For Nebraska State & County Employees

RETIREMENT NEWS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS | JANUARY 2021

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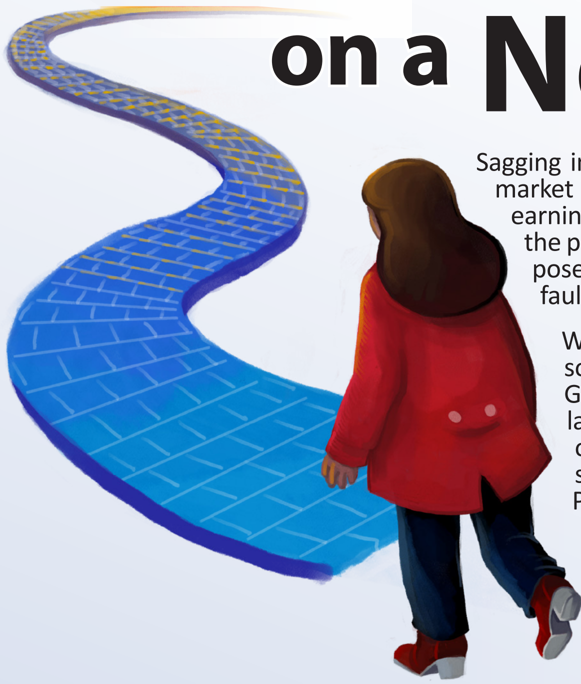
Winds of Change Put Us on a New "Path"



Sagging interest rates have created situations when money market funds have not been able to generate sufficient earnings to overcome the cost of their fees. This means the participants are losing money in funds that were supposed to be "the safest option," and are often the default investment funds for retirement plans.

With these trends in the forefront of our minds, and some careful planning, the Nebraska Legislature, Governor, Investment Council, and NPERS, have collaborated to change the default investment funds for our Defined Contribution (DC), Deferred Compensation Plan (DCP), and Deferred Retirement Option Plan (DROP), to LifePath Index funds.

One reason LifePath Index funds are a good default option is that these funds automatically adjust your asset allocation mix among stocks, bonds, and other investments from more aggressive options to more conservative options as you grow closer to retirement.

Another reason these funds make excellent default options is that LifePath Index funds generally have lower fees than stable value funds. For example, the LifePath Index funds offered by NPERS have an annual fee of approximately 0.07%. By contrast, the stable value fund offered by NPERS has an annual fee of approximately 0.20%. By defaulting into a fund with a lower annual fee, it decreases the likelihood that earnings will not be able to overcome the cost of the fees. This makes a big difference in protecting your retirement nest egg.

Nothing with investing is a sure bet; however, the LifePath Index fund default option helps protect you should you forget to allocate your money to a fund, and protects your capital so it is there when you need it...at retirement.

NPERS is dedicated to helping our members to stand on sure footing when they need it most. We observe what is happening to other pension plans, research solutions, and adjust our strategies with you, the member, in mind. The new default is part of our dedication to your financial well-being.

2021 DCP Contribution Limits

The 2021 maximum contribution limits for the voluntary Deferred Compensation Plan (DCP) have been announced by the IRS. The normal maximum contribution deferral remains at $19,500 for members under age 50. The additional contribution amount provided for individuals age 50 or older is $6,500. Which makes the 2021 total contribution limit for members age 50 and older $26,000.

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2021 DCP Contribution Limits (cont'd.)

If you are not already participating in DCP, you should consider enrolling! DCP is a tax-sheltered retirement plan somewhat similar to a Traditional IRA. All state employees are eligible to participate, as are some county employees whose employer does not offer a section 457 plan. For more information on DCP, we feature a ten-minute informational video about the plan on our website – NPERS.NE.GOV. Your year round DCP enrollment and the ability to change contribution amounts will be available via the Employee Work Center (Workday). Individuals who do not have access to the online process may complete a DCP Enrollment Form and submit to their HR/Payroll department to enroll. HR/Payroll will approve, sign, and forward the form to NPERS.

Retirement Planning in Uncertain Times

Orron Hill, Legal Counsel

In our last issue, we revealed some worrying retirement statistics, then offered how to begin your planning process to avoid uncertainty and retire comfortably. In this quarterly installment, we will be forging ahead with making a plan and following through.

After envisioning your retirement lifestyle, create a budget. Start by:

- Listing your current living expenses;
- Adjust for any expenses that will go away when you retire (such as the cost of commuting to and from the office, office parking, lunch with co-workers, etc.);
- Adjust for new expenses (such as travel, recreation, income taxes on distributions from retirement accounts, and Social Security, as applicable); and
- Consider your healthcare expenses. (While you may not pay a premium for Medicare's hospital coverage, most people will pay a premium, copayments, coinsurance, and deductibles, for the outpatient coverage (Medicare Part B). Consider adding a minimum of $5,000 a year to your retirement budget for healthcare expenses. If you have ongoing health issues, consider adding more.)

Next, estimate your Social Security retirement benefit. Consider creating an account at https://www.ssa.gov/myaccount/. Your personalized account will show your:

- Full Retirement Age;
- Current estimated benefit at Full Retirement Age, and the impact of taking your benefit earlier or later; and
- Last Reported Earnings.

You will also get access to a Social Security retirement benefits calculator to help you project your potential benefit based on your estimated future income.

Subtract your monthly Social Security retirement benefit from your monthly budget expenses total. The difference is the amount of money you need every month to have the retirement lifestyle you desire. Multiply that number by 12 to determine how much money you need every year from your savings. We will call this your "Required Annual Income from Savings" or "RAIFS."

Setting Your Savings Goal. Multiply your RAIFS by 25 to estimate the amount of savings you need at retirement. This amount of money should last you approximately 30 years, assuming your money is invested, and you limit withdrawals in retirement to 4% annually. We will call this your "Savings Goal."

Getting to Your Savings Goal. Setting a budget now that includes savings for retirement is vital to reaching your Savings Goal. Ideally, you should set aside 15% of your income as retirement savings. List this, and treat it, as an expense in your current budget. If you cannot get to a 15% contribution rate today, set a goal to get there over time by cutting discretionary spending, and raising your contribution rate with every pay raise.

Trimming Your Spending. "A penny saved is a penny earned," the old saying goes. This is true.

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As a starting point, make it a habit to review your spending transactions at least once a week. Pay attention to patterns of when, how, and why you spend. Doing so should help you find areas where you can save. For example:

- Let's assume you buy a cup of coffee on your way to work every workday. It costs you $0.50 per day for a total of $2.50 per week. Let's also assume you buy lunch every work day. It costs you, on average, $8.50 per day for a total of $42.50 per week. Together, your total weekly expense for coffee and lunch is $45.
- By contrast, let's say started bringing coffee with you in a thermos. This costs you $0.10 per day for a total of $0.50 per week. In addition, you started bringing lunch to work. This costs you an average of $3.90 per meal for a total of $19.50 per week. Together, your total weekly expense for coffee and lunch is $20.
- Making this change would save you $25 per week, $100 per month, or $1,200 per year. If you smartly invest this money in a retirement account, you could see further gains based upon market earnings.

"Retirement Planning in Uncertain Times" will be continued in upcoming newsletters. Look forward to real world, common sense examples and approaches, such as contributing to an IRA or learning to invest money for retirement, which we will be discussing more in-depth next time, to make sure you can retire according to your plan.

Defined Contribution Annuity Rate Change

Effective January 1st, the annuity rate for **Defined Contribution** members has been updated from the 2020 rate of 2.87% to the 2021 rate of 2.44%. Per Nebraska statutes, this rate is determined using the January Pension Benefit Guaranty Corporate rate (1.69%) plus 0.75%. This rate will apply to all annuities purchased by Defined Contributions with a 2021 effective date.

At this time, the annuity rate for **Cash Balance Tier One** members is 7.75% and the annuity rate for **Cash Balance Tier Two** members is 7.5%.

Please refer to your plan handbook for more information on the annuities offered to State and County members at retirement or termination.

New Videos

Were you planning to attend a State & County Preretirement Seminar, only to find them sadly cancelled due to COVID-19? Good news, you can attend from the comfort of your own home! In an effort to better serve our members statewide, we have posted new videos to our website, which cover the materials we would convey at our Pre-retirement Seminar. The videos include State & County Pre-retirement, Retirement 101, the Deferred Compensation Plan, Social Security, and Medicare (in partnership with Nebraska Senior Health Insurance Information Program) and an Estate Planning Video presented by Ramzi Hynek, Esq. Make an educated retirement plan with the help of the many resources NPERS has available for you today! Discover all this and much more on our website NPERS.NE.GOV

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CASH BALANCE RATE

For the quarter beginning January 1st, 2021, the rate of return for Cash Balance participants is 5%.

The current and historical Cash Balance rates of return are available via the "Cash Balance Rates of Return & Dividends" link on our website.