness



### JOHNATHAN, YOU MAY HAVE YOUR RETIREMENT INCOME

This report is intended to give you a "snapshot" of your retirement readiness using the information we have along with a projected Social Security benefit. We encourage you to build your *Full Picture Report* online, by adding other retirement assets, customizing your assumptions, and providing spousal information (if applicable).

Based on the information we have, you have a **69% chance** of meeting the recommended income replacement rate each year in retirement\*.

\* The industry standard income replacement rate is 80% of your income at retirement. This report assumes that you will **retire at age 62** and assumes a **90 year life span**. Your income target increases each year based on an assumed **2% inflationary factor**.

1134 Municipal Way | Lansing, MI 48917 | [www.mersofmich.com](http://www.mersofmich.com) | 800.767.MERS (6377)

Johnathan Participant  
123 Street  
City, ST 12345



## Welcome to your Retirement Readiness Snapshot Report!

### JOHNATHAN, CONGRATULATIONS! YOU'RE ON TARGET TO MEET YOUR RETIREMENT INCOME GOAL.

This report is intended to give you a "snapshot" of your retirement readiness using the information we have along with a projected Social Security benefit. We encourage you to build your *Full Picture Report* online, by adding other retirement assets, customizing your assumptions, and providing spousal information (if applicable).

Based on the information we have, you have a **89% chance** of meeting the recommended income replacement rate each year in retirement\*.

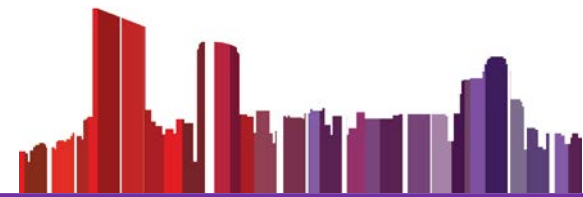
\* The industry standard income replacement rate is 80% of your income at retirement. This report assumes that you will **retire at age 62** and assumes a **90 year life span**. Your income target increases each year based on an assumed **2% inflationary factor**.

1134 Municipal Way | Lansing, MI 48917 | [www.mersofmich.com](http://www.mersofmich.com) | 800.767.MERS (6377)

# Karen's Retirement Readiness Report

---

- She is 35 years old
- Her current annual salary is \$56,258
- At age 62 is projected to make \$96,026 (2% inflation each year for 27 years)





## Welcome to your Retirement Readiness Snapshot Report!



KAREN, YOU MAY NOT BE ON TARGET TO MEET YOUR RETIREMENT INCOME GOAL

This report is intended to give you a “snapshot” of your retirement readiness using the information we have along with a projected Social Security benefit. We encourage you to build your *Full Picture Report* online, by adding other retirement assets, customizing your assumptions, and providing spousal information (if applicable).

Based on the information we have, you have a **5% chance** of meeting the recommended income replacement rate each year in retirement\*.

\*The industry standard income replacement rate is **80% of your income** at retirement. This report assumes that you will **retire at age 62** and assumes a **90 year life span**. Your income target increases each year based on an assumed **2% inflationary factor**.

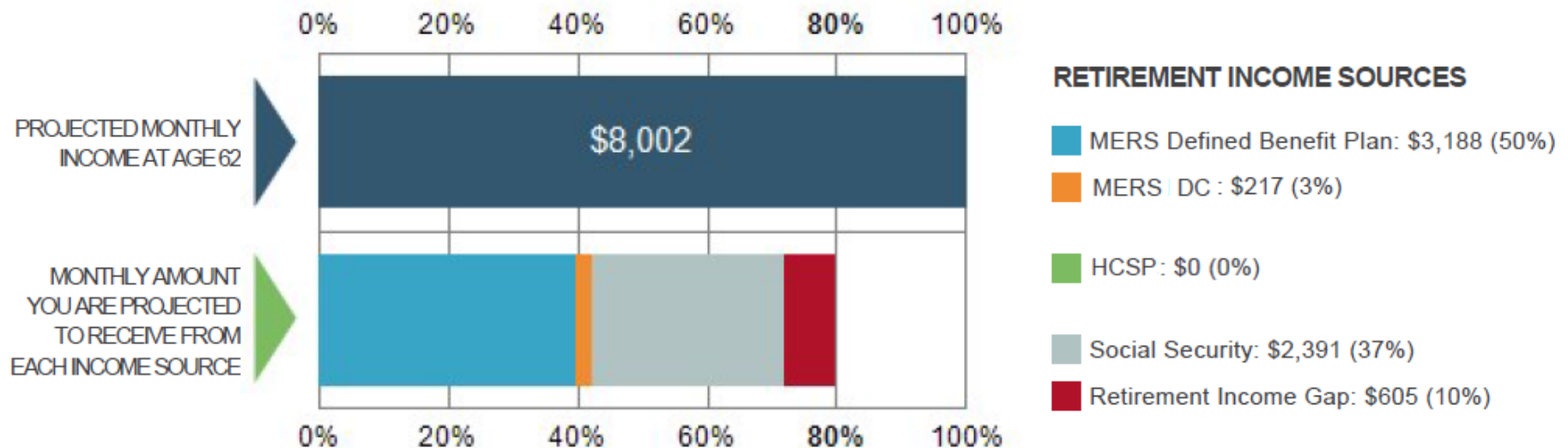


# First Month in Retirement

**Current Annual Salary** as reported by your employer: \$56,258 (\$4,688 monthly)

**Your Projected Annual Salary at Age 62:** \$96,026 (\$8,002 monthly)

**Target Annual Income in Retirement (80% of projected income from salary at age 62):** \$76,821 (\$6,402 monthly)



The first month projection above may not reflect future months in retirement.



# Actions to Increase Retirement Readiness

⊕ Add additional information online to build your **Full Picture Report**

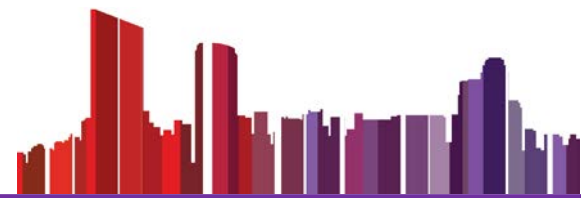


## Increase retirement savings

- If you have a supplemental savings plan (like the MERS 457), increasing your contributions, even by a small percentage, increases the likelihood that you'll meet your retirement goals
- The Snapshot Report shows you how saving an additional \$50, \$100 or \$250 each paycheck can have an impact on your income in retirement

## Karen's Example (she originally had a gap of \$605 per month)

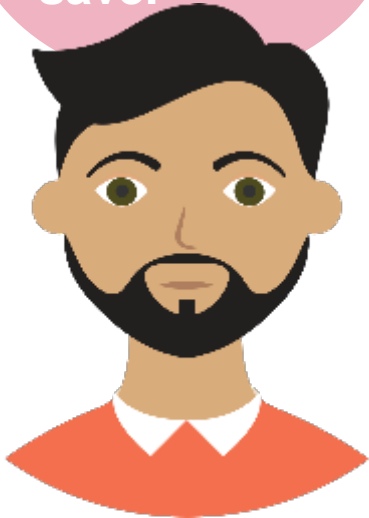
Increasing Bi-Weekly Retirement Plan Contributions	Projected Additional Retirement Plan Balance	Projected Increase in Monthly Retirement Income at 62
\$50	\$87,613	\$539
\$100	\$175,226	\$1,078
\$250	\$438,064	\$2,695



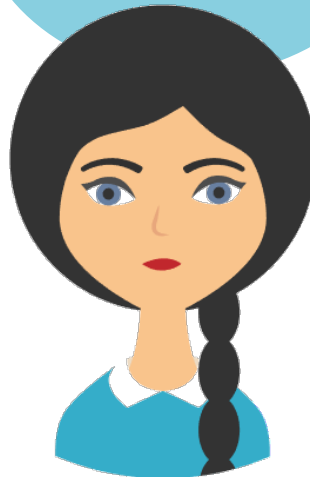
# Common Reasons Why People Don't Save

---

I don't  
make enough  
money to  
save.



I have too  
much debt to  
save.



I don't know  
anything about  
money.



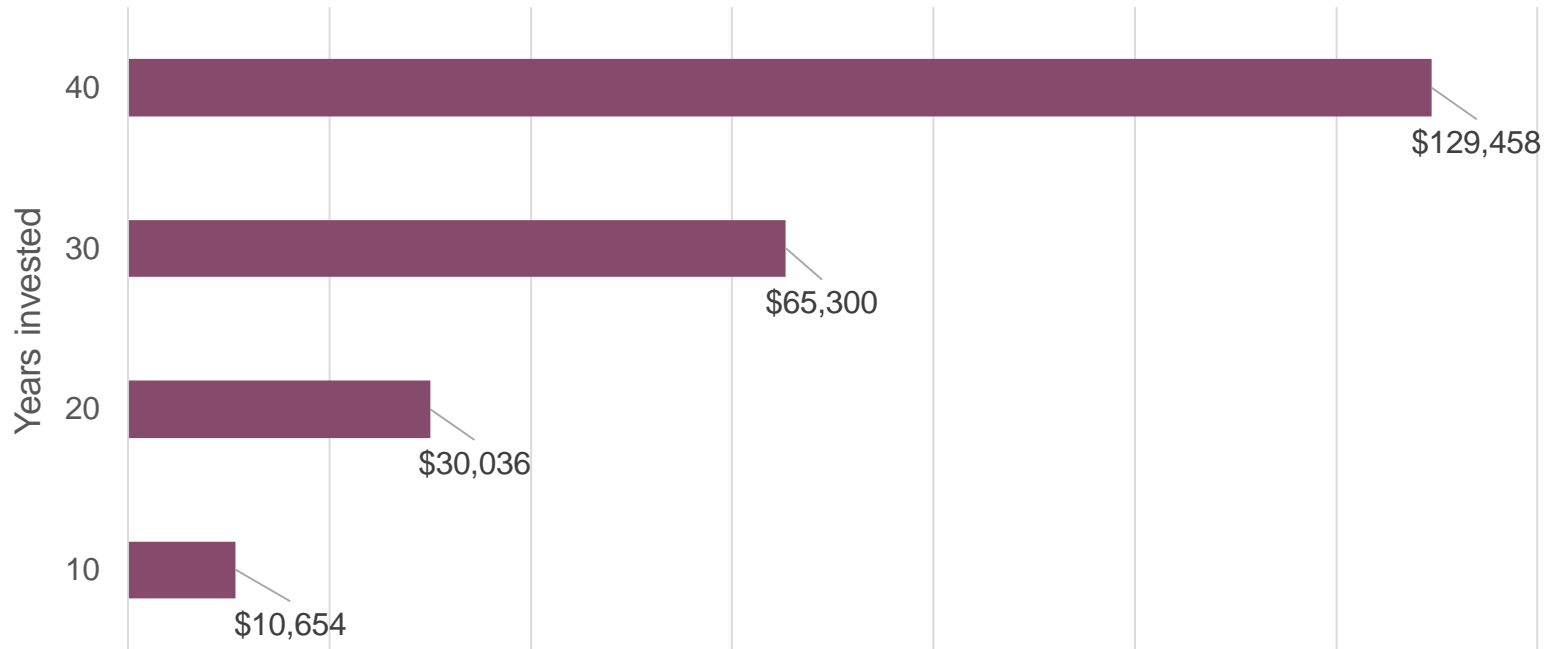
# Start Small



## Brew Up Big Savings

If you cut your spending by about \$15 a week (\$65 a month) and invest that money instead, you could brew up some big savings over time.

Account Value Over Time

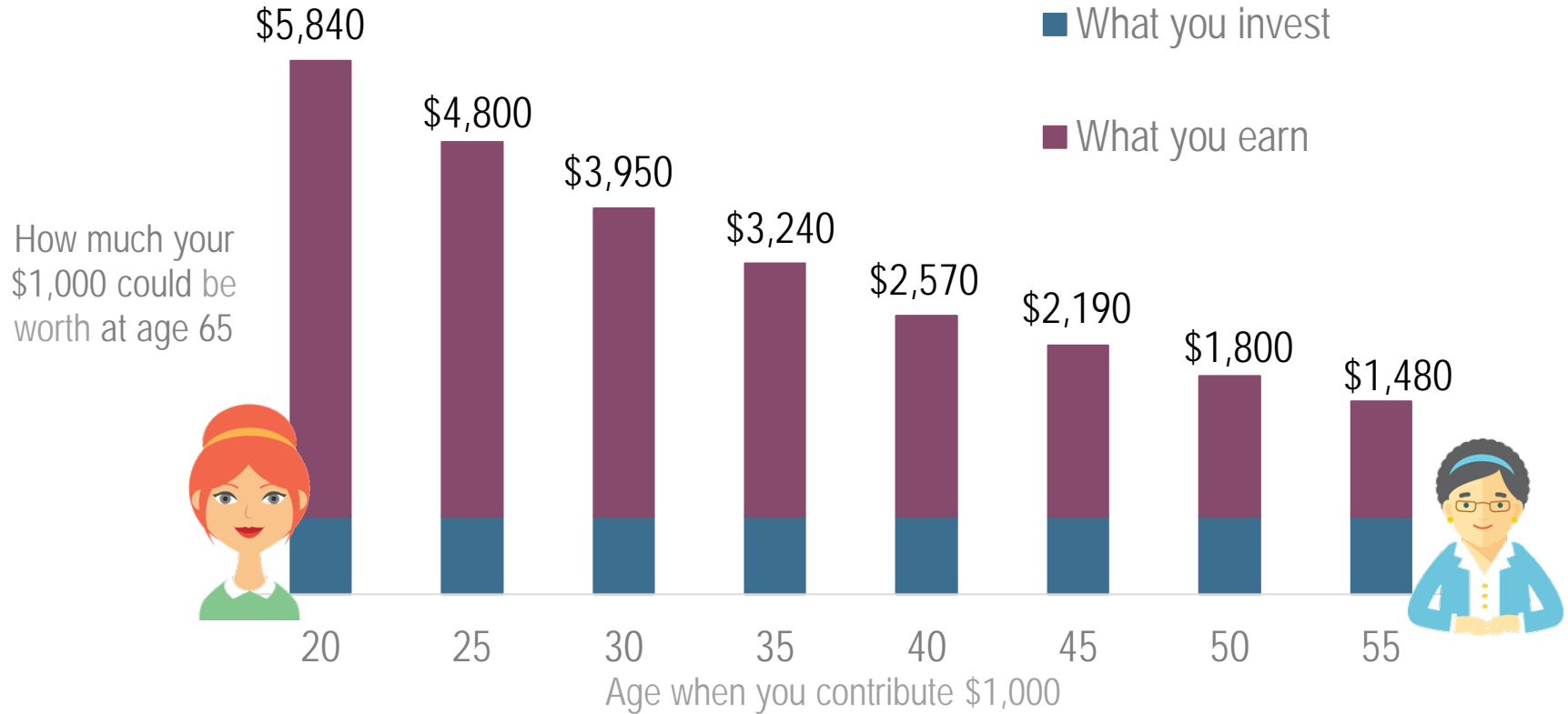


*Assumes a \$65 monthly contribution and a 6% average annual total return*

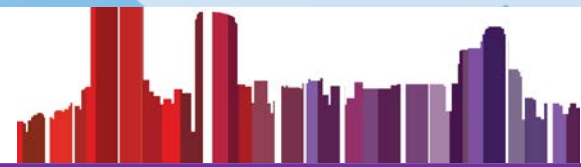
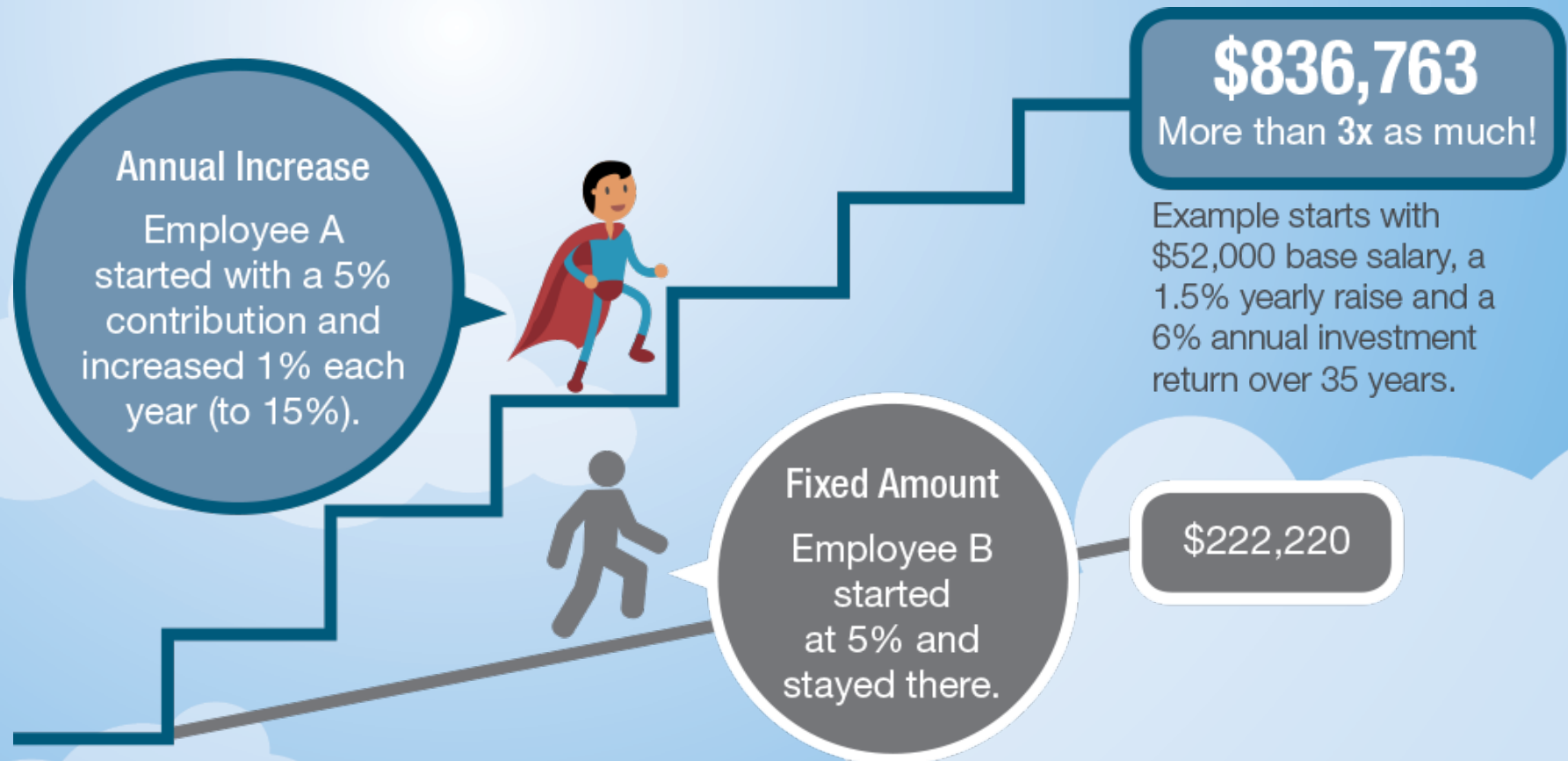




# Start Saving as Early as Possible

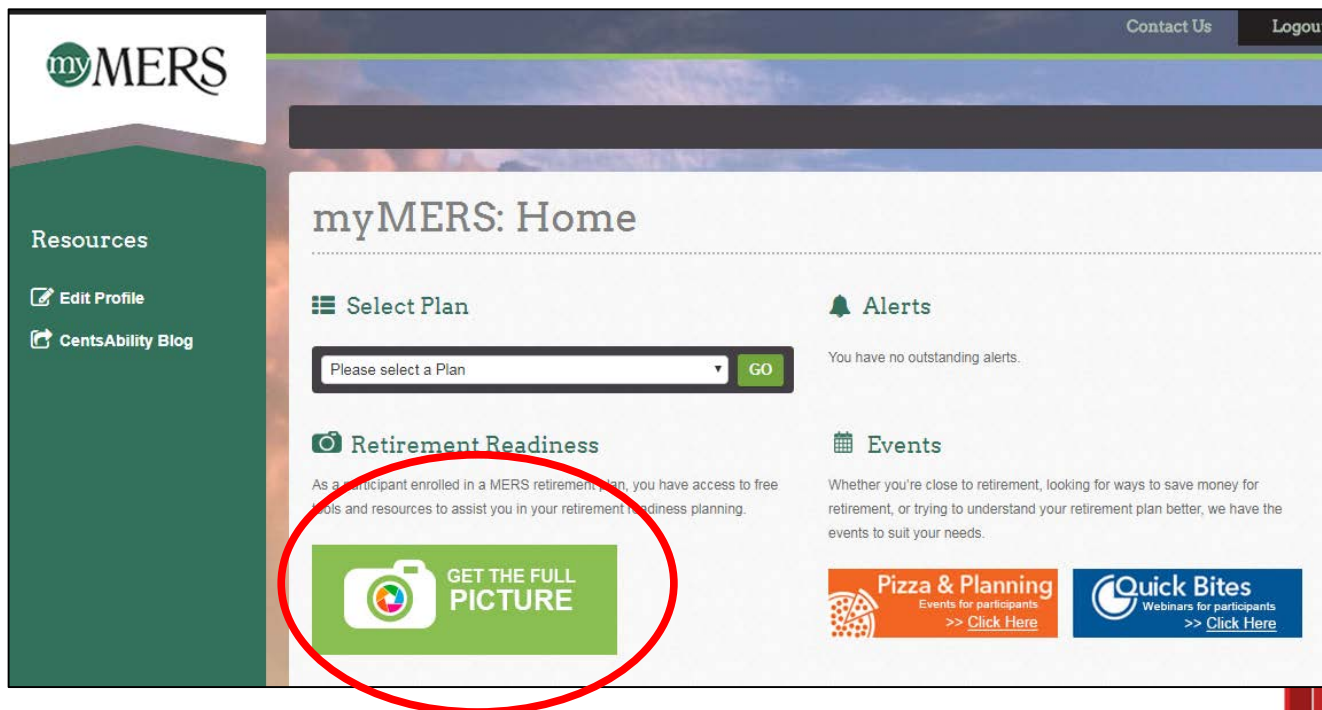


# Consider Annual Escalation



# Get the Full Picture

- Log in to your Full Picture report builder through **myMERS**
- **Customize your retirement goals** and add in spouse information and non-MERS accounts
- **Secure** and private



# Implementing and Monitoring Your Plan



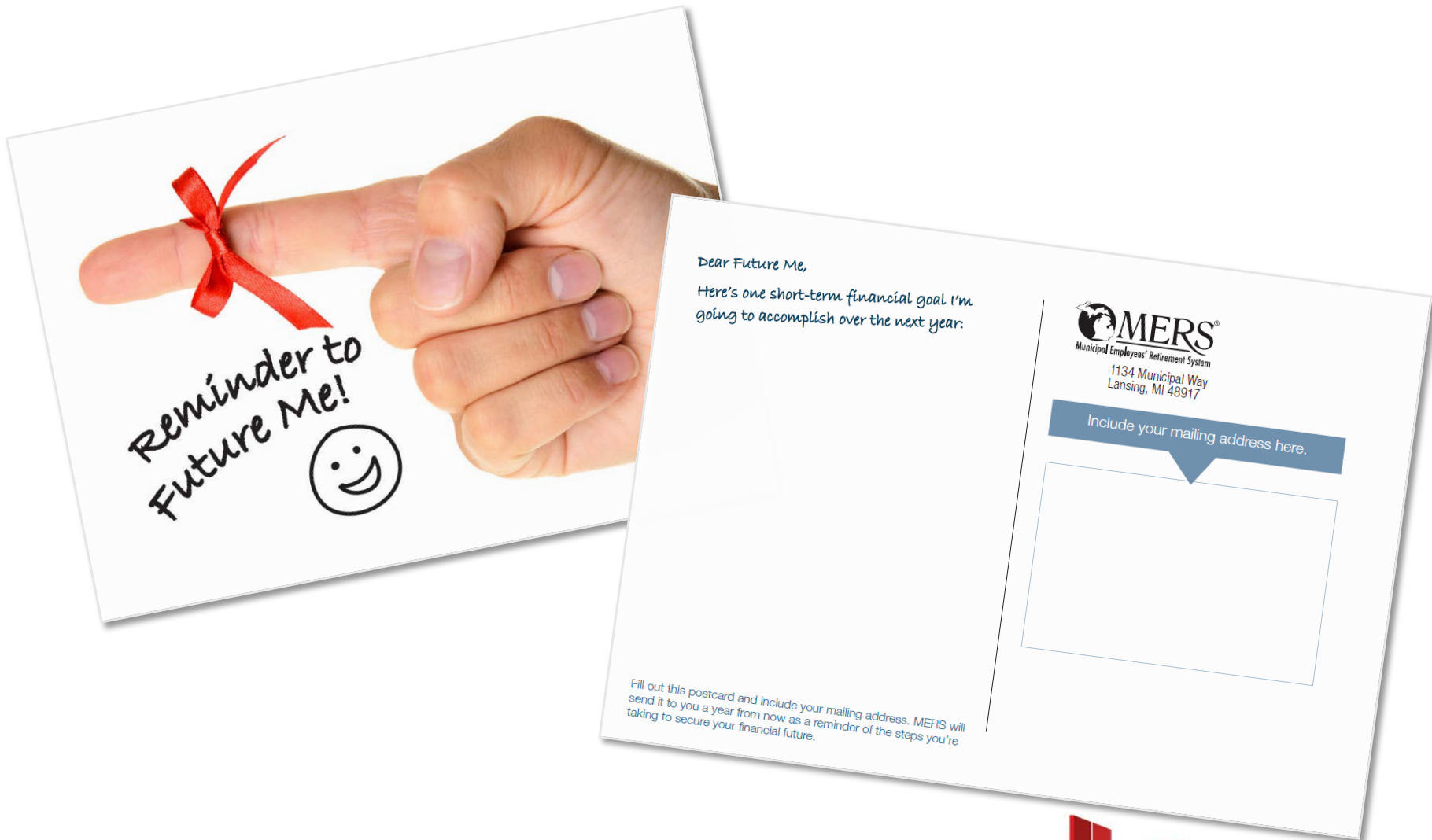
# Monitor Regularly

---

- Determine how often you will revisit your goals to make sure you are still on track – at least **twice a year** is recommended.
- **Make adjustments** as needed
- **Enjoy the benefits** of achieving your goals



# Holding Yourself Accountable



# MERS Resources for Retirement Planning Success



# CentsAbility Blog

---



Visit [www.mersofmich.com/CentsAbility](http://www.mersofmich.com/CentsAbility) to start learning!





# Key Action Items

---



- If you haven't already done so, create and log in to your **myMERS account**
- Complete your **Financial Planning Workbook**
- **Identify your gaps** and strategies to address them
- Complete your **Full Picture Report** and review it often to make sure you are on target to reach your retirement goals



# Key Action Items cont'd

---



- Take advantage of **additional savings opportunities** such as a 457 program
- Visit **[www.mersofmich.com](http://www.mersofmich.com)** for additional retirement tools and resources
- Follow “MERS of Michigan” on **Facebook** for news and financial tips



# Contacting MERS of Michigan

---

## MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM



1134 Municipal Way  
Lansing, MI 48917

800.767.MERS (6377)

[www.mersofmich.com](http://www.mersofmich.com)

