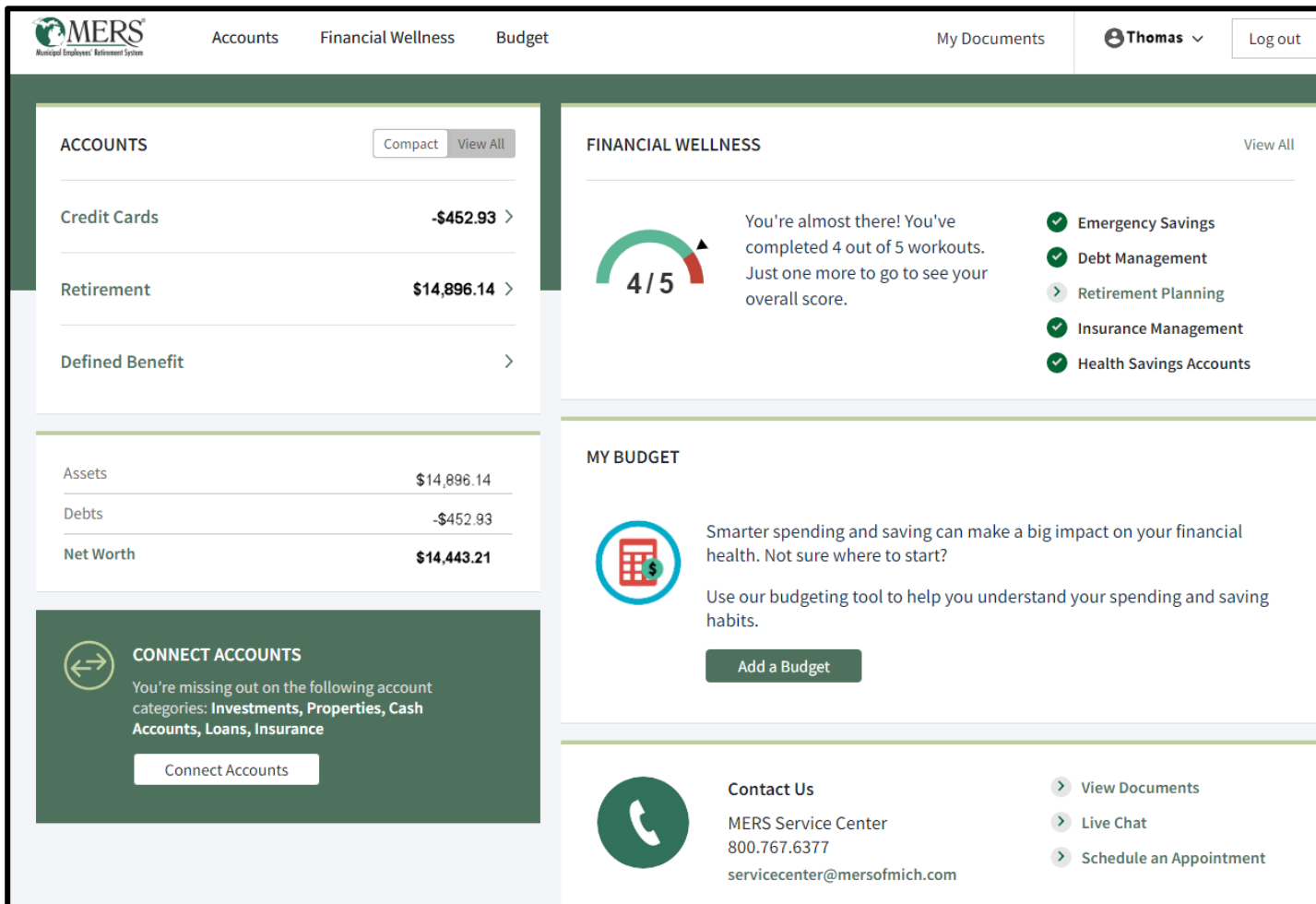


25 Retirement Preparation Do's & Don'ts

Andrew Smith, MERS Benefit Education Specialist
September 2023



1) Do Have a Retirement Strategy



MERS
Municipal Employees' Retirement System


Accounts Financial Wellness Budget My Documents **Thomas** Log out

ACCOUNTS

Compact View All

Credit Cards	-\$452.93 >
Retirement	\$14,896.14 >
Defined Benefit	>

Assets	\$14,896.14
Debts	-\$452.93
Net Worth	\$14,443.21


 **CONNECT ACCOUNTS**

You're missing out on the following account categories: **Investments, Properties, Cash Accounts, Loans, Insurance**

[Connect Accounts](#)


FINANCIAL WELLNESS

View All

 You're almost there! You've completed 4 out of 5 workouts. Just one more to go to see your overall score.


- ✓ Emergency Savings
- ✓ Debt Management
- ▶ Retirement Planning
- ✓ Insurance Management
- ✓ Health Savings Accounts

MY BUDGET

 Smarter spending and saving can make a big impact on your financial health. Not sure where to start?

Use our budgeting tool to help you understand your spending and saving habits.

[Add a Budget](#)

 **Contact Us**

MERS Service Center
800.767.6377
servicecenter@mersofmich.com

- ▶ View Documents
- ▶ Live Chat
- ▶ Schedule an Appointment



2) Don't Pass Up Education Opportunities



One Click
Away



Live and
Recorded
Webinars



Customized
Benefit
Education



3) Do Know How Much You Need



A general rule of thumb is to save

80%

of your pre-retirement income

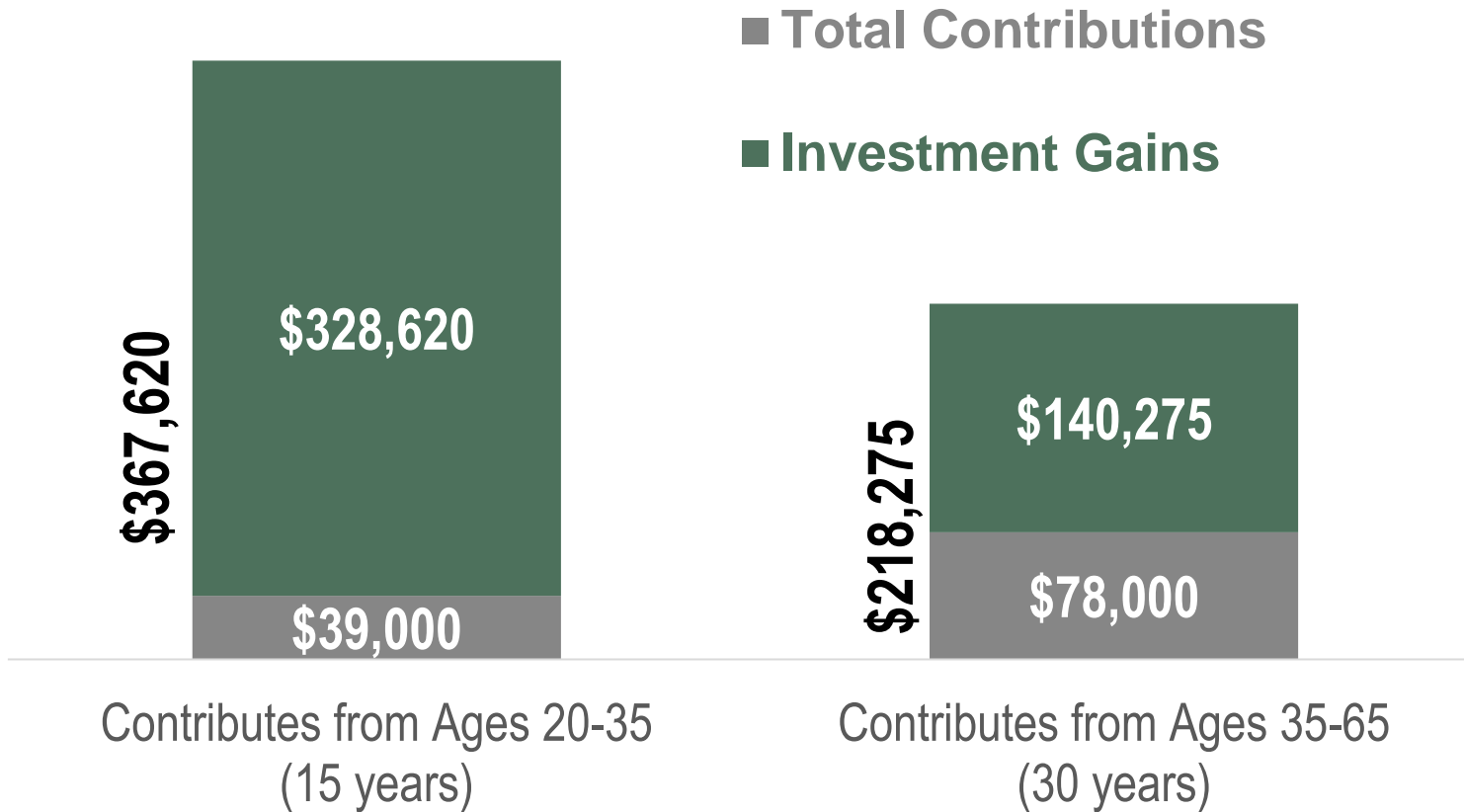
For example, if your salary the year before retirement is **\$75,000** you need **\$60,000** for each year of retirement saved up

If you plan to retire at age **65** and expect to live to at least 90 years of age, you'd need

\$1.2 million in savings



4) Don't Wait to Get Started





5) Do Contribute a Percentage

Contributing a percentage of pay versus a flat dollar amount can result in a higher account balance at retirement.

	% of Pay (4% / pay period*)	Flat Dollar (\$50 / pay period*)	Difference
Total Contributions	\$78,523	\$52,000	\$26,523
Total Investment Earnings	\$202,962	\$164,509	\$38,453
Account Balance at 65	\$281,485	\$216,509	\$64,976

Example assumes:

Starting pay: \$32,500 Annual wage increase: 2%

Current age: 25 Retirement age: 65

Investment return: 6% 26 pay periods/year

**30%
More!**



6) Do Increase Contributions

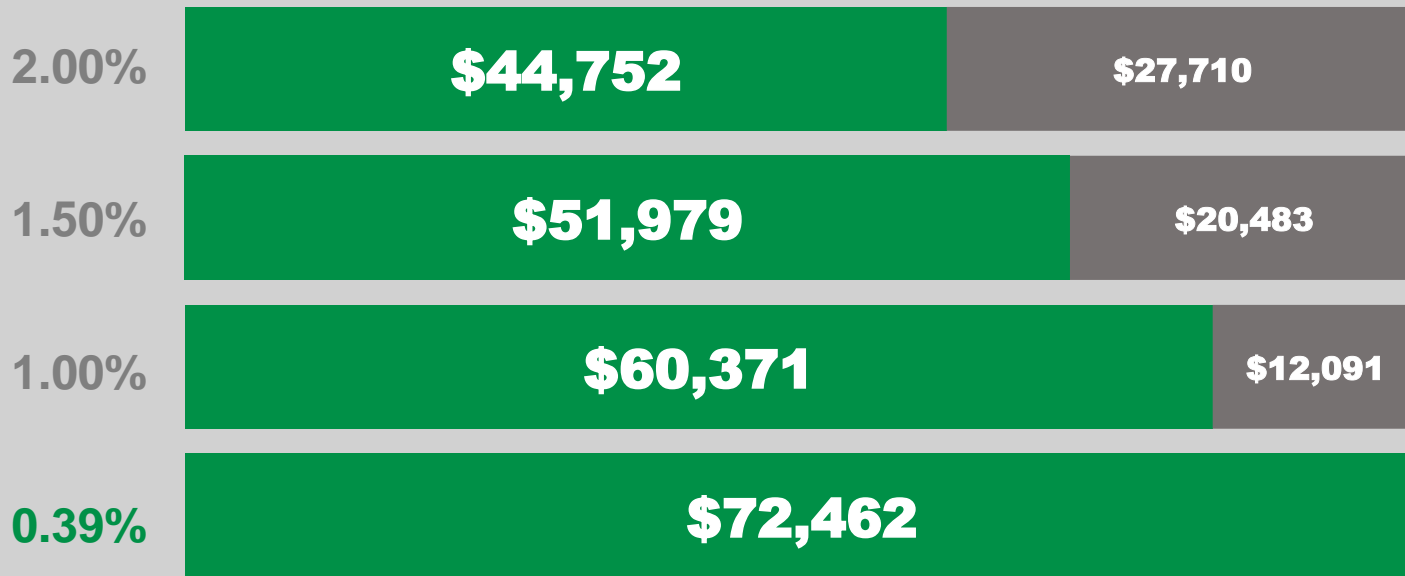




7) Don't Pay Too Much in Fees

Growth of \$10,000 over 30 years (after fund expenses)

■ Account Balance ■ Amount Paid in Higher Fees



*This hypothetical example illustrates the effect fees can have on \$10,000 growing for 30 years, at an **annual return of 7%**, before the different investment costs are considered.*



8) Do Choose the Right Investments



MERS Investment Menu

1

Do it for me

- Fully diversified target date funds that automatically adjust over time

2

Help me do it

- Prebuilt portfolios that are monitored and rebalanced quarterly

3

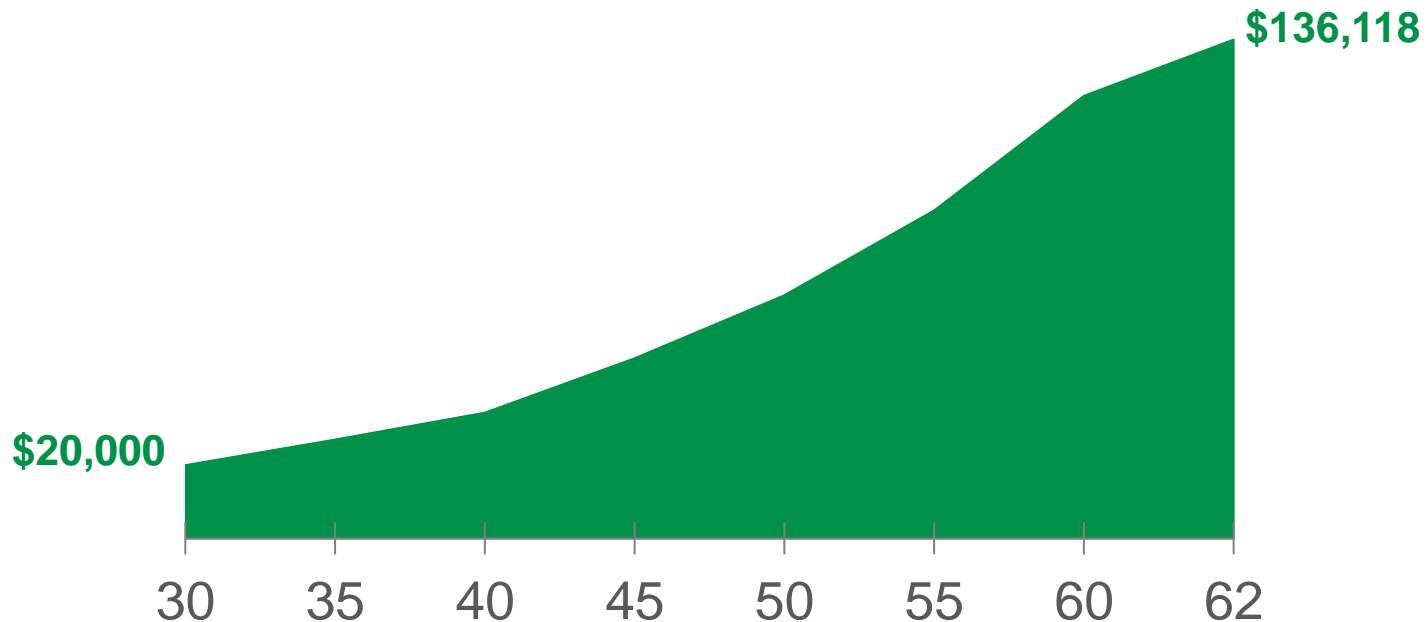
I'll do it myself

- Personal choice retirement account to access funds outside of MERS



9) Don't Take a Loan from Your Retirement

Effect on your account balance when taking a \$20,000 loan

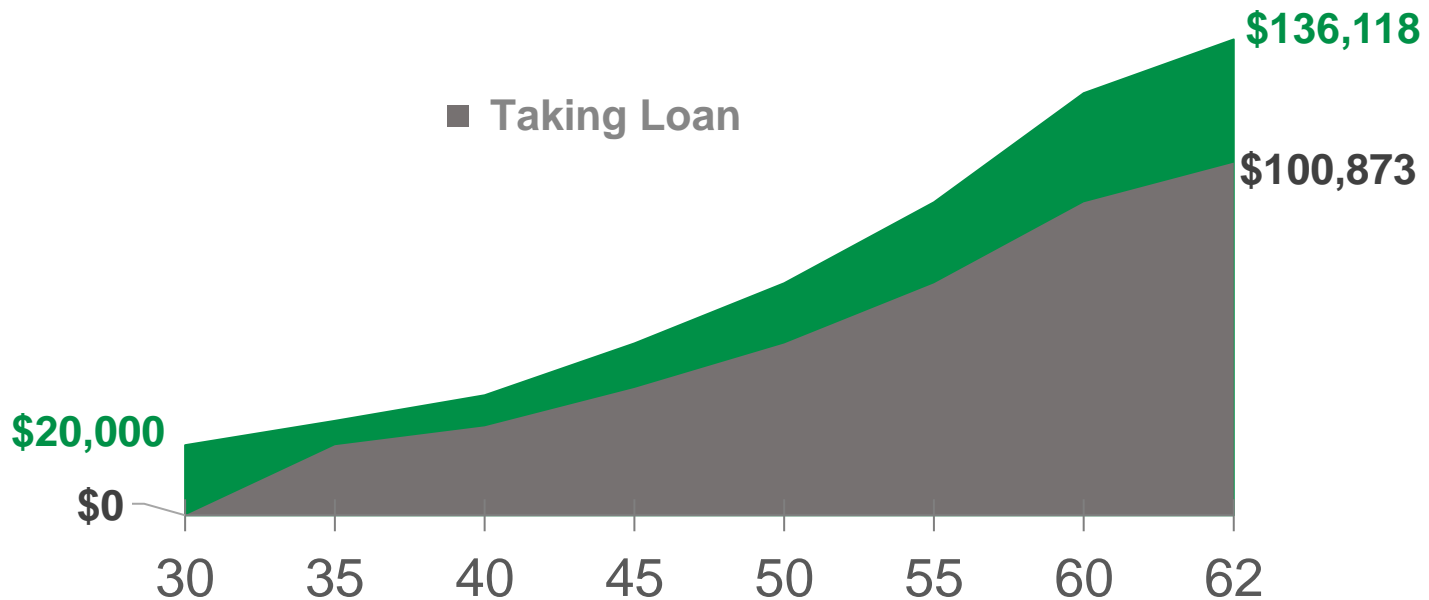


Example: Mary takes a \$20,000 loan from her retirement account and repays it over 5 years at 4% interest. Her retirement account is projected to receive a 6% investment return.



9) Don't Take a Loan from Your Retirement

Effect on your account balance when taking a \$20,000 loan



Example: Mary takes a \$20,000 loan from her retirement account and repays it over 5 years at 4% interest. Her retirement account is projected to receive a 6% investment return.



10) Don't Cash Out Accounts Between Jobs

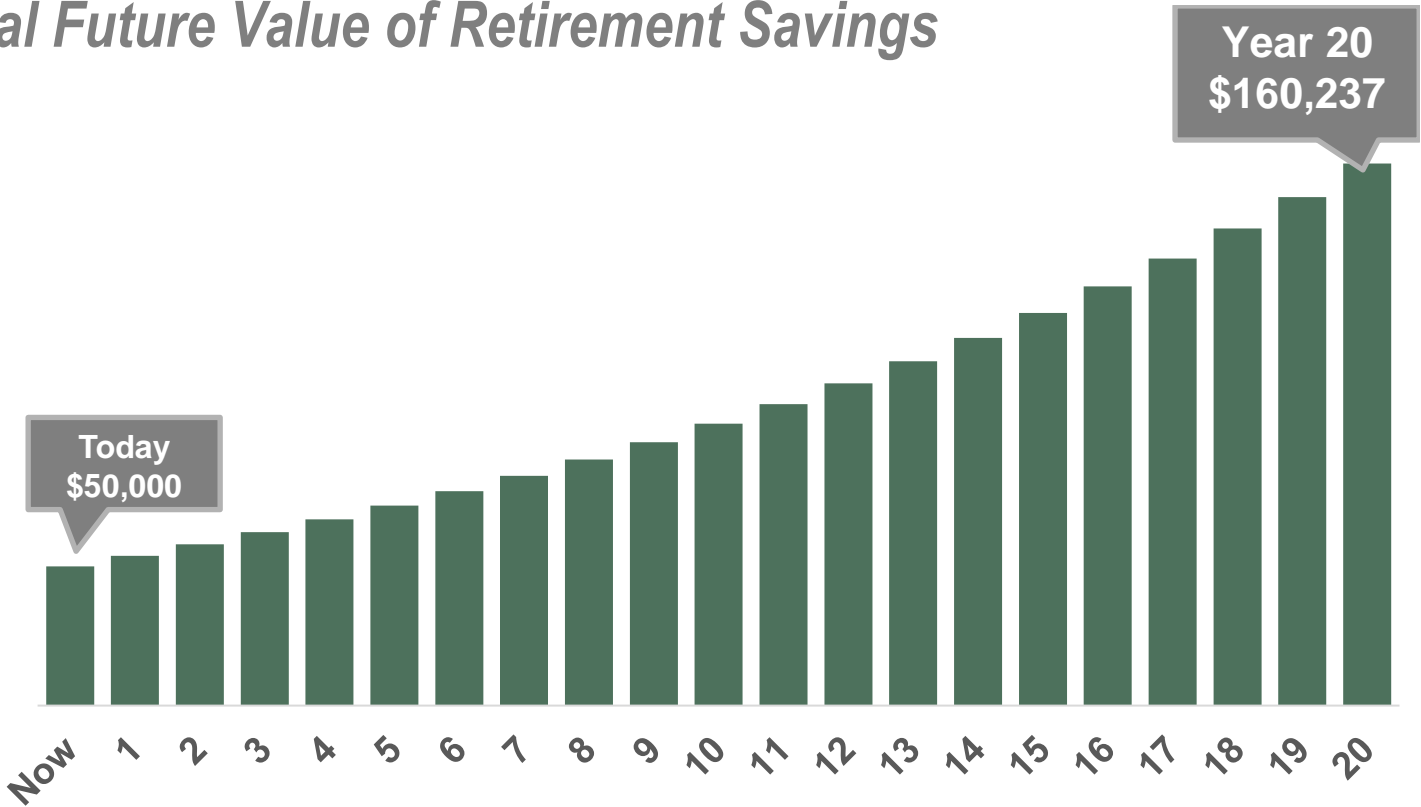
Effect of early withdrawal of a defined contribution plan balance of \$50,000

Taxes/Penalties Owed	Assumed Rate	Amount
Federal Income Tax	22%	\$11,000
State Income Tax	4%	\$2,000
Early Withdrawal Penalty	10%	\$5,000
Total Taxes/Penalties You Pay:		\$18,000
Amount You Receive:		\$32,000

This example assumes a hypothetical 22% federal income tax rate, 4% state income tax and a standard 10% penalty for early withdrawal. It also assumes the distribution is taken before separation at age 55 or later.

Impact of Keeping Your Money Invested

Potential Future Value of Retirement Savings





11) Don't Prioritize Education Savings Over Retirement

- There are more options to pay for college than there are for retirement (i.e., scholarships, grants, student loans, work study)
- It's easier for your child to pay off student loans than it is for you to work in retirement
- Interest rates on student loans are often less than the returns you'll get from investing your money
- Your children will be less likely to have to care for you as you age





12) Do Plan for Medical Expenses

The average 65-year-old couple should plan to spend
\$315,000*
for out-of-pocket health care expenses in retirement

*Assumes couple is enrolled in Medicare Parts A, B and D
Source: 2022 Fidelity Retiree Health Care Cost Estimate



13) Do Calculate How Long Retirement Will Be

	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	91 years	93 years	97 years

“Target Age to Save For” is the Life Expectancy age plus 5 years to reduce the chance of running out of assets to draw down.

Source: <https://www.longevityillustrator.org/calculator>, using the 2017 Social Security Administration mortality table, with future mortality improvement using the Society of Actuaries RP-2019 scale, for an individual of “average health” and a “non-smoker.”



14) Don't Retire Too Early

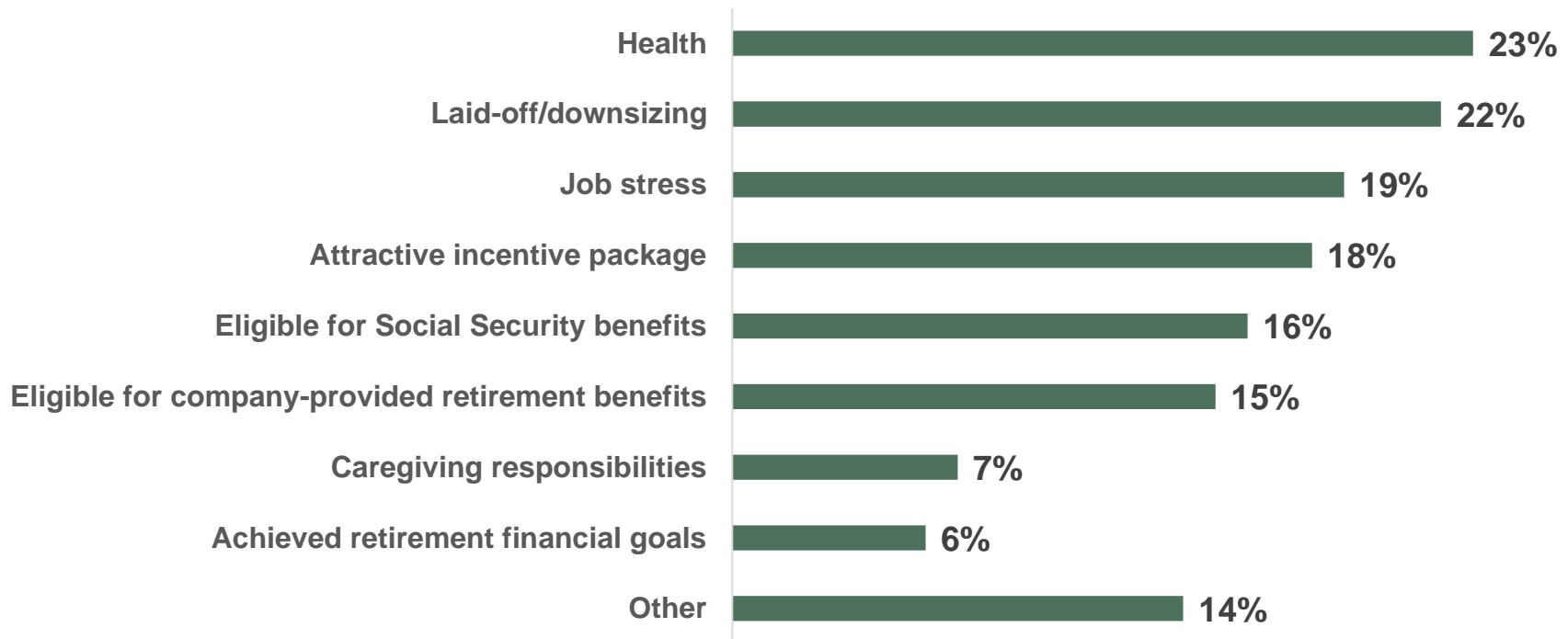
Disadvantages:

- Less time to save
- More years to fund
- Social Security benefits could be greatly reduced depending on when you decide to or need to draw
- Insurance gap



15) Don't Believe You'll Continue Working

A recent survey asked people why they retired earlier than expected

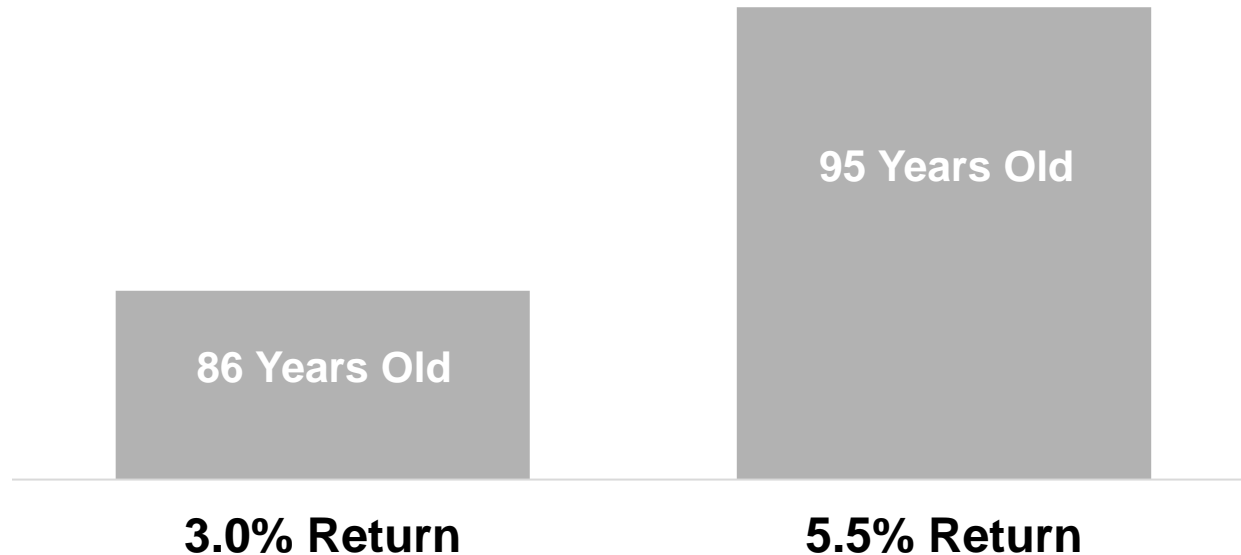


**Respondents could select more than one option
Source: Kaplan Financial Education 2021*



16) Don't Invest Too Conservatively

- How long would monthly payments last?



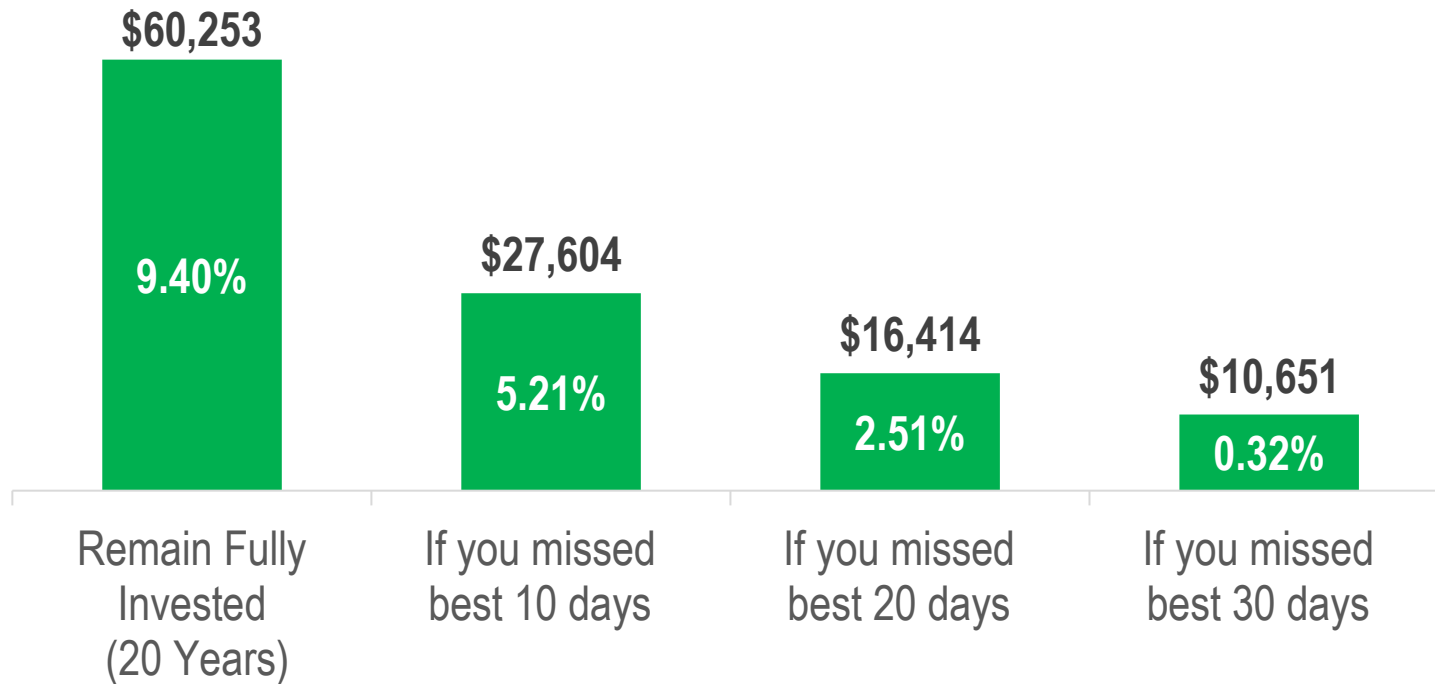
Example: Participant retires at age 60 and draws down a \$500,000 account balance by taking a \$2,000 monthly payment, adjusting it upward with inflation at 3.0% each year.

History of Market Volatility



Market Volatility

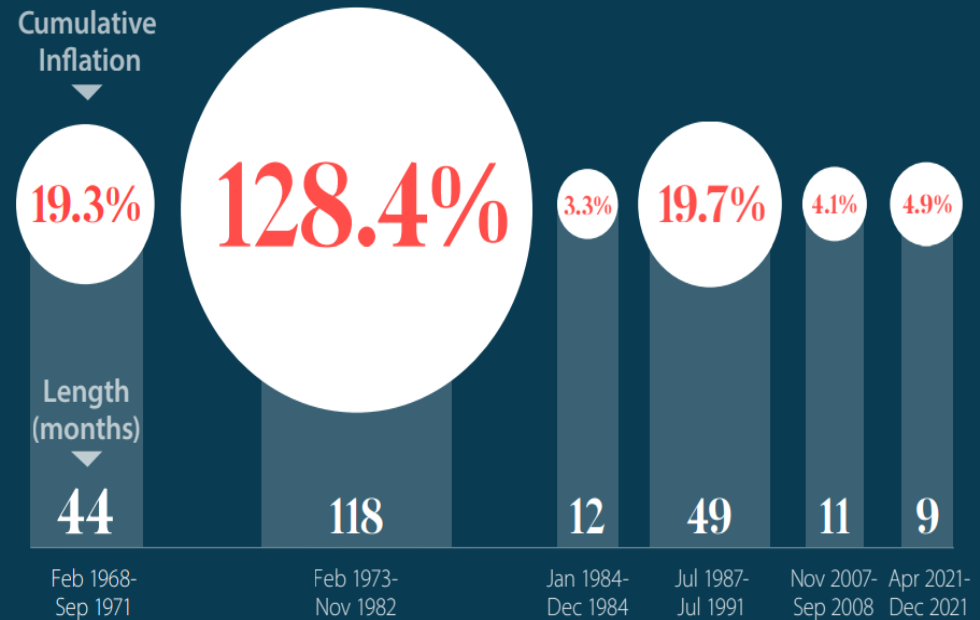
Value of \$10,000 invested in S&P 500 Index Feb. 1, 2000 – Jan 31, 2022 with an average annual rate of return





17) Do Consider Inflation

Since 1965, there have been 6 periods of sustained high inflation*.



* Year-over-year inflation is at least 3.9% for 6 consecutive months or more.

Source: U.S. Inflation Calculator (Jan 2022),
U.S. Bureau of Labor Statistics via St. Louis Federal Reserve (Jan 2022)

Impact of Inflation

\$2,200,000
Before Inflation

\$1,500,000
After Inflation



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18) Don't Have Unrealistic Expectations for Retirement





19) Do Pay Off Debt Before Retiring

The screenshot displays the myMERS website interface. At the top, there are navigation links for 'Accounts', 'Financial Wellness', and 'Budget'. On the right side, there are links for 'My Documents', a user profile icon, and a 'Log out' button.

The main content area is divided into two columns. The left column is titled 'DEBT MANAGEMENT' and features a large gauge showing a score of 13 out of 25. Below the gauge, it states: 'Your Debt Management score is 13 out of 25. You're on the right track! If you haven't already, make a plan to begin paying off your debts. We've categorized your debts into high, medium, and low payoff priority. Focus on paying off the high priority debts first.' A 'Debt Amount' of \$179,865.27 is shown with a progress bar. At the bottom of this section are buttons for 'View All Workouts' and 'Modify'.

The right column is titled 'LINKED ACCOUNTS' and includes a 'Payoff Priority' indicator. It lists two accounts: 'Mortgage' with a balance of \$179,444.20 and a 'Low' priority, and 'Premium Rewards Vi...' with a balance of \$421.07 and a 'High' priority. Below this is a 'Contact Us' section with a phone icon, the text 'MERS Service Center', the phone number '800.767.6377', and the email address 'servicecenter@mersofmich.com'.

At the bottom of the page, there is a footer with the text: '©2023 Municipal Employees' Retirement System. All rights reserved. Terms of Use Privacy Accessibility 800.767.6377'.

Choose a Plan that Works for You



Snowball Method

- Pay off smallest debts first, then work your way through the biggest debts

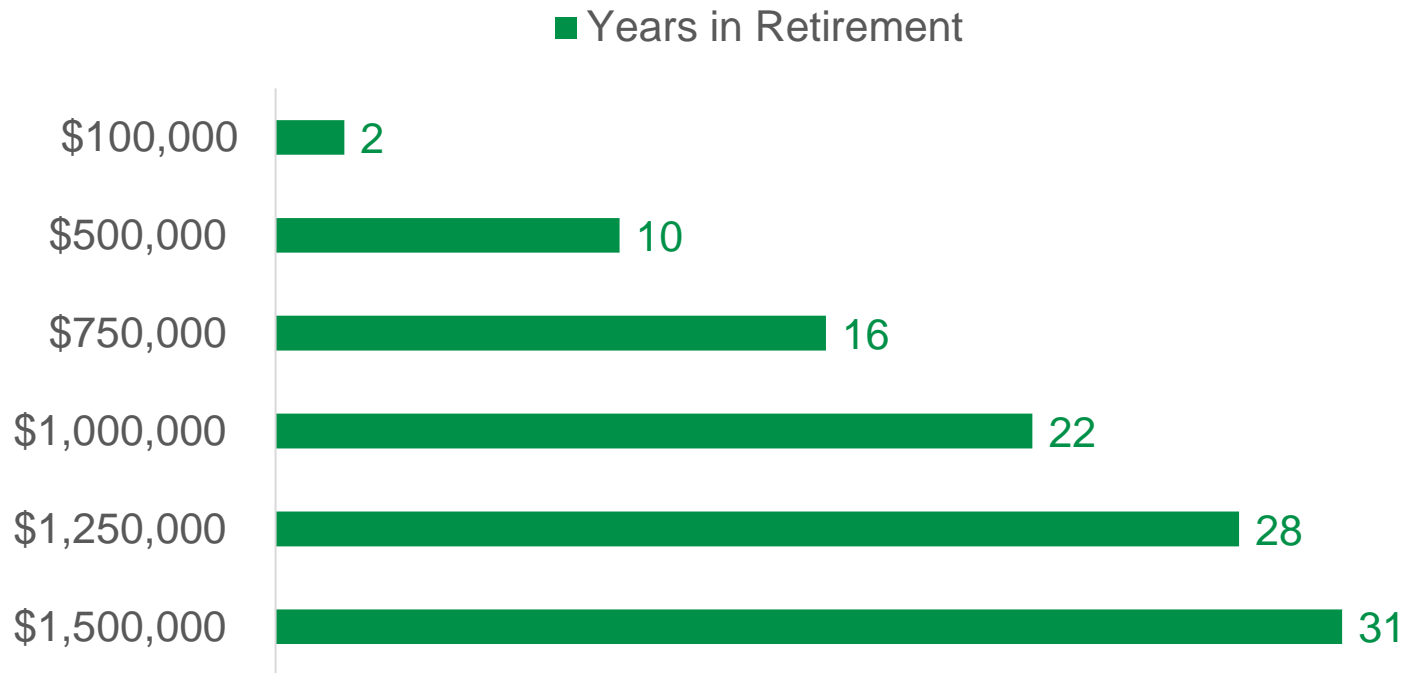
Avalanche Method

- Start by paying off debts with the highest interest rate, then work your way down to debts with low-to-no interest



20) Don't Burn Through Your Retirement Account

How long will your savings last?



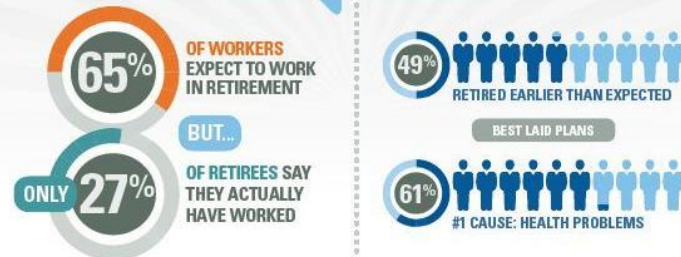
Example assumes an annual withdrawal rate of \$50,000/year, a 6% rate of return and a 5% inflation rate



21) Don't Assume You'll Work in Retirement

RETIREMENT REALITY

REALITY CHECK



TAKING ACTION MATTERS

THOSE WITH A RETIREMENT PLAN ARE...



RUN A CALCULATION



RECEIVE ADVICE



RETIRE AS PLANNED

Source: Employee Benefit Research Institute Retirement Confidence Survey



22) Do Keep Beneficiaries Updated

List your **LOVED ONES**

Naming a BENEFICIARY is important. Make sure yours are up to date.



Review online today



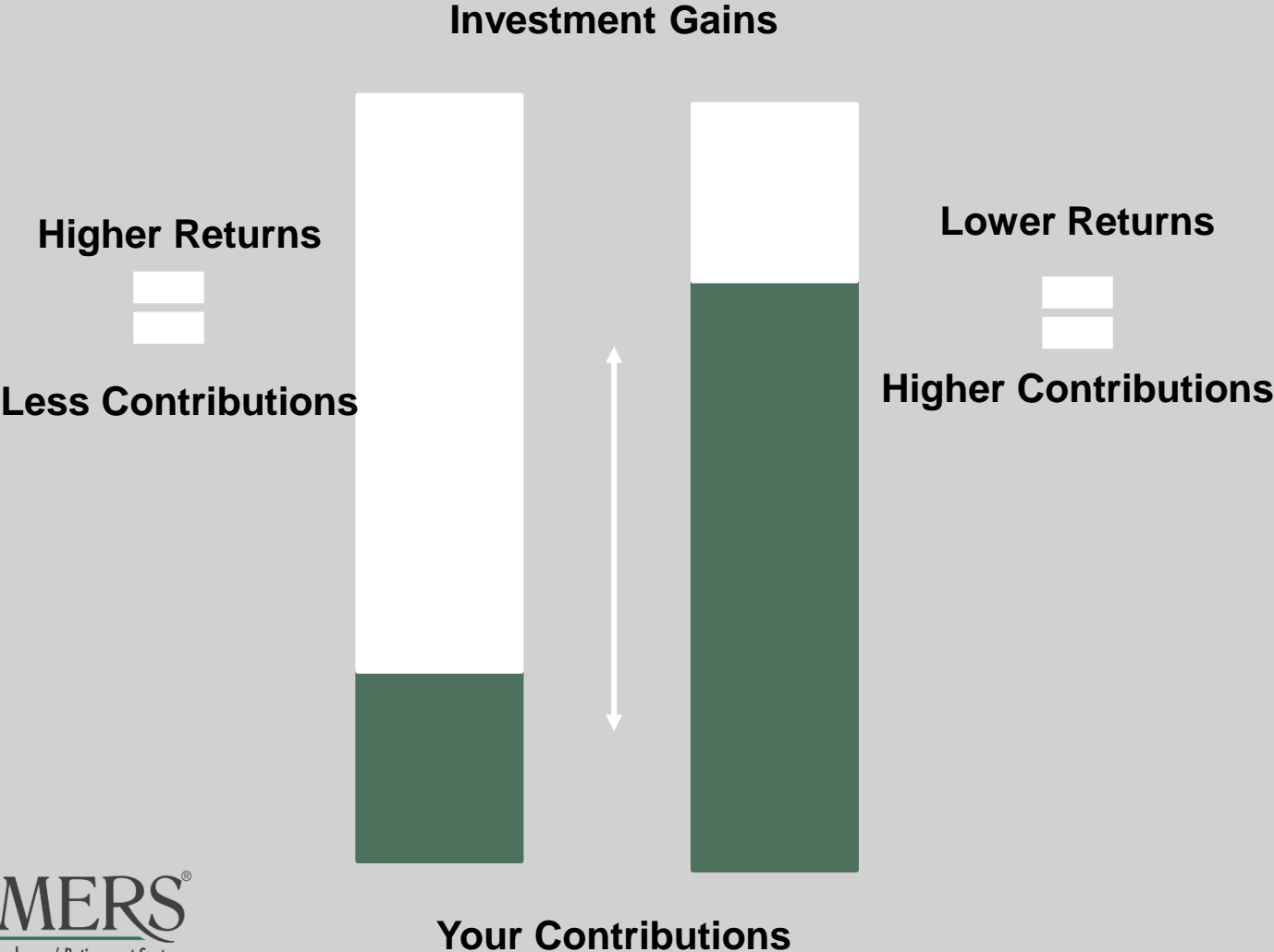
23) Don't Stress About Starting Late

Strategies to help you get on track

1. Consider your investment risk
2. Make “catch-up” contributions
3. Reduce expenses in retirement



Strategy 1: Consider Your Investment Risk



Strategy 2: Make Catch-Up Contributions

THE POWER OF CATCH-UP CONTRIBUTIONS

Yearly Maximum Contribution + Catch-Up

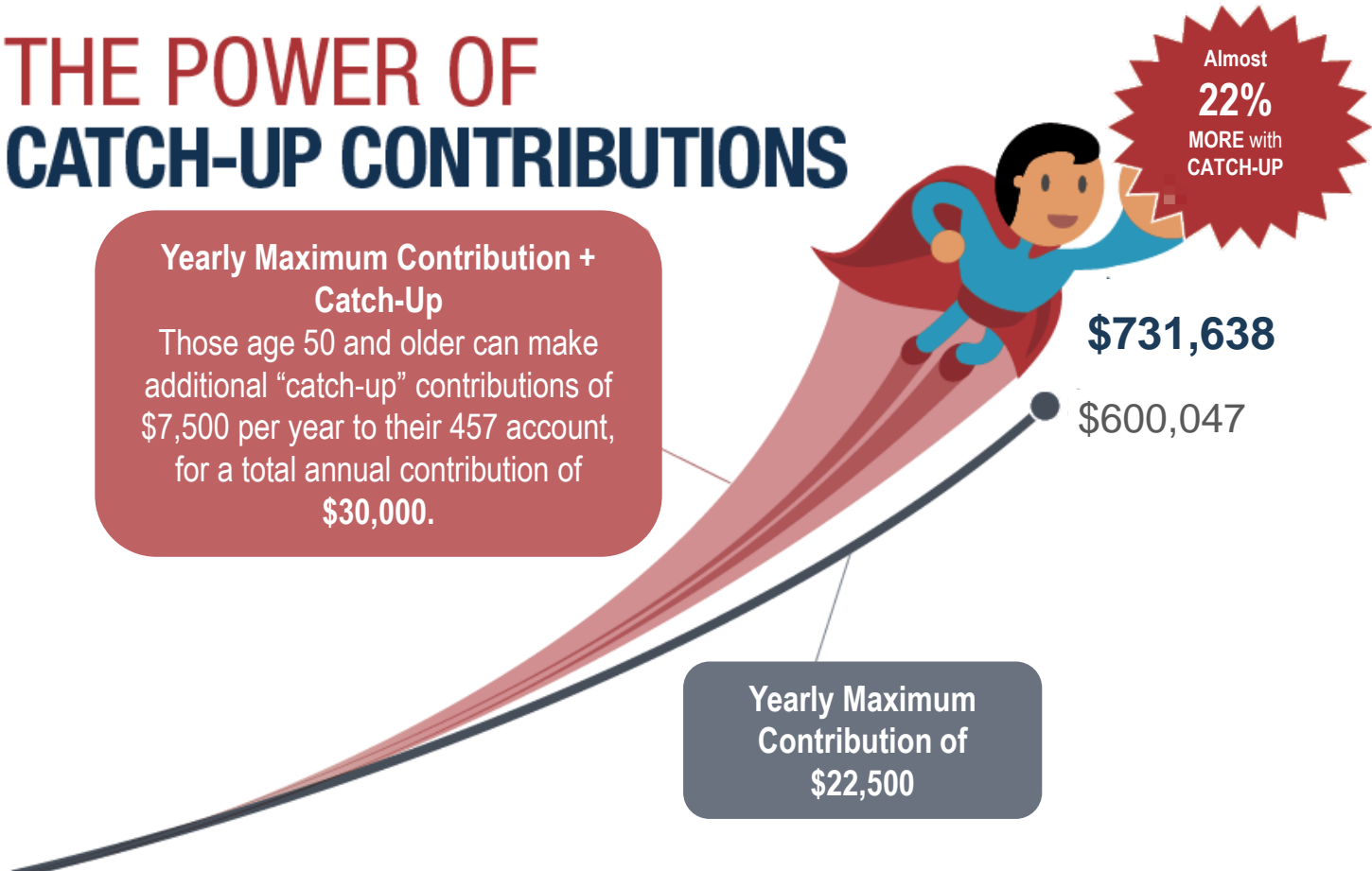
Those age 50 and older can make additional “catch-up” contributions of \$7,500 per year to their 457 account, for a total annual contribution of **\$30,000**.

Yearly Maximum Contribution of **\$22,500**

\$731,638

\$600,047

Almost **22% MORE** with CATCH-UP

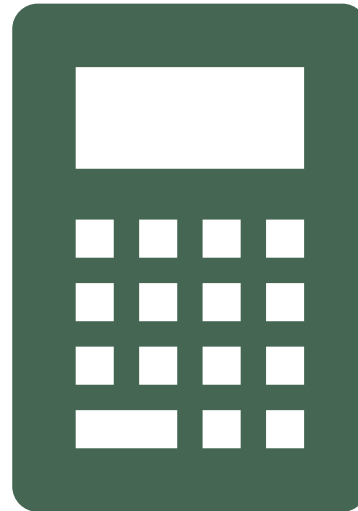


Example: Based on a starting balance of \$100,000 at age 50 and assumed investment return of 6% per year until age 62, which is not representative of the performance of any investment.

Strategy 3: Reduce Expenses in Retirement

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

Savings Goal:
\$425,000



$$\begin{array}{r} \$75,000 \\ \times 75\% \\ \hline \$56,250 \end{array}$$

New Savings Goal:
\$275,000



24) Do Learn About Social Security

www.ssa.gov



Calculators



Benefits Planner



FAQs

Get answers to frequently asked questions about Social Security.



Retirement Estimator

Calculate your benefits based on your actual Social Security earnings record.



my Social Security

Check out your *Social Security Statement*, change your address & manage your benefits online today.

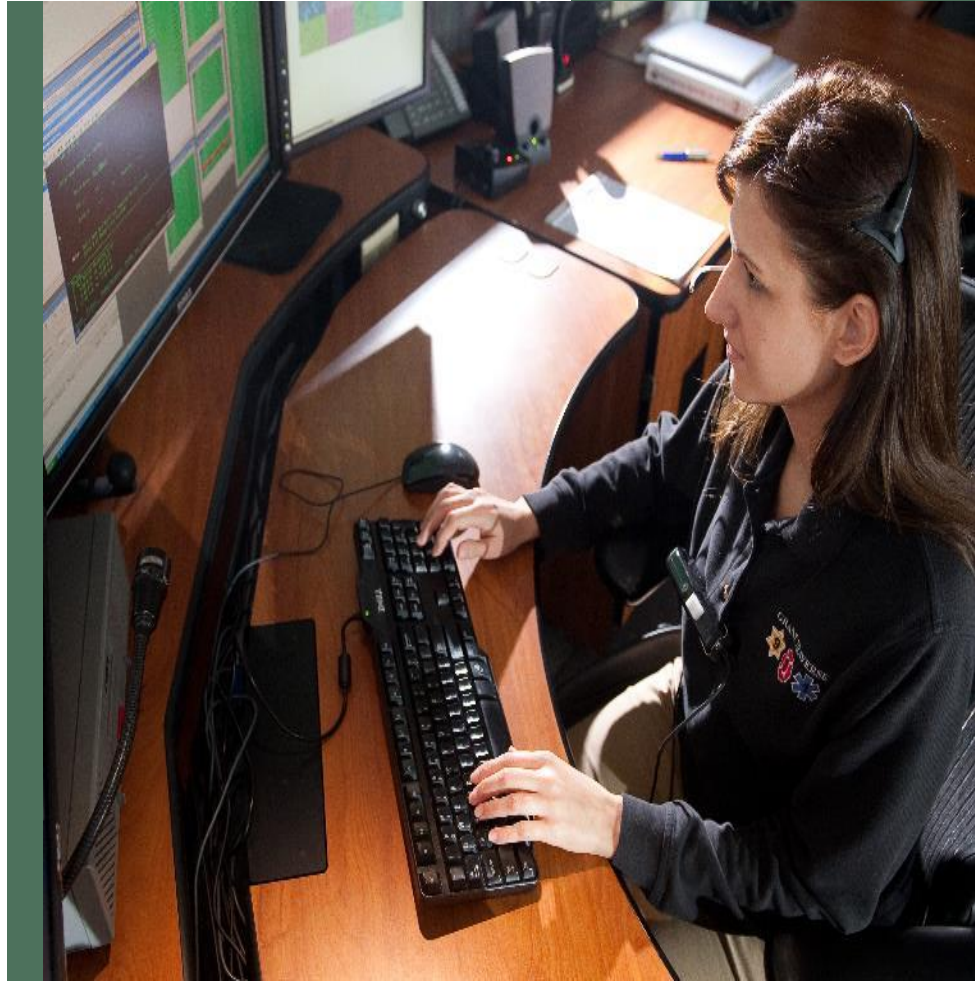


25) Do Review Retirement Plan with Your Spouse

- Discuss details of your retirement plan(s)
- Make sure you are both taking advantage of an employer match, if available
- Compare investment options and fees
- Discuss pension payment options, if applicable



Key Takeaways



Key Takeaways

Create
your
myMERS
account

Create a
budget
and stick
to it

**Save,
save,
save!**

Attend
education
al events

Work on
paying
down
debt

MERS of Michigan

1134 Municipal Way
Lansing, MI 48917

800.767.6377

www.mersofmich.com



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