Municipal Employees' Retirement System

25 Retirement Preparation Do's & Don'ts

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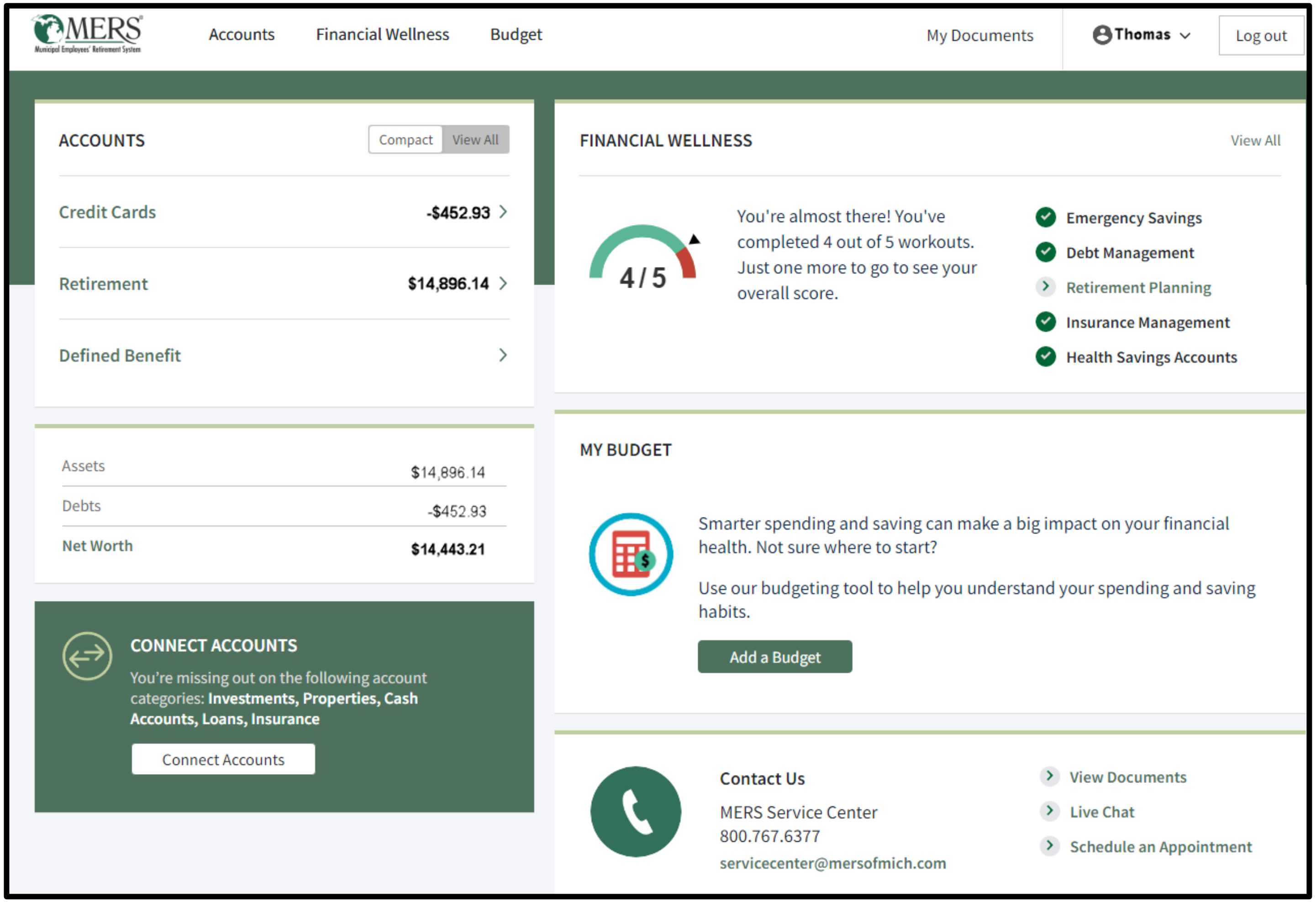
September 2023

1) Do Have a Retirement Strategy



2) Don’t Pass Up Education Opportunities

One Click Away

Live and Recorded Webinars

Customized Benefit Education

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3) Do Know How Much You Need

A general rule of thumb is to save

80%

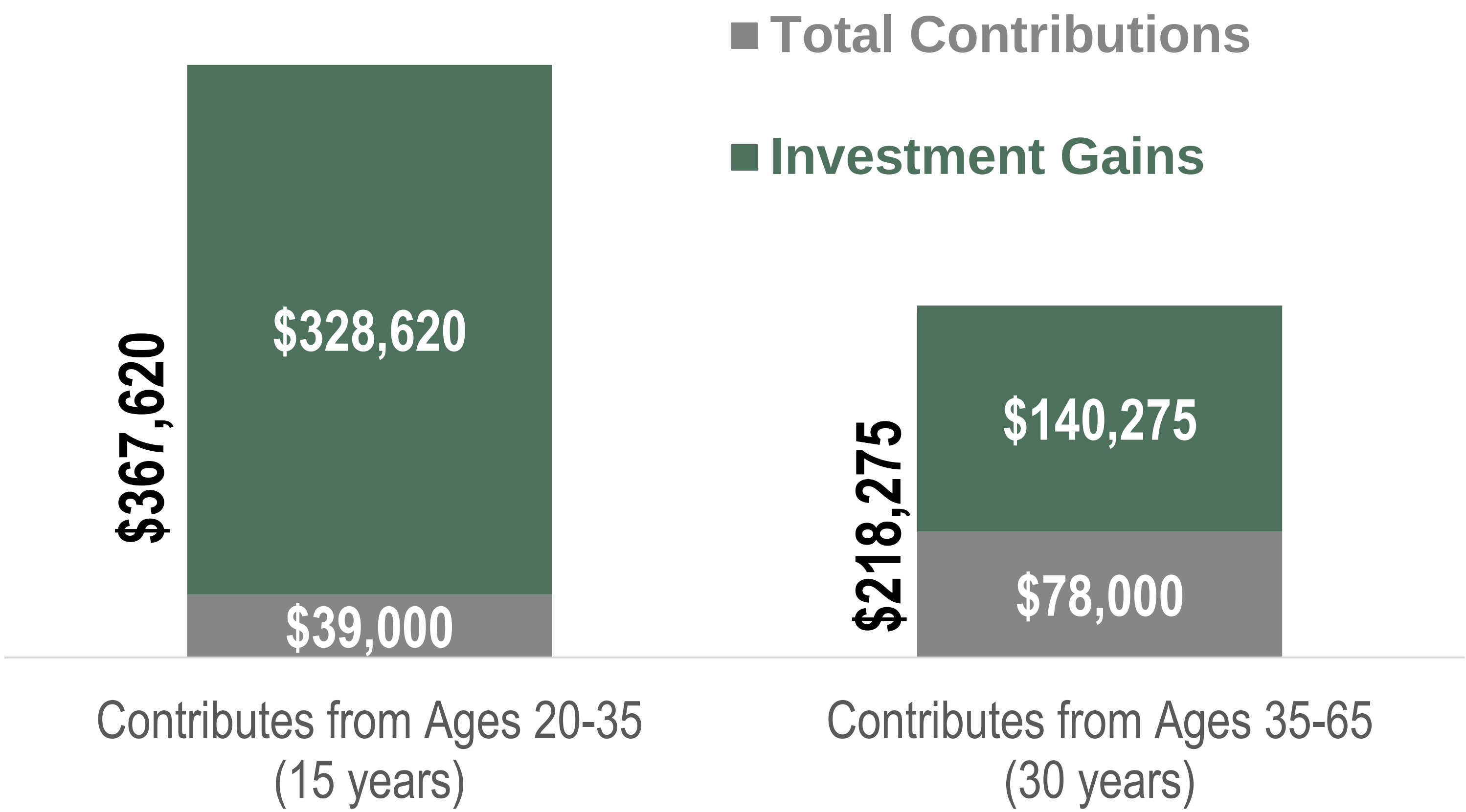
of your pre-retirement income

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



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

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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

30% More!

Example assumes:

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

Current age: 25 *Retirement age: 65*

Investment return: 6% *26 pay periods/year*

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6) Do Increase Contributions

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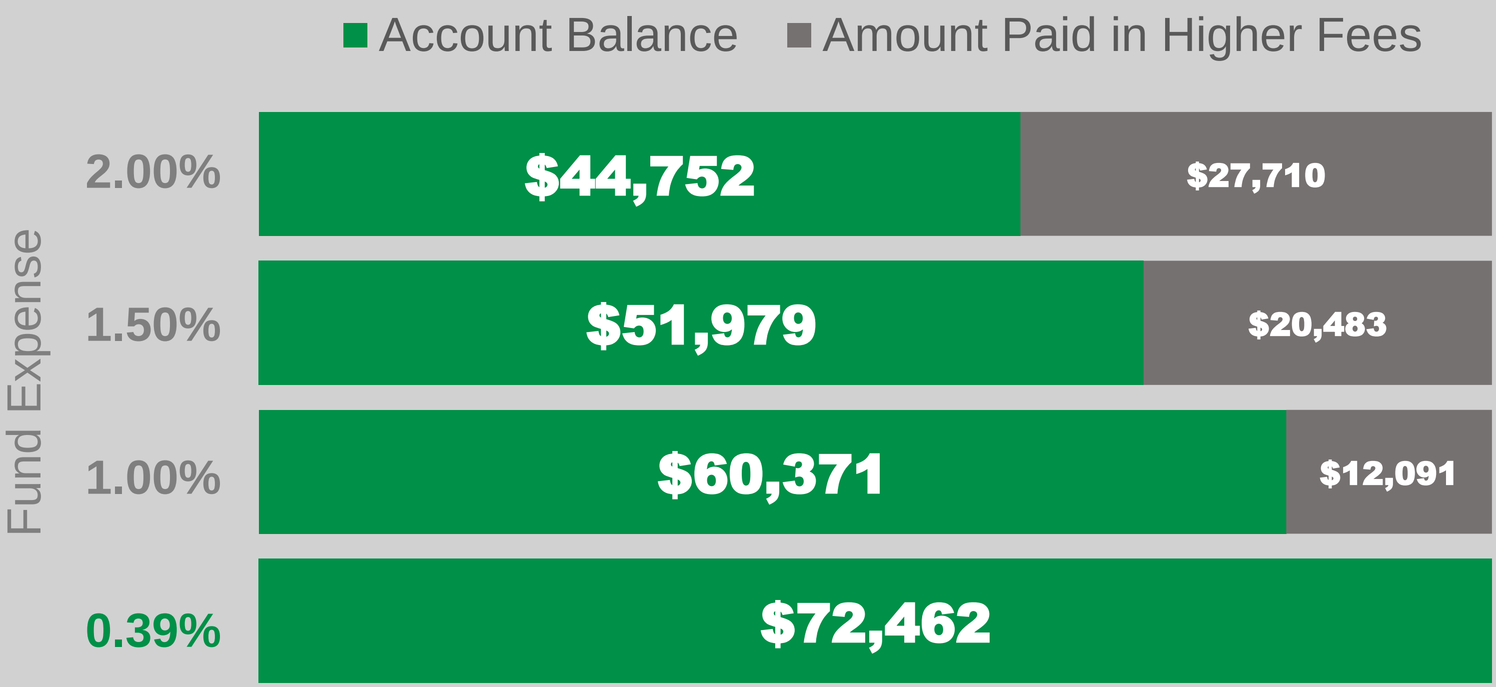
7) Don’t Pay Too Much in Fees

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



*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.*

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8) Do Choose the Right Investments

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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

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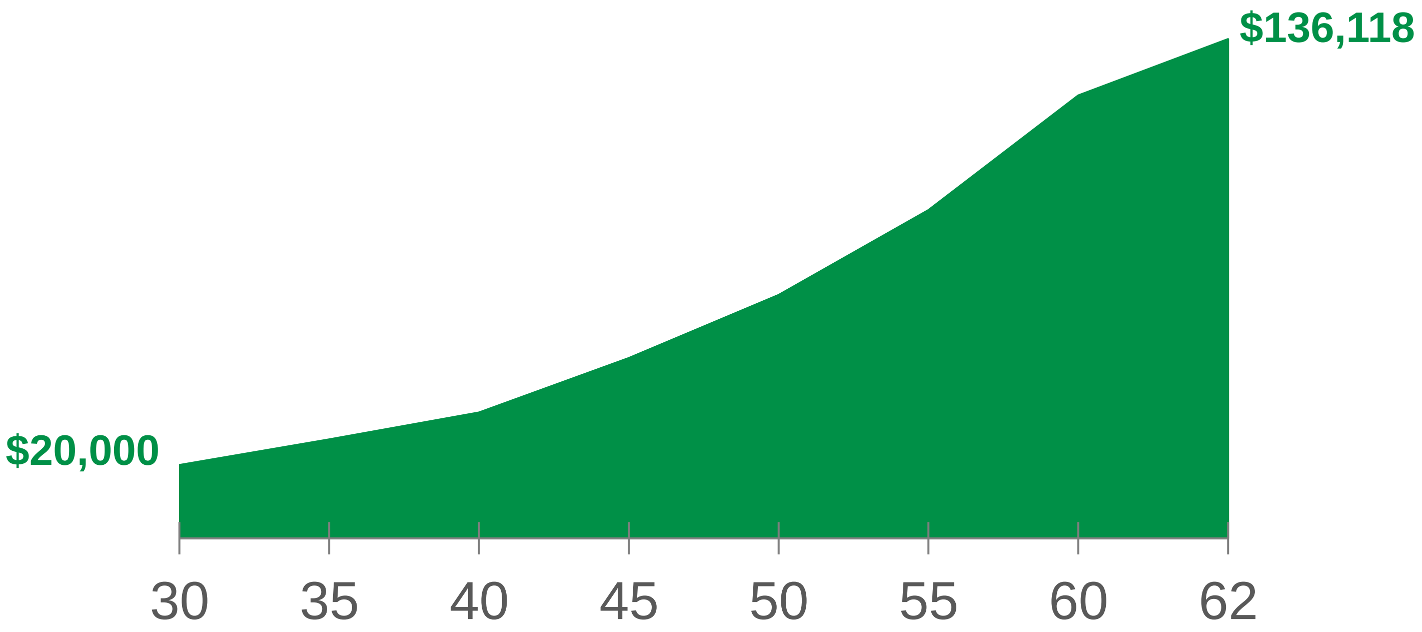
9) Don't Take a Loan from Your Retirement

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.

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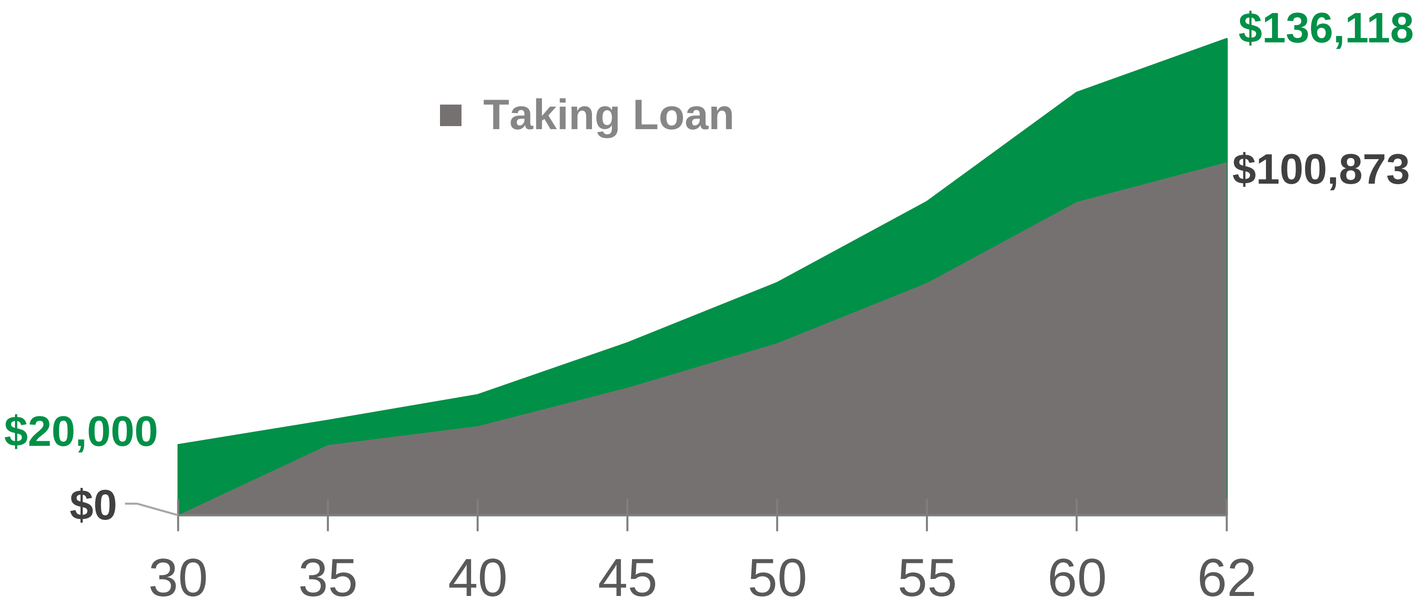
9) Don't Take a Loan from Your Retirement

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.

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10) Don't Cash Out Accounts Between Jobs

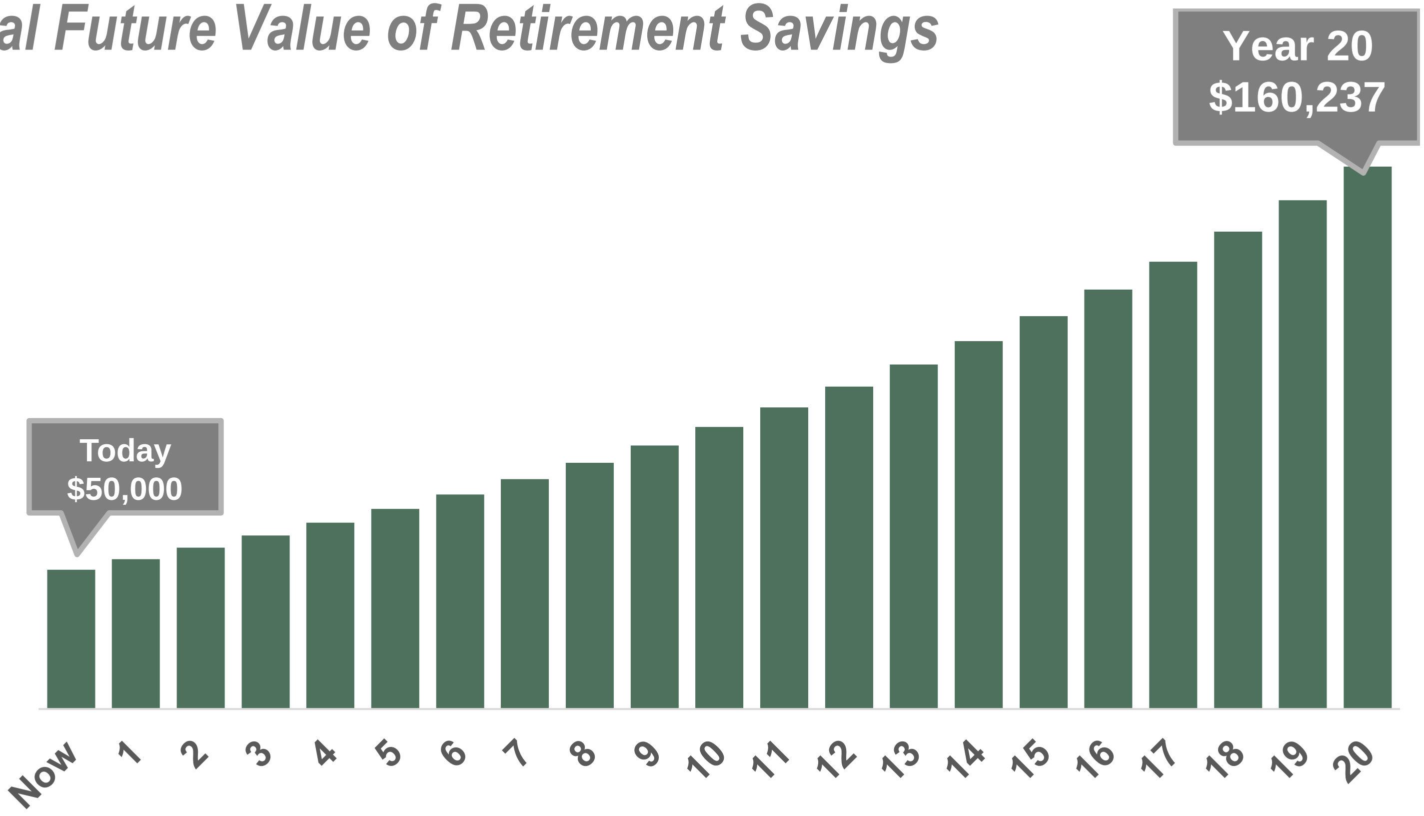
Effect of early withdrawal of a defined contribution plan balance of $50,000

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



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Assumes $50,000 remains invested for 20 years with no additional contributions and has a 6% average investment return

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

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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."

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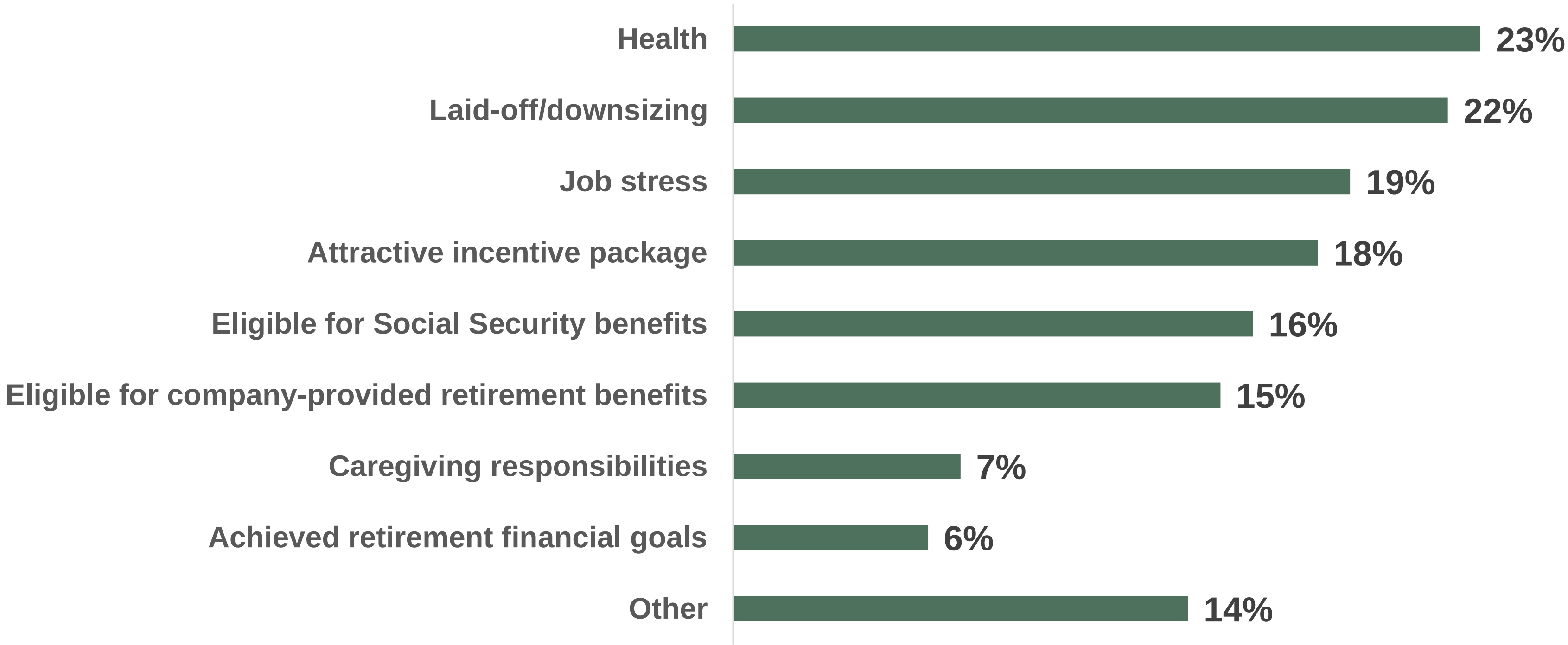
14) Don’t Retire Too Early

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

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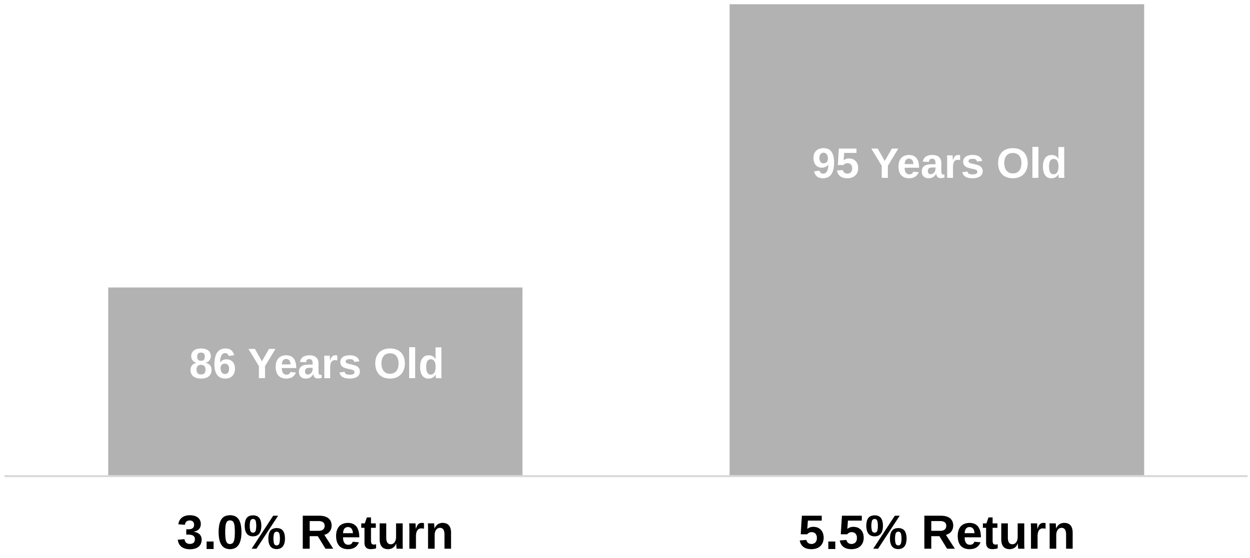
16) Don't Invest Too Conservatively

- 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.

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History of Market Volatility

Source: Morningstar, Standard & Poor's, the Research Center.

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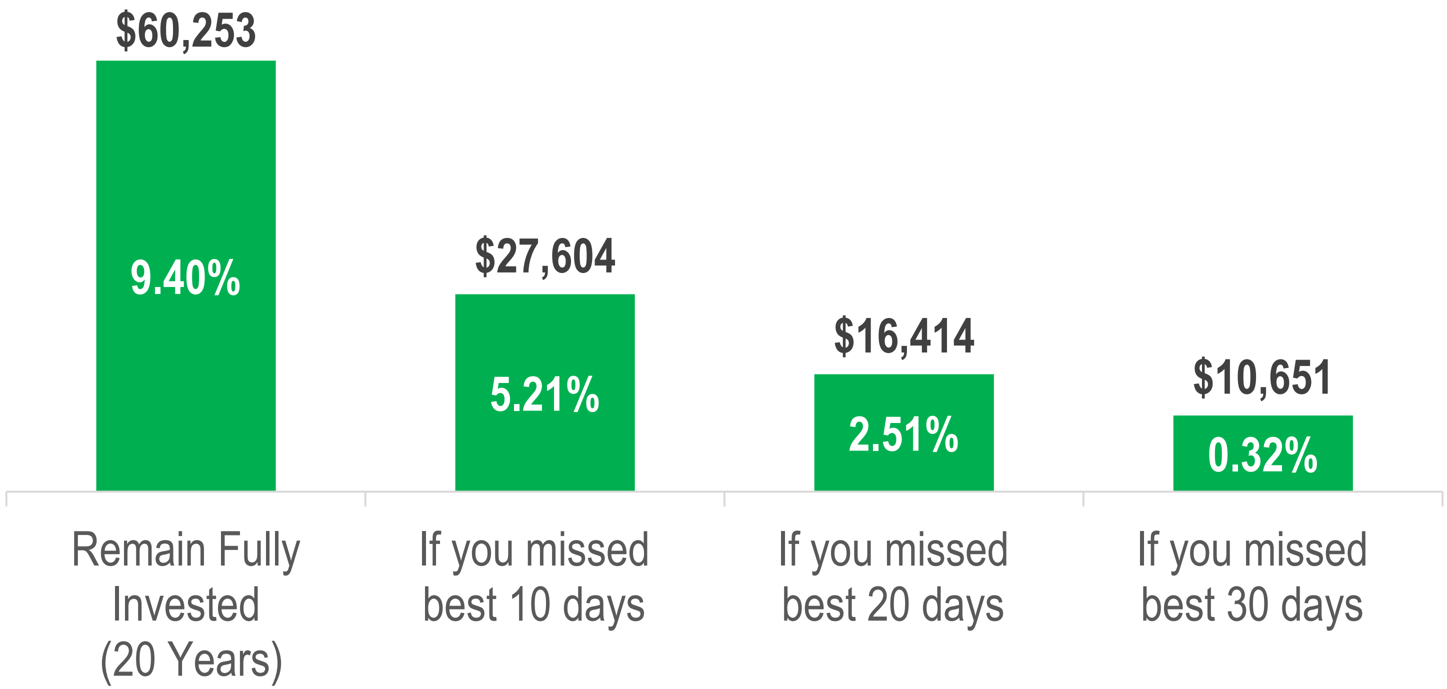
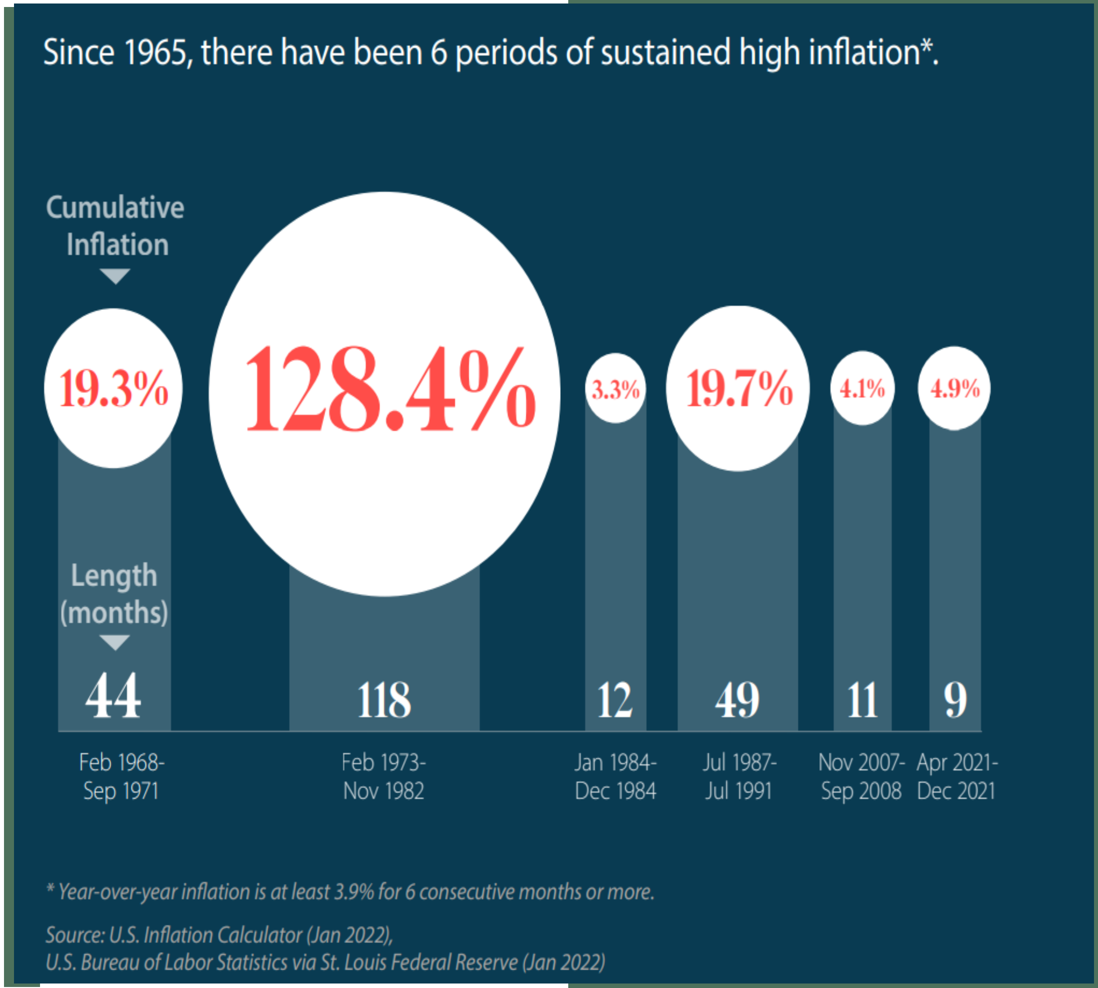
Market Volatility

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



Source: JP Morgan *"The case for always staying invested"*

17) Do Consider Inflation



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Impact of Inflation

$2,200,000
Before Inflation

$1,500,000
After Inflation

18) Don't Have Unrealistic Expectations for Retirement

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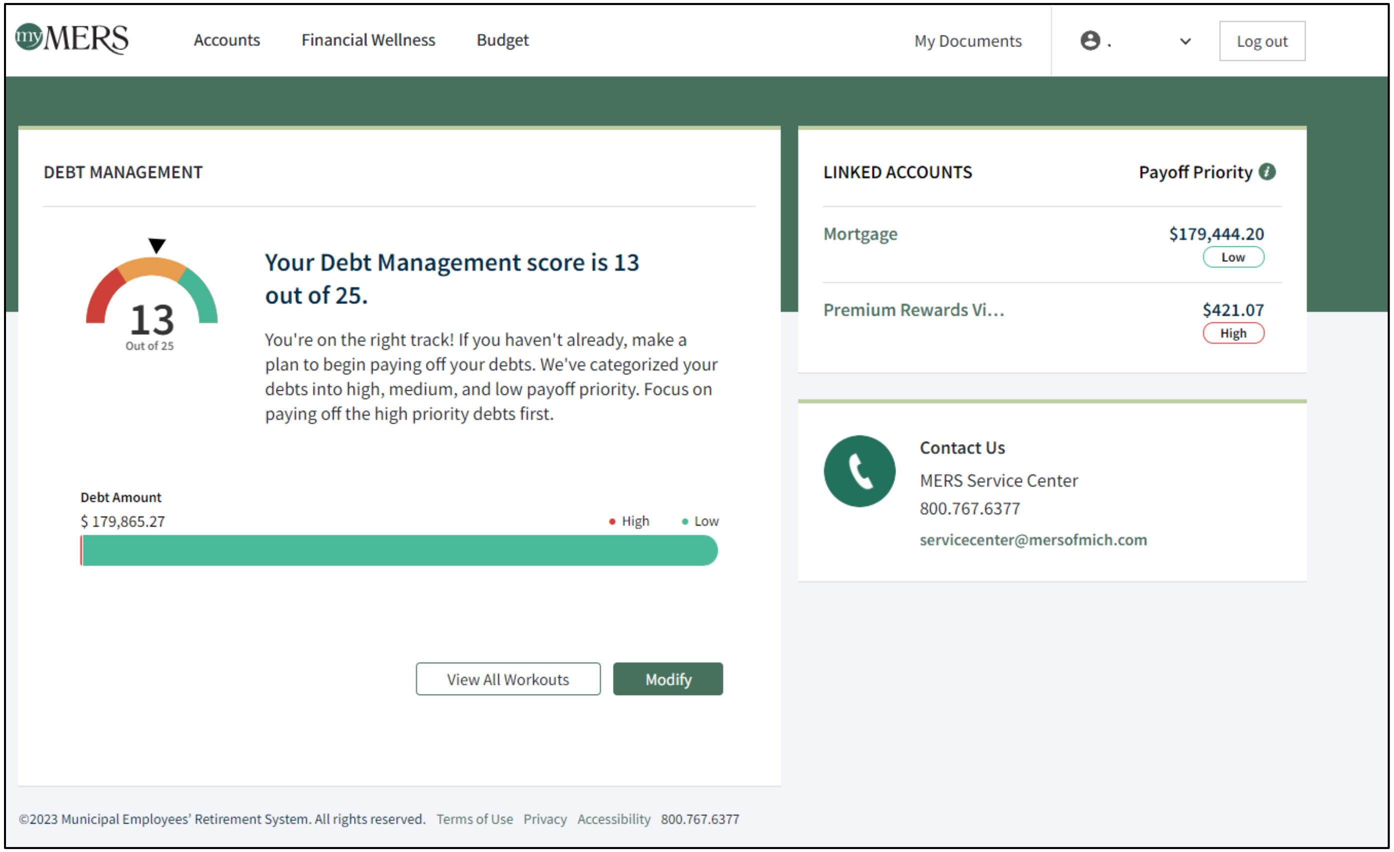
19) Do Pay Off Debt Before Retiring



Choose a Plan that Works for You

Snowball Method

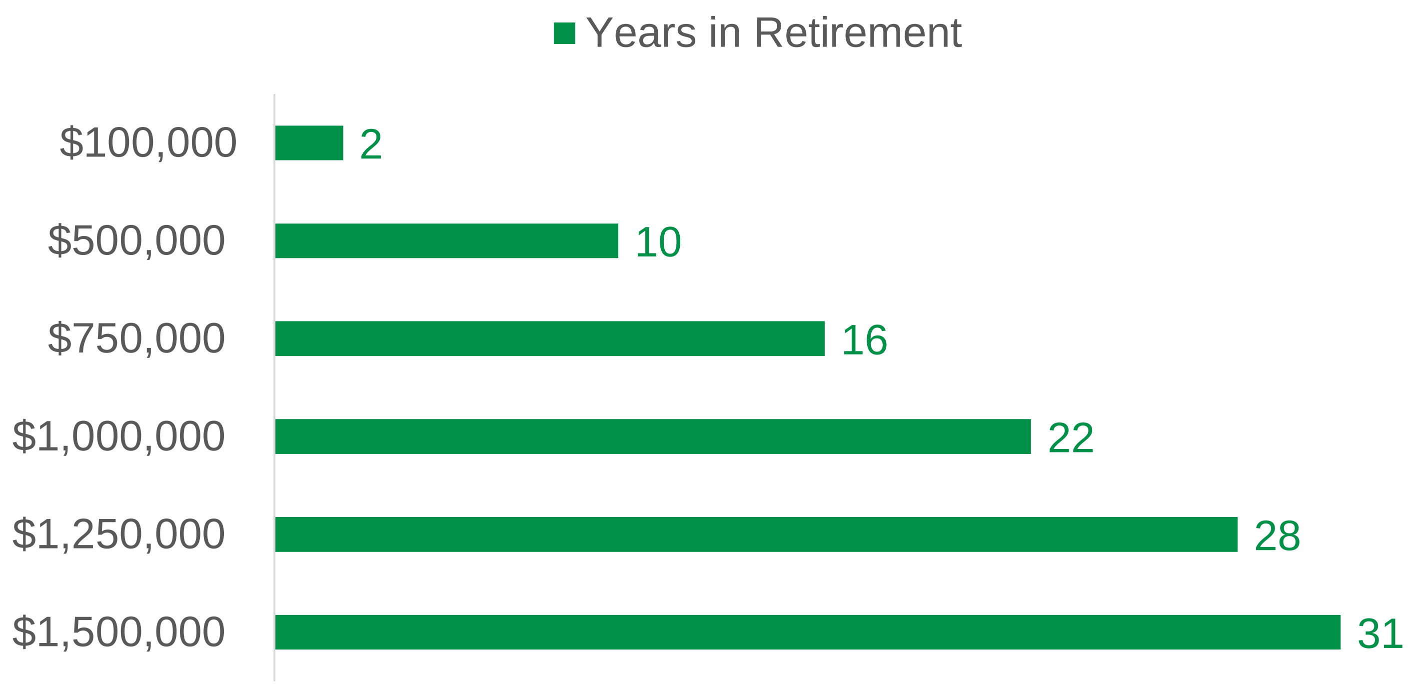
- Pay off smallest debts first, then work your way through the biggest debts

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

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

Source: Employee Benefit Research Institute Retirement Confidence Survey

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22) Do Keep Beneficiaries Updated

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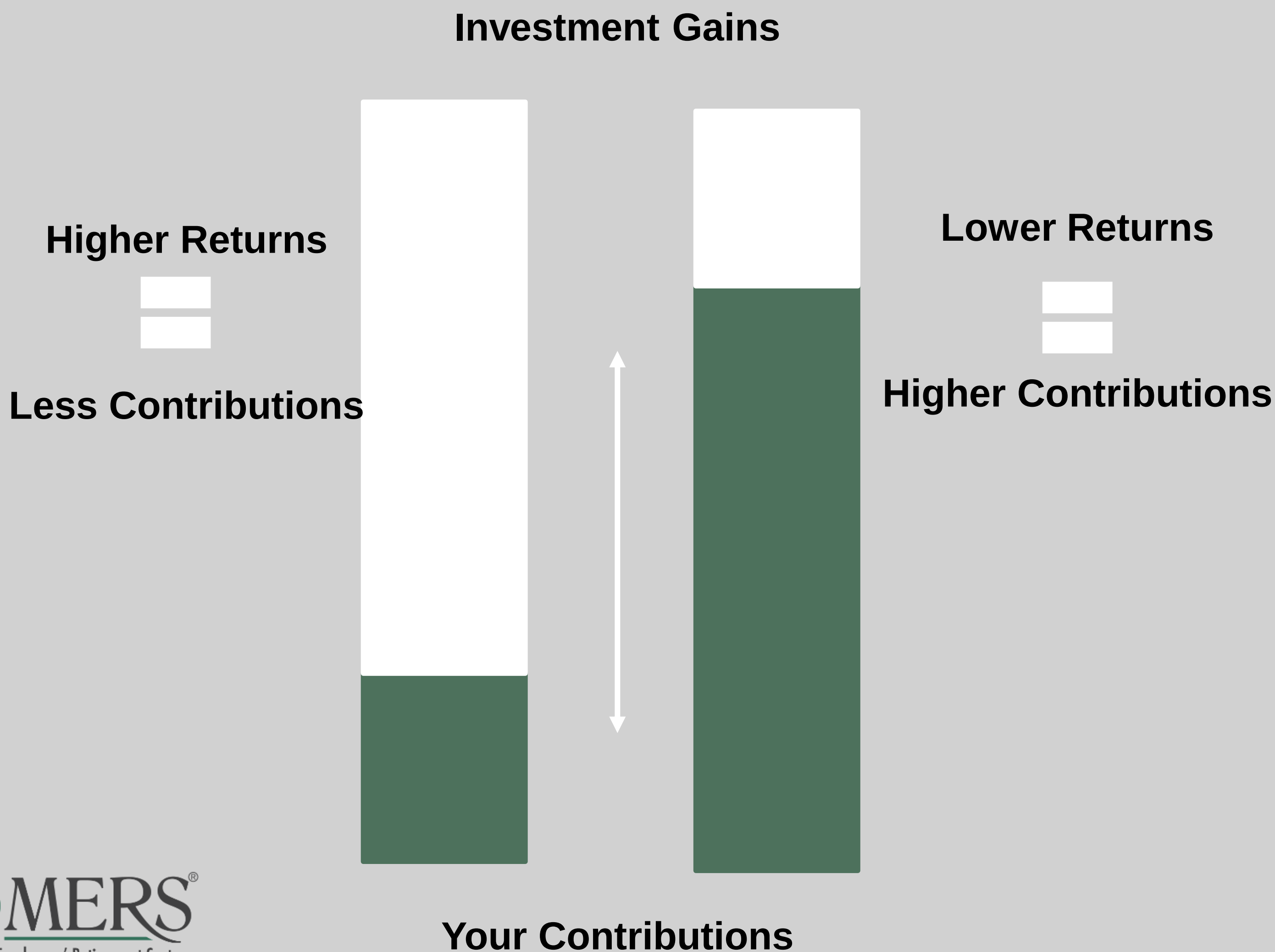
23) Don’t Stress About Starting Late

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



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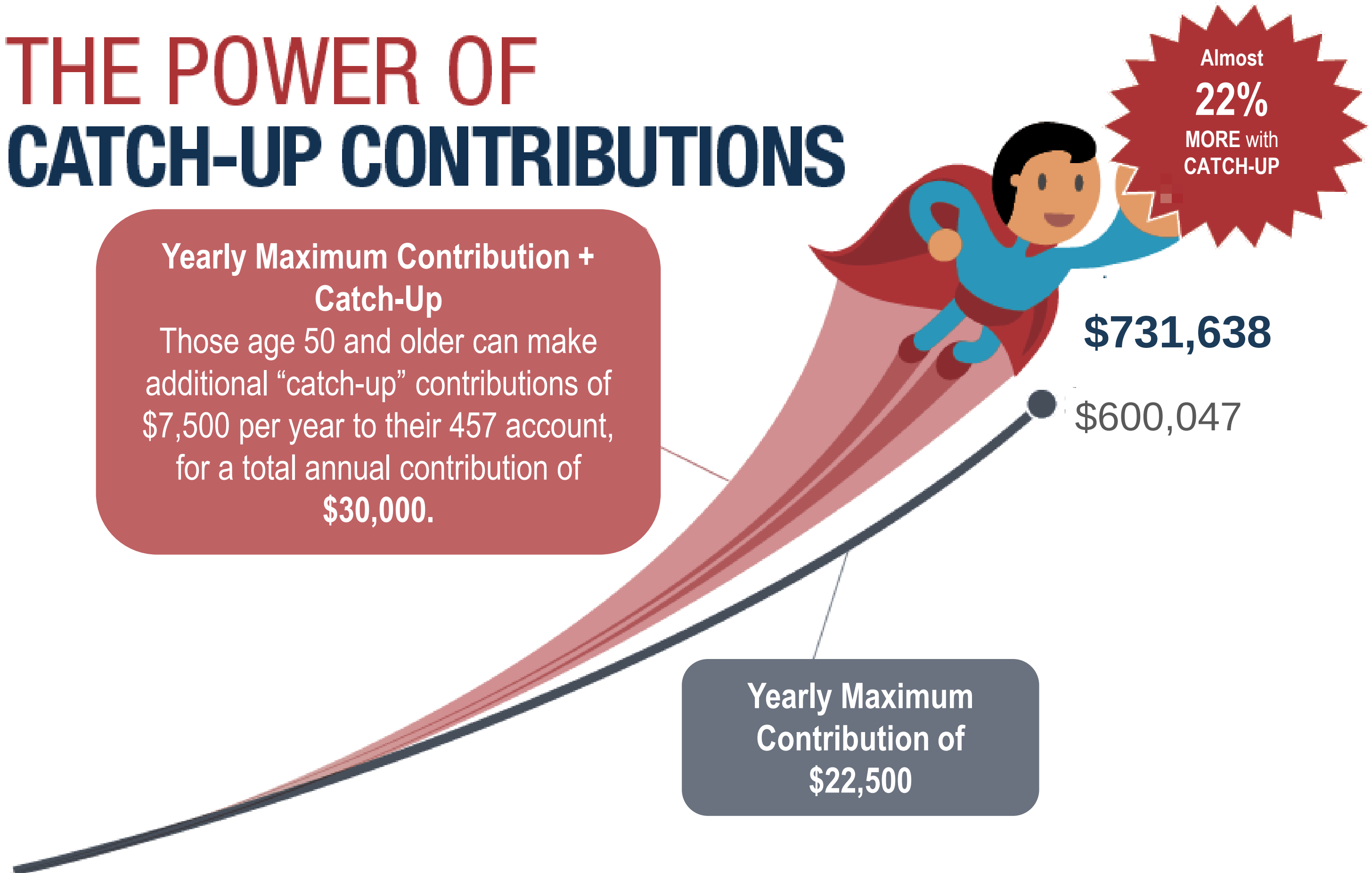
Strategy 2: Make Catch-Up Contributions



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.

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Strategy 3: 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

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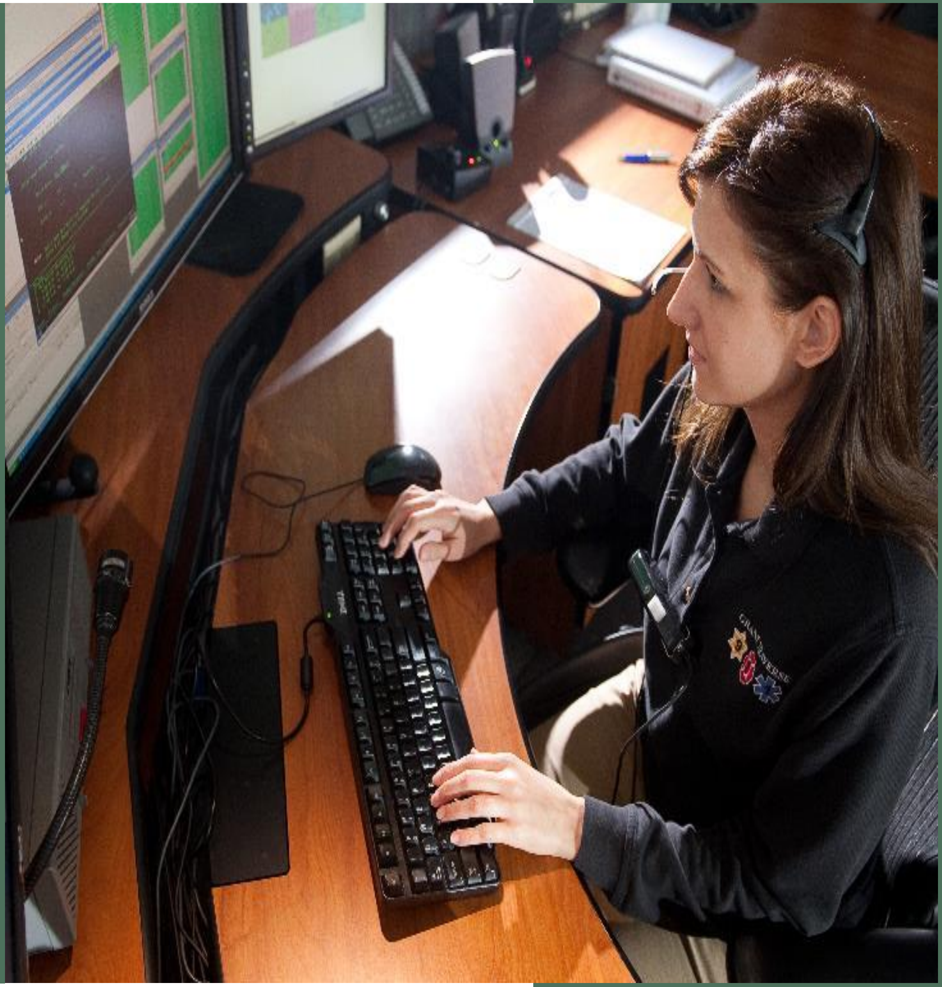
24) Do Learn About Social Security

www.ssa.gov

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**

Attend **educational events**

Create a **budget** and stick to it

Work on **paying down debt**

Save, save, save!

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MERS of Michigan

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