



Building a Retirement Paycheck

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AGENDA

- How much is enough?
- Retirement income sources
- Strategies to meet your financial goals in retirement
- Visualizing your retirement check
- Resources and key takeaways

How Much is Enough?



Identifying Target Income Replacement

\$

Your estimated
salary the year
you retire

X

Multiplied by
80%

=

Equals your
target goal

Personalizing Your Goal

Think about your:

Expenses



Vehicles

(loans, maintenance, insurance, gas)



Utilities



Housing

(mortgage, insurance, maintenance, taxes)

Income



Savings



Social Security



Retirement Plans

Budget Resources

Gather Information

MERS
Municipal Employees' Retirement System

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

Housing/Utility

Rent/mortgage	\$ _____
Heating	\$ _____
Electricity	\$ _____
Water/sewage	\$ _____
Renter/homeowner insurance	\$ _____
Trash service	\$ _____
Telephone/cell phone	\$ _____
Home maintenance	\$ _____
TOTAL	\$ _____

Education

Tuition	\$ _____
Books/supplies	\$ _____
News/media subscriptions	\$ _____
TOTAL	\$ _____

Personal

Barber/salon services	\$ _____
Toiletries/cosmetics	\$ _____
Children's allowances	\$ _____
Tobacco products	\$ _____
Beer/wine/liquor	\$ _____
Clothing	\$ _____
Laundry/dry cleaning	\$ _____
TOTAL	\$ _____

Entertainment

Sporting events/concerts/etc.	\$ _____
Movies	\$ _____
Restaurant/take-out	\$ _____
Internet service	\$ _____
TV subscription	\$ _____
Gambling/lottery	\$ _____
Fitness/social clubs	\$ _____
Vacation/travel	\$ _____
Hobbies	\$ _____
TOTAL	\$ _____

Insurance

Health	\$ _____
Life	\$ _____
Disability	\$ _____
TOTAL	\$ _____

Food

Groceries	\$ _____
Work related (lunch/snacks)	\$ _____
TOTAL	\$ _____

Medical

Doctor visits	\$ _____
Dental/vision	\$ _____
Prescriptions	\$ _____
TOTAL	\$ _____

Childcare

Daycare/babysitting	\$ _____
Child support/alimony	\$ _____
TOTAL	\$ _____

Debts

Student loan	\$ _____
Credit card	\$ _____
Medical bills	\$ _____
Personal loans	\$ _____
TOTAL	\$ _____

Savings

Emergency Fund	\$ _____
Down payment fund	\$ _____
TOTAL	\$ _____

Net Monthly Income	\$ _____
— Total Monthly Expenses	\$ _____
= TOTAL Cash Flow	\$ _____
(disposable/deficit)	

Budget

My Documents

Log out

View All

FINANCIAL WELLNESS


View All

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Out of 100

You are doing good. Improve your financial life today by going through the workouts

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

Considerations When Planning

Health care

Life expectancy

Inflation

Tax rates



Planning for Health Care Costs

If you plan to retire before you are eligible for Medicare (pre-65), you can estimate the cost of purchasing health coverage from the marketplace via HealthCare.gov using your modified AGI (MAGI). When determining your MAGI:

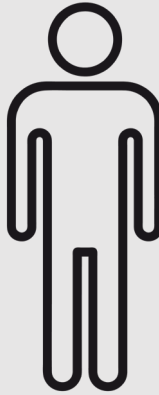
- Retirement and investment income **are** included
- ROTH accounts are **not** included

Life Expectancy

Average life expectancy



80.2

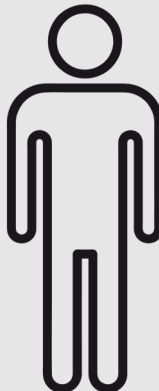


74.8

If you reach age 65



86



83

Source: Centers for Disease Control (CDC), 2022

Planning for Inflation

As of 2023, the average inflation rate in the United States is approximately 4.1%.

**Source: US Inflation Calculator*

MERS[®]
Municipal Employees' Retirement System

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Calculators SEARCH

MERS[®]
Municipal Employees' Retirement System

How long will my retirement savings last?

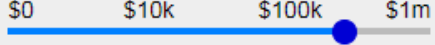

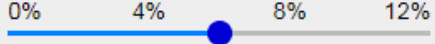
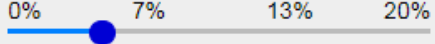
Use this calculator to see how long your retirement savings will last. This is based on your retirement savings and your inflation adjusted withdrawals.

Calculate **View Report**

 You will be able to fund 14 years and 2 months in retirement.

*indicates required.

Retirement savings inputs:

Cumulative savings at retirement:*	<input type="text" value="\$500,000"/>	
Amount you want to spend annually in retirement:*	<input type="text" value="\$40,000"/>	
After tax rate of return in retirement:*	<input type="text" value="6%"/>	
Expected inflation rate:*	<input type="text" value="4.1%"/>	

Taxes in Retirement

How will your taxes change in retirement?

Taxes You'll Continue or Start to Pay

- Federal and state taxes
- Sales tax on taxable goods
- Property tax
- Social Security benefits, depending on your income and filing status
- Income tax on pensions and defined contribution and IRA plans (*phasing out in Michigan; by 2026 pensions and income from 401(k)s, 401(a)s and IRAs will be fully exempt from state income tax*)
- Capital gains

Taxes That Will be Reduced or Eliminated

- Payroll (FICA) taxes (*Social Security and Medicare*)
- Standard tax deduction increases at age 65

Required Minimum Distributions (RMDs)

When you reach a certain age, the IRS requires you to withdraw an RMD annually.

Age	RMD Age
If you turned 72 before 2023	72 (or 70 ½ if you were born before July 1, 1949)
If you turn(ed) 72 after 2022 and 73 before 2033	73
If you turn 74 after 2032	75



2024
New Start

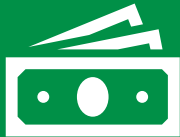
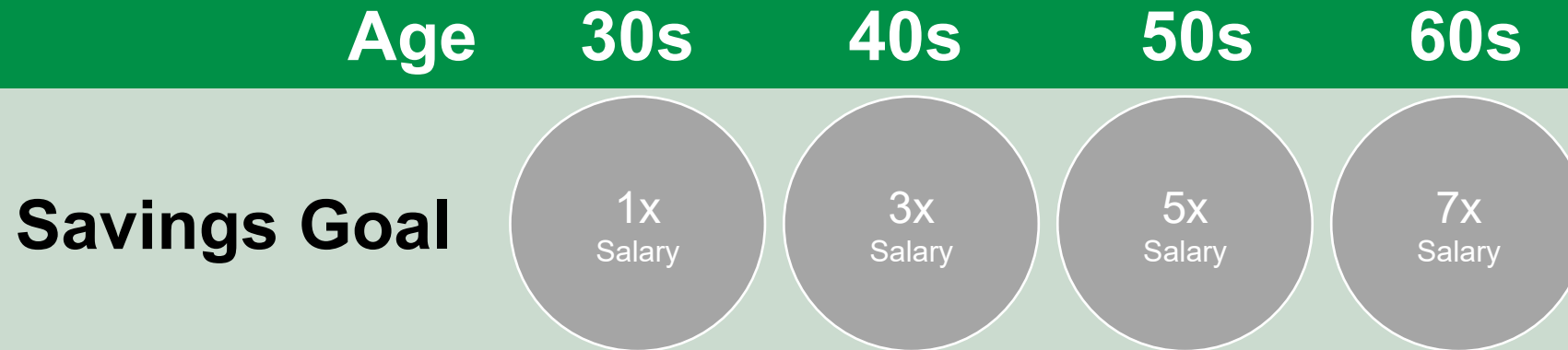
Adequate Savings Rate

To reach retirement savings goals, save between 10-15% of your paycheck



**Retirement
Savings**

Accumulated Savings



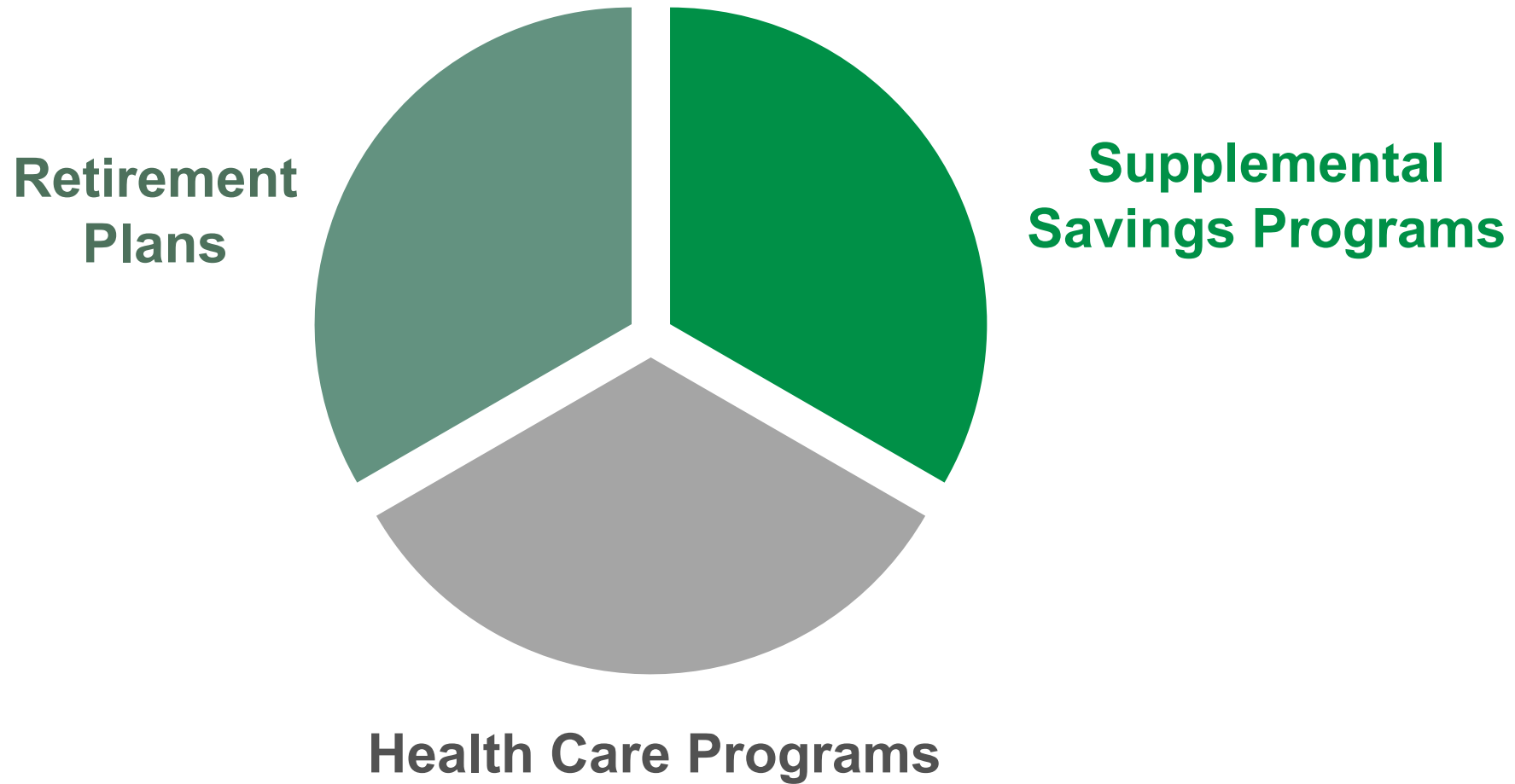
The average
compensation of a
MERS participant is
\$62,000



Retirement Income Sources



Retirement Savings Account Types



Guaranteed Sources of Retirement Income

- Social Security*
- Pension
- Annuity

**If eligible to receive benefits in retirement.*



Variable Sources of Retirement Income



Taxable savings accounts



Defined Contribution retirement plan accounts (401(a), 401(k), 457, IRA)



Health Savings Account (HSA) or MERS Health Care Savings Program (HCSP)

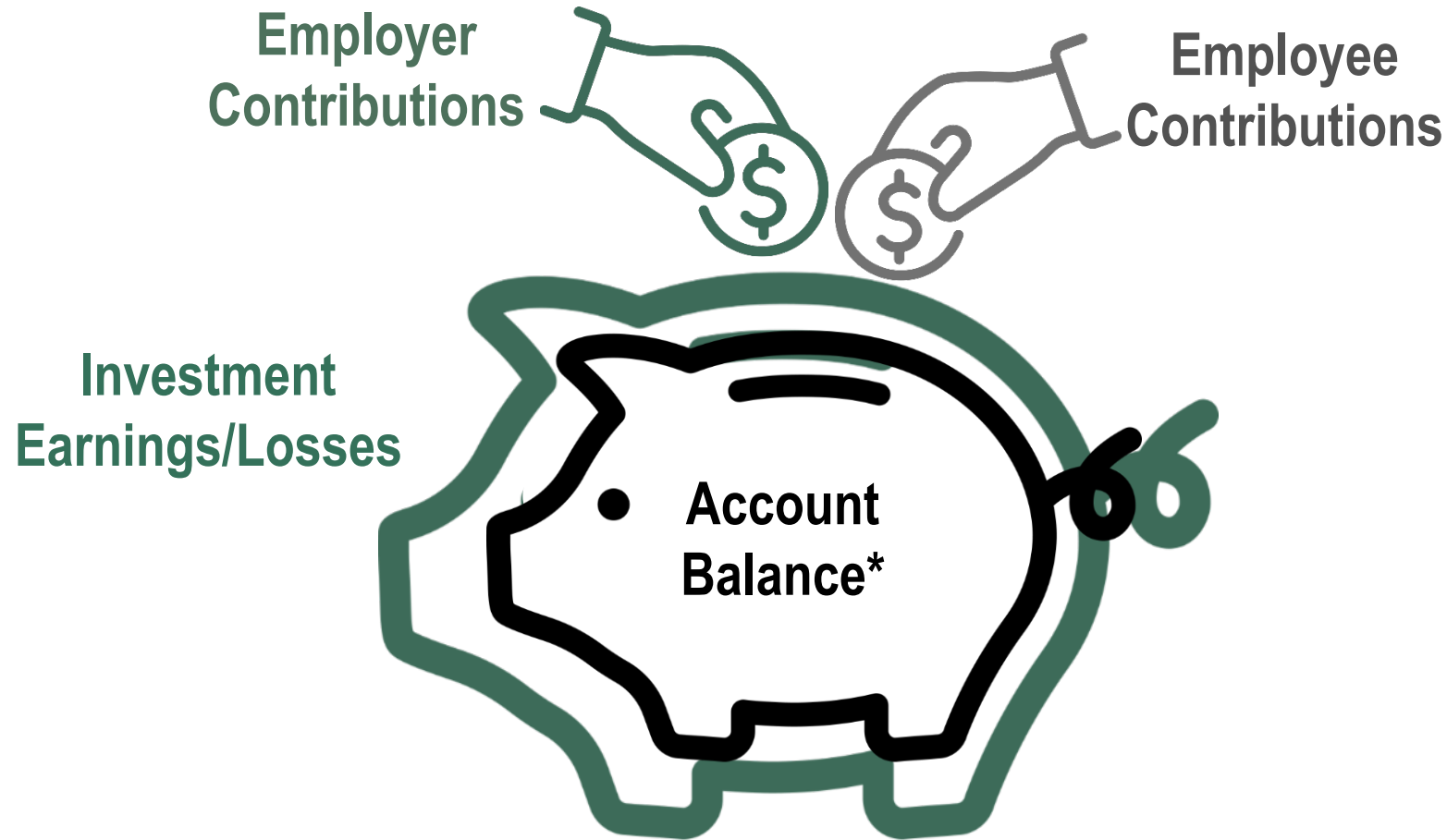


Brokerage accounts

Guaranteed vs. Variable Income

	Benefits	Risks
Guaranteed Income (Social Security, Defined Benefit/Pension, Income Annuity)	<ul style="list-style-type: none">• Lifetime benefit• Not subject to market swings• May include cost of living increases	<ul style="list-style-type: none">• Selected payment option is irreversible in retirement (DB)• No ability to use for emergency or legacy purposes• No opportunity to capture market growth
Variable Income (401(a), 401(k), 457, IRA, other savings and investments)	<ul style="list-style-type: none">• Spending flexibility, especially in emergencies• Growth potential through investment performance• Can be transferred as gift or inheritance	<ul style="list-style-type: none">• Must be disciplined when it comes to spending so you don't run out of money• Subject to market swings• Prolonged market declines may mean you can draw less money• Cash-like instruments (money market, bank savings) may lose purchasing power over time

MERS Defined Contribution Plan



457

&

IRA

Definition

A supplemental savings program sponsored by employers

A special retirement account available to any municipal employee and their spouse

Contributions

Pre-tax & Roth options available

2024 Limit: \$23,000 or
\$30,500 if 50+

Pre-tax & Roth options available

2024 Limit: \$7,000 or
\$8,000 if 50+

Using Your Account

Pre-tax assets are available to use as soon as you leave employment, or you can keep assets invested

Account available without penalty once you reach the age of 59½ or if you have a qualified reason

Strategies to Meet Your Financial Goals in Retirement



Let's look at Mary's situation.



Mary's Retirement Income Sources:

Social Security

- Projected benefit at 65:
\$1,531/month

DC Plan

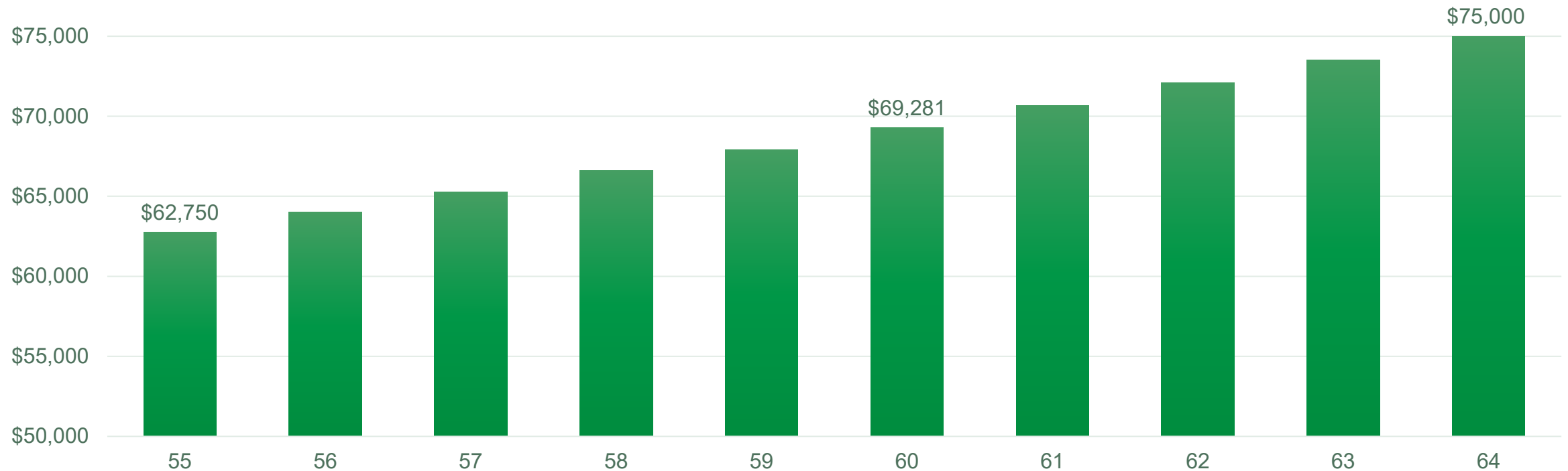
- Employer Contribution: **7%**
- Mary's Contribution: **3%**
- Current Balance: **\$295,000**

Supplemental Savings

- Mary's Contribution: **4%**
- Current Balance: **\$110,000**

Mary's Income Needs at Retirement

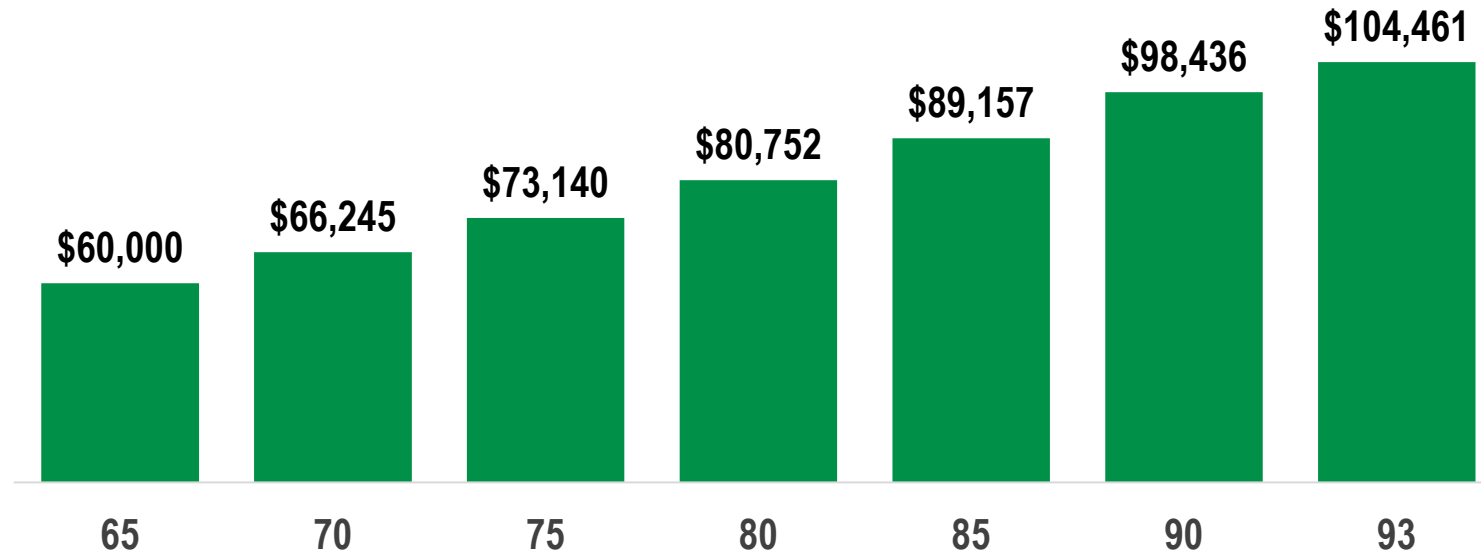
Mary's Earnings until Retirement



Mary's earnings at retirement: \$75,000
Income replacement goal: x 80%
Target annual income: \$60,000
Monthly income: \$5,000

Mary's Income Needs in Retirement

Projected Income Needs through Retirement



Mary's Total Income Needs (ages 65 - 93):
\$2,325,000

Mary's Projected Account Balances at Age 65

Currently makes \$62,750/year



Social Security

- Projected benefit at 65: **\$1,531/month**

DC Plan

- Current Balance: \$295,000
- Account Balance at 65: **\$630,243***

Supplemental Savings

- Current Balance: \$110,000
- Account Balance at 65: **\$237,530***

**Assumes 6% rate of return.*

Projecting Mary's Retirement

Mary's 80% Income Goal

At age 65 when she retires, she wants to have at least **\$60,000/year** or **\$5,000/month**.

Estimated monthly income in future dollars:

457 Account:	\$884
DC Account:	\$2,439
Social Security:	<u>\$1,531</u>
	\$4,854

Mary's Current Projection

Upon retirement at age 65, she estimates she'll have **\$58,248/year** (**\$4,854/month**)

Strategies To Address Shortfall

Option 1 – Increase 457 or IRA Contributions from 4% to 8%

Mary's Goal: \$60,000/year or \$5,000/month

Estimated monthly income in future dollars:

457 Account:	\$1,063
DC Account:	\$2,439
Social Security:	<u>\$1,531</u>
	\$5,033

Mary's New Projection:
\$60,396/year (\$5,033/month)

Strategies To Address Shortfall

Option 2 – Lower Income Replacement Goal

Mary's New Goal: 75% (\$56,250/year or \$4,688/month)

Estimated monthly income in future dollars:

457 Account:	\$884
DC Account:	\$2,439
Social Security:	<u>\$1,531</u>
	\$4,854

**Mary's New Projection:
\$58,248/year (\$4,854/month)**

Strategies To Address Shortfall

Option 3 – Delay Retirement by 1 year to Age 66

Mary's New Goal: \$61,200/year or \$5,100/month)

Estimated monthly income
in future dollars:

457 Account:	\$1,016
DC Account:	\$2,693
Social Security:	<u>\$1,702</u>
	\$5,411

Mary's New Projection:
\$64,932/year or (\$5,411/month)

Additional Options to Maximize Your Retirement Income



Think Holistically

When budgeting for future goals, remember that you may have extra sources of income after you retire including:

- Potential **inheritance**
- Income from possible **downsizing**
 - Selling your home
 - Transitioning from two cars to one
- Reduction in **travel expenses** going to and from work
- Extra monthly income if all **debts are paid** off at retirement
- Potential reduction in the amount you are paying for **health insurance** each month
- **Social Security** income

Get Creative with Your Income Sources

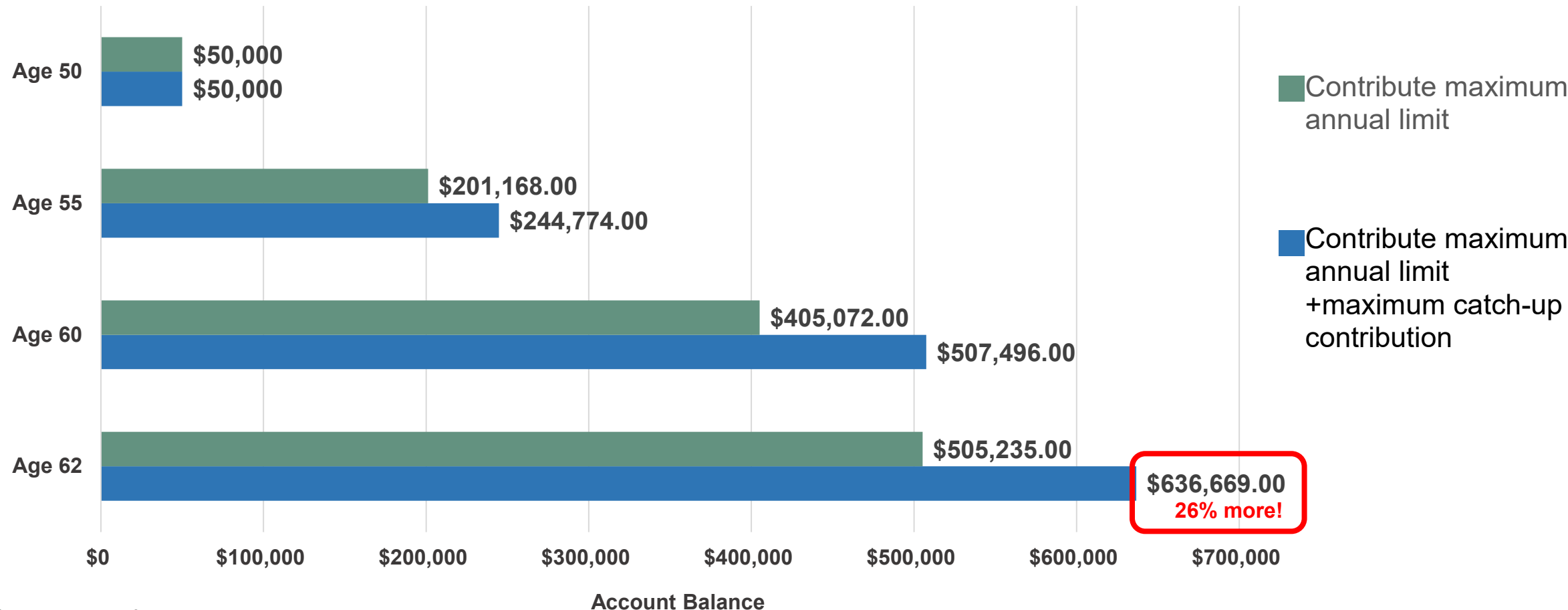
Ideas for Extra Income:

- Adjust your budget
- Think about the **things you enjoy doing** and consider turning them into a “side gig” to earn extra money.
- **Look around!** Selling items on eBay or a similar site can really add up.



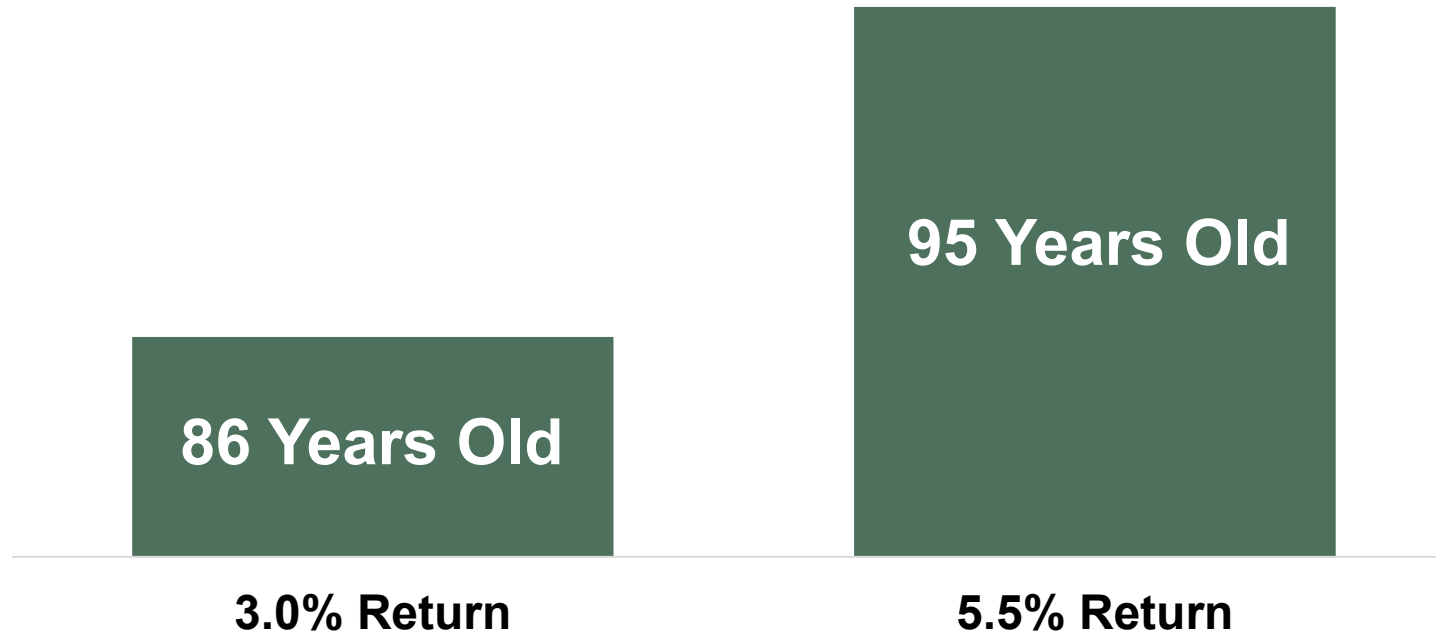
Make Catch-Up Contributions

The combination of **extra contributions** along with **compound interest** can have a **big impact** on your retirement savings.



Revisit Your Investments

How long would monthly payments last?



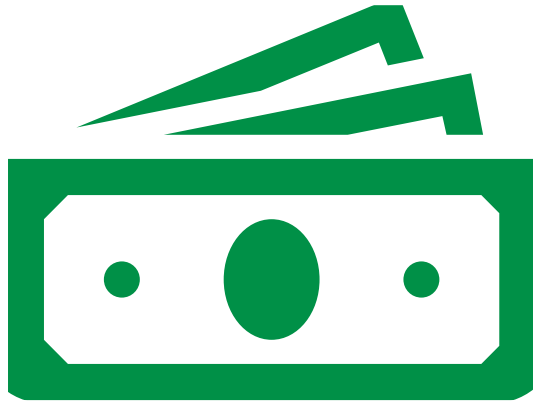
Example assumes a participant retires at age 60 and draws down a \$500,000 account balance by taking a \$2,000 monthly payment, adjusting it upward with inflation at 3.0% each year.

Consider Your Withdrawal Strategy

Common Strategies:



4% Withdrawal



**Fixed Dollar
Withdrawal**

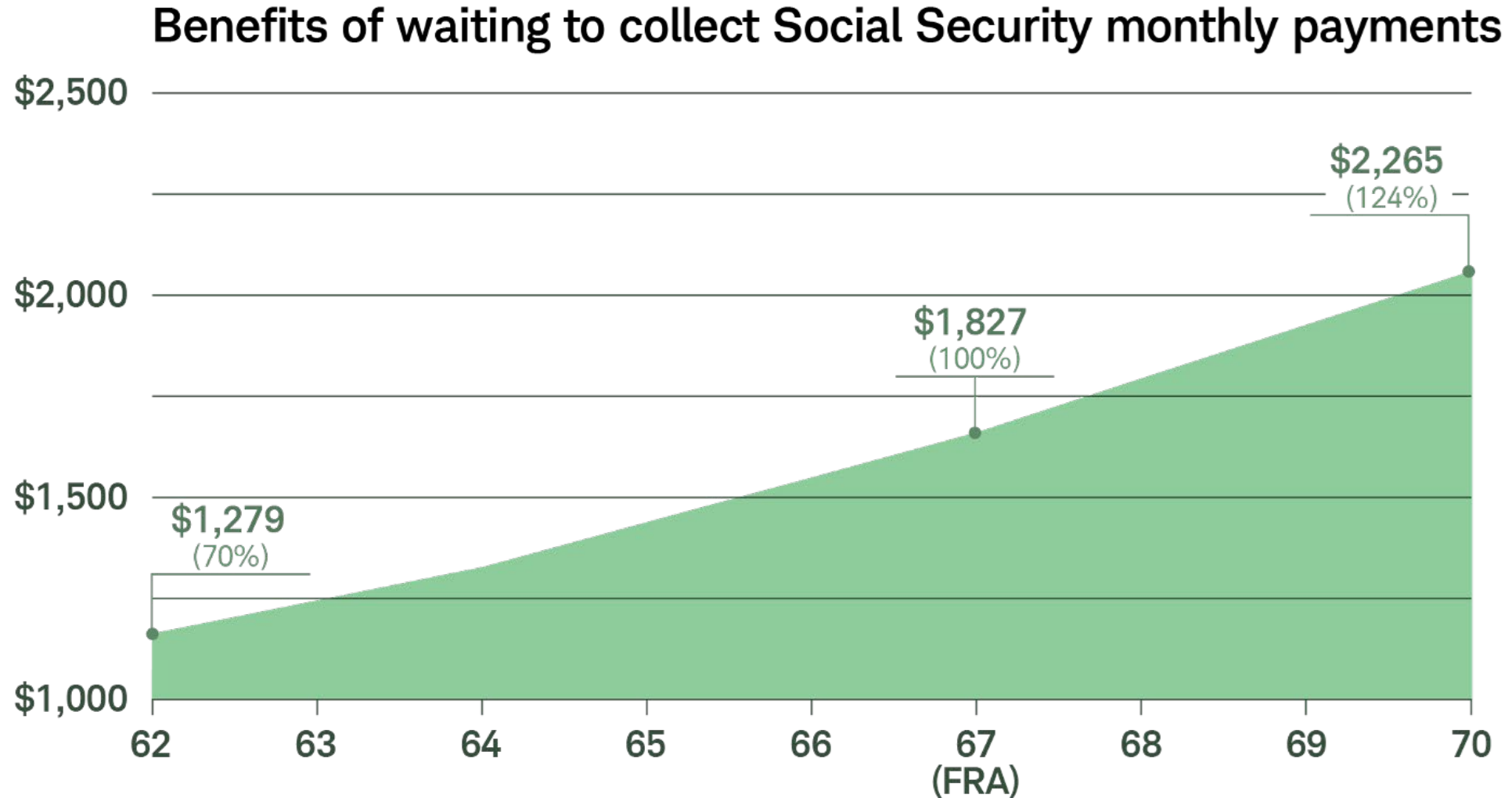


**Fixed Percentage
Withdrawal**



**Systematic
Withdrawal**

Weigh Your Social Security Options



Social Security Impact on Distributions

Using the calculators on the MERS website, you can determine how long your account balance will last you in retirement, based on the amount you pull out each year.

Example #1 –

- Delay collecting Social Security
- Monthly financial need = \$6,000.00

Distribution information:

Calculate: * ? Years balance with last

Starting balance: * ? \$800,000

Amount of distribution: * ? \$6,000.00

Years of distributions: ? 15

Annual return: * ? 4%

Expected annual inflation rate: * ? 3%

Distribution frequency: * ? Monthly

Increase distributions annually: * ? No adjustment

If you have an account balance of **\$800,000.00** and plan to take a distribution of **\$6,000.00/month** starting in year 1 of retirement, your savings will last you

14 years and 7 months

Social Security Impact on Distributions, cont'd.

Example #2:

- Begin collecting Social Security at age 62 with your spouse
- Monthly Social Security payment = \$1279.00 each (\$2,558.00 total)
- Monthly financial need = \$6,000.00 - \$2,558.00 (SS income) = **\$3,440.00**

Distribution information:

Calculate:* ? Years balance with last

Starting balance:* ? \$800,000

Amount of distribution:* ? \$3,440.00

Years of distributions: ? 37

Annual return:* ? 4%

Expected annual inflation rate:* ? 3%

Distribution frequency:* ? Monthly

Increase distributions annually:* ? No adjustment

If you have an account balance of **\$800,000.00** and plan to take a distribution of **\$3,440.00/month** starting in year 1 of retirement and start to draw Social Security at age 62, your savings will last you

36 years and 3 months

Visualizing Your Retirement Paycheck

Current You 1234 Main Street Tree, MI 12345		9783
DATE		6/6/2035
PAY TO THE ORDER OF	<i>Future You</i>	\$ 4,231.62
Four Thousand Two Hundred Thirty One and 62/100		DOLLARS
MEMO	Monthly Retirement Income	<i>Your Savings & Social Security</i>
⑈ 1 234 596098 ⑈ 1 250051 1 263 65		

myMERS Financial Wellness

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

ACCOUNTS Compact View All

Retirement \$50,000.00 ▾

Sample City 457 \$30,000.00 ⋮
MERS • 8478

Sample City HCSP \$20,000.00 ⋮
MERS • 8478

Defined Benefit >

FINANCIAL WELLNESS View All

You are doing good. Improve your financial life today by going through the workouts

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

Retirement Workout



Welcome back, we're glad you're here.

In the following steps you'll be able to tell us if anything has changed since the last time you logged in. You can also track the progress you have made towards your retirement goal and make changes to your savings strategy, if desired.

LET'S GET STARTED!

By proceeding you agree to these [terms of service](#)

Your Income & Savings

Please include information that will help us personalize your retirement picture.

Confirm or Update Annual Salary

\$62,000.00

Where do you plan to live in retirement?

Michigan

Your current balance in MERS of Michigan 457 is \$31,676

Other MERS Plans ⓘ

MERS of Michigan HCSP

Account Owner: Participant
Balance: \$11,477 - Last Updated: Sep 3, 2024

MERS DB Monthly Pension

Account Owner: Participant
Monthly Benefit Amount: \$1,499 - Last Updated: Sep 3, 2024

Do you have a balance in any savings accounts outside of this plan, such as a bank account, IRA or 401(k)?

No ☐ Yes ☐

BACK

CONTINUE

Retirement Workout

Improve Your Path To Success

Your Projected Retirement Income

84%
of goal

Needed at age 65:
\$5,000.00

Strategy estimate:
\$4,200.00
(not guaranteed)

Monthly Income Sources

Social Security \$800.00

Outside Savings \$800.00

This Plan \$2,600.00

Deficit **\$800.00**

Quick Tips

Advanced Options

Increase Your Contribution Rates

Consider Adjusting These

Pre-Tax:

-

+

Amount Needed:
(per month in retirement)

\$ 5000.00

Retirement Age:

-

65

+

Selected Investment Portfolio:


Multiple Investment Portfolio

Estimated Return: 6.2% (not guaranteed)

CHANGE INVESTMENT

BACK

CONTINUE

**MERS**[®]
Municipal Employees' Retirement System

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Improve Your Path to Success

Improve Your Path To Success

Your Projected Retirement Income

84%
of goal

Needed at age 65:
\$5,000.00
Strategy estimate:
\$4,200.00
(not guaranteed)

Monthly Income Sources

Social Security \$800.00

Outside Savings \$800.00

This Plan \$2,600.00

Deficit **\$800.00**

Quick Tips

Advanced Options

Increase Your Contribution Rates

Consider Adjusting These

Pre-Tax:

-

 8%

+

Post-Tax (Roth):

-

 5%

+

Amount Needed:
(per month in retirement) \$ 5000.00

Retirement Age:

-

 65

+


\$375.00

estimated impact
to current bi-weekly paycheck

Selected Investment Portfolio:
[Multiple Investment Portfolio](#)
Estimated Return: 6.2% (not guaranteed)
CHANGE INVESTMENT

BACK

CONTINUE


Municipal Employees' Retirement System

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Paycheck Estimates

Paycheck Estimates

Current Paycheck

Retirement Paycheck

Current Per Paycheck Estimate

This is an estimated breakdown of your current paycheck if you were to implement the selected savings strategy. Note this is for illustrative purposes only and may not be a fully accurate estimate of your adjusted take-home pay.

Future You

DATE 07/01/2024

1234

PAY TO THE ORDER OF Toqgegi Iyiv

\$ 2,078.08

Two Thousand Seventy-Eight and 8/100

DOLLARS

MEMO Bi-weekly take home pay

Your Employer

⑆ 1234 567890 ⑆ 1234 56789 ⑆ 1234

Gross Wages

\$2,884.62

Pre-Tax Contribution

-\$230.77

Taxable Income

\$2,653.85

Healthcare or Other Deductions

✎-\$0.00

Federal Income Taxes

-\$403.37

ND State Income Taxes

-\$28.17

Post-Tax Contribution

-\$144.23

Estimated Net Take Home Pay

\$2,078.08

OK

Paycheck Estimates

Current Paycheck

Retirement Paycheck

Monthly Income In Retirement

Here's what an estimated -\$375.00 impact to your current paycheck *could* mean in monthly retirement income (after taxes). This is only an estimate and the projected amounts are NOT guaranteed.

Future You

DATE 06/06/2059

1234

PAY TO THE ORDER OF Toqgegi Iyiv

\$ 4,365.73

Four Thousand Three Hundred Sixty-Five and 73/100

DOLLARS

MEMO Monthly Retirement Income

Your Savings & Social Security

⑆ 1234 567890 ⑆ 1234 56789 ⑆ 1234

Income From This Plan

\$3,042.73

Income From Other Savings

\$0.00

Income From Social Security

\$1,323.00

Estimated Net Monthly Income

\$4,365.73

Your state and federal taxes are estimated to be \$173.39 which has already been taken into account in the above projection

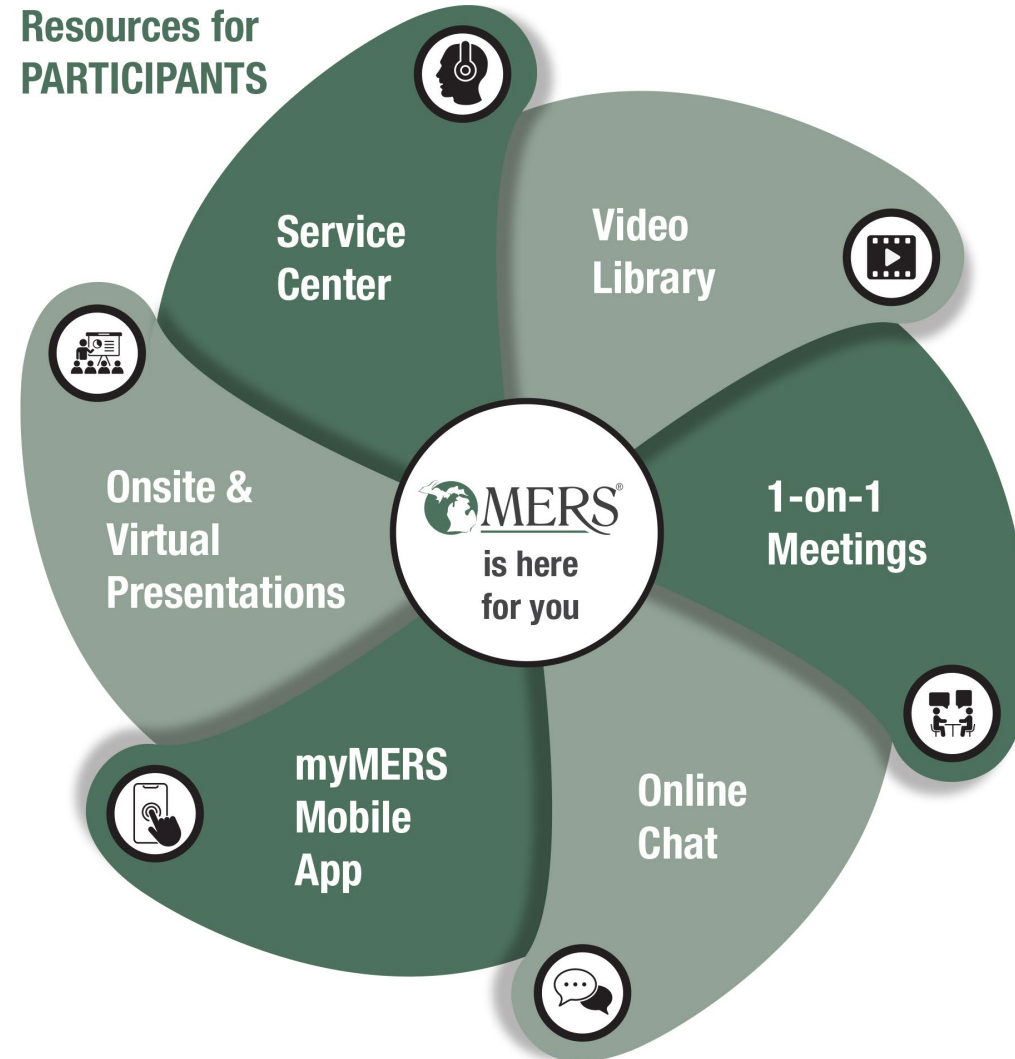
OK

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Resources and Key Takeaways



Resources



Key Takeaways

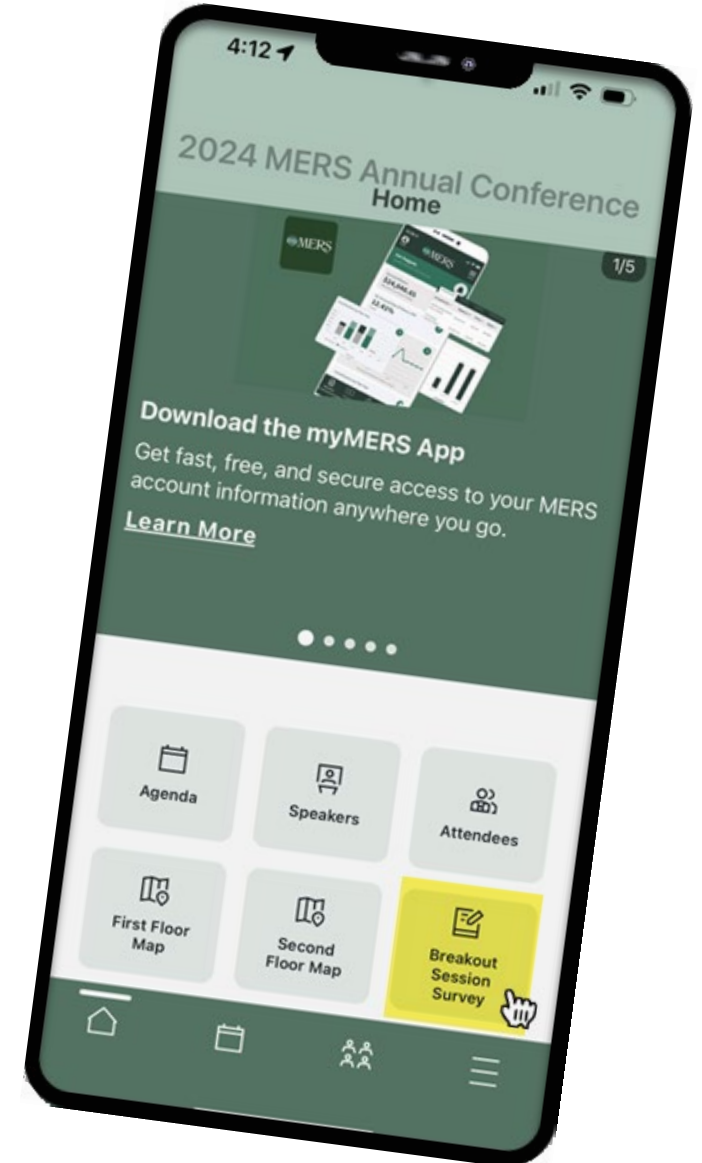
- It's **never too early, or too late**, to start planning
- Define what **retirement success** means to you
- Identify your **income sources**
- Review your **retirement budget**
- Set up your **myMERS account**
- Set up a Social Security account at ssa.gov



Share Your Feedback on this Session



Scan this **QR code** or open the **conference app** to share your feedback on this session.



MERS of Michigan

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800.767.6377

www.mersofmich.com



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