

RETIREMENT NEWS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS STCO • JANUARY 2015

To Rollover or Not to Rollover...



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The December 2014 Deer Oaks EAP newsletter contained an article entitled “How To: Transfer or Roll-Over Your Retirement...” In this article, it was stated, “Rolling over your retirement accounts to an IRA is usually in your best interest.” For individuals participating in the Nebraska State Retirement plan, there are four reasons why rolling funds to an IRA after terminating employment may NOT be “in your best interest.”

CASH BALANCE ANNUITY RATE

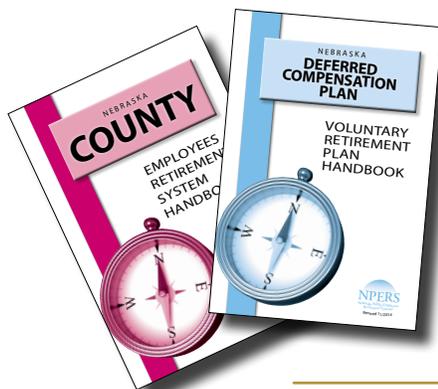
One of the primary benefits of participation in the Cash Balance plan is an annuity rate that is generally higher than rates offered in the private sector. The pooled assets in the Cash Balance Trust allow the plan to pay a higher annuity rate

to participants who opt to purchase an annuity. The current annuity rate offered to Cash Balance participants is 7.75%. Cash Balance members may purchase an annuity using all or part of their account at this rate, and in return are guaranteed a stable, monthly benefit.

An individual who rolls their Cash Balance account into an IRA is no longer eligible for the Cash Balance annuity. In addition, Cash Balance provides a guaranteed minimum 5% rate of return to individuals who defer their accounts after termination.

NOTE: Cash Balance rates may fluctuate over time. The Cash Balance annuity rate is locked in at the time of purchase.

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County and DCP Handbooks Revised

The member handbooks for the County and the voluntary State Deferred Compensation plans have been revised. The new revision dates are 11/2014. You may access the current version on the “Publications/Videos” page on the NPERS website.

FEES

All IRA's will have some form of fees. The scope and amount depends upon the vendor and the account balance. Many individuals who roll-over funds to an IRA are not aware of or do not understand the fees associated with their account. Those who take the time to research these fees often discover they are paying more and significantly higher fees than they were as participants in the state or county retirement plans.

Large entities such as the State of Nebraska have access to institutional pricing, which results in very low investment management fees. Due to the state's negotiating power, current investment fees for Defined Contribution members range from 0.03% up to 0.37%. Investment fees for the Cash Balance Plan totaled 0.28% as of 9/30/14. In contrast, investment management fees assessed for private sector mutual funds can often be as high as 1.5% to 2.00%, and additional IRA fees such as sales charges, transaction fees, set-up fees, custodial fees, may also apply.

While an IRA will offer more investment options, in most circumstances the driving factor behind poor returns is inappropriate investment decisions – not the lack of investment options.

NOTE: Fees are subject to fluctuations. Investment fees for each fund are listed in NPERS' Annual Investment Report.

EARLY WITHDRAWAL PENALTIES

In an IRA, participants must wait until age 59½ to avoid federal and state early withdrawal penalties. For Nebraska residents, this can result in a total tax penalty of 13% for distributions taken from an IRA prior to 59½. In contrast, individuals participating in the state or county retirement plans may begin taking distributions without early withdrawal penalties if they terminated their state or county employment during the year they turn 55.

Funds rolled into an IRA are subject to the tax regulations established for IRA accounts. Distributions taken prior to age 59½ may be subject to early withdrawal penalties regardless of when the member terminated state or county employment.

In addition, after termination of employment, distributions taken from the voluntary Deferred Compensation plan are not subject to early withdrawal penalties regardless of age. Once rolled into an IRA, participants must wait until age 59½ to avoid these penalties.

PROTECTION FROM CREDITORS

State laws determine if an IRA is protected from creditors. The amount of protection varies from state to state. Currently, many states do not provide IRA accounts the same level of protection from civil lawsuits found in the state and county retirement plans. Depending on the state of residency, rolling retirement funds into an IRA could result in the garnishment of some or all of the account in the event of a lawsuit.

There may be valid reasons for an individual to rollover funds to a private sector IRA, but this is an important financial decision that should not be made lightly. NPERS strongly recommends our plan members carefully research and fully understand the impact of rolling over their accounts in order to ensure this action is actually "in their best interests."

2015 DCP CONTRIBUTION LIMITS

The 2015 maximum contribution limits for voluntary Deferred Compensation Plans (DCP) have been announced by the IRS for section §457 tax sheltered retirement plans.

The new maximum contribution for the voluntary Deferred Compensation Plan (DCP) has increased to \$18,000 for members under age 50. The additional contribution amount for members age 50 or older is \$6,000, increasing the total limit to \$24,000. The limit for individuals taking advantage of the Three-Year Catch-up Provision (for members who did not defer the maximum amount in previous years) is \$36,000.

DCP is a tax-sheltered retirement plan somewhat similar to a Traditional IRA. It is a long-term investment plan and not intended as a short-term savings account. All state employees are eligible to participate, as are county employees whose employer doesn't offer a section §457 plan. Please refer to the NPERS website for more information and DCP enrollment forms.



Beneficiary Review Project

The NPERS Data Services department has recently embarked on a multi-year project to help ensure our State, County, and Deferred Compensation plan members have accurate and up to date beneficiary information. Currently there are several members with beneficiary forms on file that are five or more years old. These older forms often designate beneficiaries that need to be updated or removed.

Some of our members may be able to review their beneficiaries via the NPERS online account access. Beneficiaries will display on the NPERS online access if a member has recently submitted a form. They will not display for members who have older forms on file. Our staff is reviewing the over 18,000 members whose beneficiaries do not display in our computer system and adding the beneficiary data we have on file in order to enable online display. When they find a form that is five or more years old, they will issue correspondence requesting submission of a new form.

We anticipate this project to take two to three years to complete. We ask all of our members to please take a few minutes to complete and submit an updated form if you receive one of these requests! Your beneficiary is the person or persons you designate to receive your account balance upon your death. Keeping your beneficiary designation at NPERS up to date will ensure benefits are paid promptly and properly.

SHOULD YOU REVIEW YOUR BENEFICIARY DESIGNATIONS?

- Have you or a beneficiary gotten married or become divorced?
- Have you returned to employment after receiving a distribution of your account?
- Has a beneficiary passed away?
- Have you had a child?
- Has it been five or more years since you last reviewed your designations?

If you answered "YES" to any of these questions, you should review your beneficiary designations.

STATE EMPLOYEES:

Be aware the beneficiaries you name during "open enrollment" through Administrative Services are for your life insurance benefit and do not apply to your retirement plan. Currently, the only way to name beneficiaries for your retirement account is by submitting a properly completed and notarized NPERS Beneficiary Designation form. You may obtain this form at npers.ne.gov or from your employer.

2015 Saver's Tax Credit

Did you know contributing to the voluntary Deferred Compensation Plan (DCP) may reduce your taxes? **Low and moderate income employees** may be able to significantly reduce their taxes by qualifying for the Federal Saver's Tax Credit. By making *voluntary* contributions to an employer sponsored retirement plan (DCP) or individual retirement arrangement (IRA), you *may* qualify for a maximum credit of up to \$1,000 per individual (\$2,000 if filing jointly).

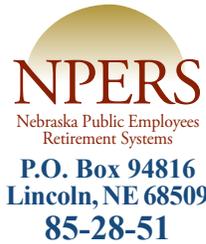
This credit only applies for contributions made to voluntary retirement accounts. Eligibility and the amount of the credit are determined by *filing status* and *adjusted gross income* (AGI).

FILING STATUS/ADJUSTED GROSS INCOME LIMITS FOR 2015

CREDIT RATE	JOINT	HEAD OF HOUSEHOLD	SINGLE
50%	\$0 to \$36,500	\$0 to \$27,375	\$0 to \$18,250
20%	\$36,501 to \$39,500	\$27,376 to \$29,625	\$18,251 to \$19,750
10%	\$39,501 to \$61,000	\$29,626 to \$45,750	\$19,751 to \$30,500

For example, a couple filing a joint return with an AGI of \$36,500 or less is eligible for the 50% rate. If both contributed \$2,000 (or more) to a qualified plan, both would receive the maximum \$1,000 Saver's Credit. If their AGI was a bit higher at \$38,000, they move to the 20% bracket and both would receive a \$400 credit.

Don't confuse tax "credits" with "deductions." A deduction reduces the amount of your taxable income and you pay taxes on the remaining income at a percentage based on the IRS tax brackets. A credit reduces the final amount of taxes you owe dollar for dollar and provides *significantly* better savings. Even better, contributions made to DCP reduce your AGI and may help you qualify for a higher Saver's Tax Credit.



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QUARTERLY CASH BALANCE RATE

For the quarter beginning January 1, 2015, 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.

FOR NEBRASKA STATE AND COUNTY EMPLOYEES

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