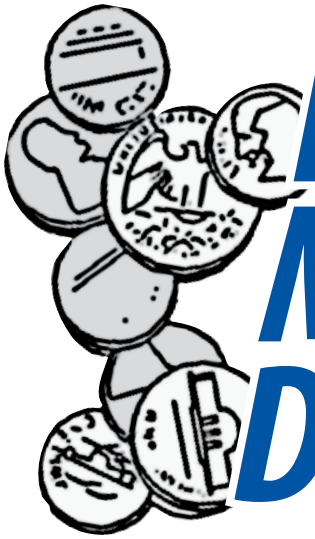
For Nebraska State and County Employees

Retirement News

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

STCO • JANUARY 2016



Required Minimum Distributions

Each year, plan members who have terminated employment with the state or county and reached age 70½ and older, are required by federal law to take a taxable required minimum distribution (RMD) from their mandatory State or County plan, and voluntary Deferred Compensation Plan (DCP) accounts. Failure to withdraw an RMD by the applicable deadline may result in a 50% tax penalty on the amount of the RMD.

The amount of the RMD is determined by the account balance as of December 31st of the preceding year and a formula based on life expectancy tables published by the IRS. For example, to calculate a 2016 RMD you would use the account balance as of December 31, 2015. To assist, the IRS provides worksheets on their website to calculate the RMD for a given year.

There are two different due dates for RMD distributions. The "initial" RMD is due once the member terminates employment and reaches age 70½. This RMD payment can be delayed until April 1st of the year following the year in which he or she turns 70½. All subsequent RMD's must be taken no later than December 31st to avoid the 50% penalty.

Clearly this can be a complicated process but NPERS does provide assistance. We send an initial notification letter to all retirees approaching age 70½. This letter alerts them of the impending RMD and notifies them of the due date. It is the responsibility of the member to take a taxable distribution from their account of or exceeding the RMD amount by the due date.

When should a member request an RMD distribution? Due to processing timelines, NPERS recommends individuals with a December 31st deadline to request their RMD *no later than October 1st*. Individuals taking their initial RMD who wish to delay up to April 1st should request the RMD after January 1st and no later than March 1st. Be aware if you delay the initial RMD to April 1st, a second RMD will be due that same year by December 31st.

If a terminated Defined Contribution and/or Deferred Compensation plan member fails to request a distribution by the due date, then an RMD amount is calculated in our office and a check issued to the member. When a terminated Cash Balance member fails to apply for a disbursement by age 70½, state statute requires NPERS to use the entire account to purchase the Five Year Period Certain and Continuous annuity for the member. A Cash Balance member who wishes to take a different distribution must file a request no later than January 15th of the year following age 70½.

RMD's can be a complicated issue for some retirees. You may wish to contact a tax professional if you require assistance.

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RETIREMENT NEWS

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Saver's Tax Credit

Low and moderate income employees may be able to significantly reduce their taxes by qualifying for the Federal Saver's Tax Credit.

Contributions made to an employer sponsored retirement plan such as the voluntary Deferred Compensation Plan (DCP) or an individual retirement arrangement (IRA), *may* qualify for a tax 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 2016

CREDIT RATE	JOINT	HEAD OF HOUSEHOLD	SINGLE
50%	$0 to $37,000	$0 to $27,750	$0 to $18,500
20%	$37,001 to $40,000	$27,751 to $30,000	$18,501 to $20,000
10%	$40,001 to $61,500	$30,001 to $46,125	$20,001 to $30,750

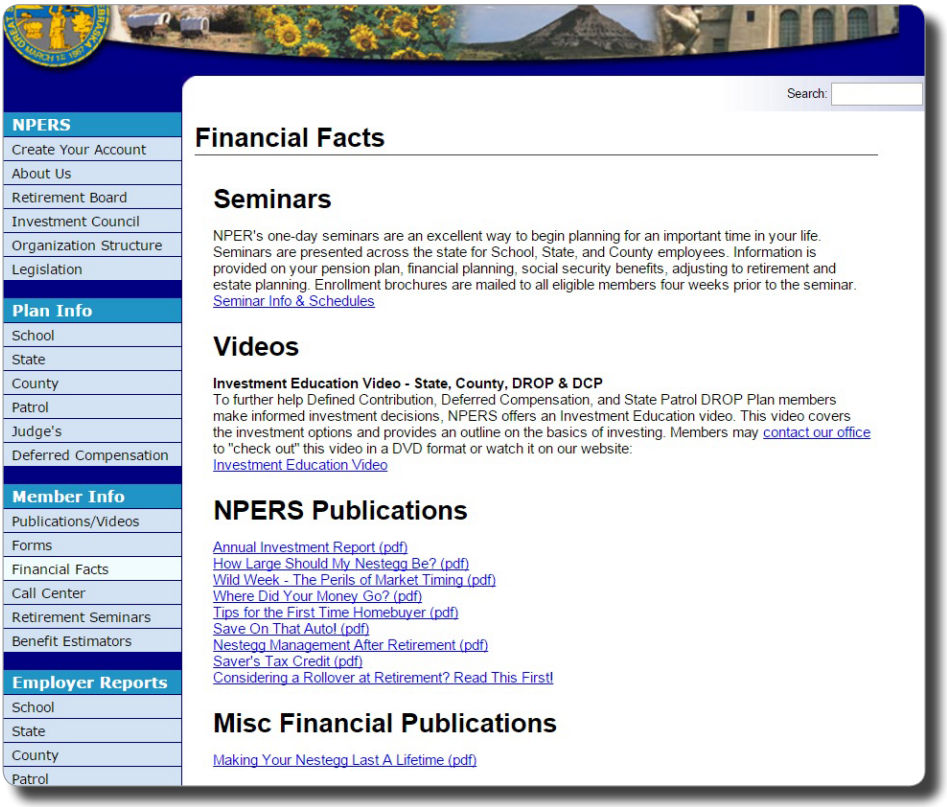
For example, a couple filing a joint return with an AGI of $37,000 or less is eligible for the 50% rate. If both contributed $2,000 (or more) to a qualified plan, both would receive the maximum $1,000 Saver's Credit. If their AGI was a bit higher at $38,000, they move to the 20% bracket and both would 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. In addition, contributions made to DCP reduce your AGI and may help you qualify for a higher Saver's Tax Credit.

Financial Facts:

Visit the NPERS Website for Helpful Tools & Information!

Have you visited the Financial Facts page on the NPERS website? This page is designed as a "one-stop" access to all the various retirement and financial planning educational materials created by NPERS. This page contains our Investment Education video, various publications, and notification of our retirement and financial management seminar schedules.



Investment Education Video

Individuals participating in the State and County Defined Contribution (DC) and the voluntary State Deferred Compensation (DCP) plans are responsible for making their own investment choices. The 13 different investment options available do not provide a guaranteed minimum rate of return and their retirement funds will *increase or decrease* depending on the investment options selected and market performance during that time.

Making sound investment decisions is critical in building an adequate nest egg for retirement. Plan members who take the time to educate themselves on the basic principles of investing and the 13 investment options offered have a much better chance of making sensible investment decisions.

In an effort to help, NPERS offers an Investment Education video on the Financial Facts page. This video covers the 13 available investment options and provides an outline on the basics of investing.

Seminars

The Financial Facts page provides a link to our Seminar page where members can access the upcoming seminar schedule and download the enrollment form. Each year NPERS conducts statewide Preretirement and Financial Management seminars. The Financial Management seminars are for plan members under age 50 and provide a basic overview of both the mandatory and voluntary retirement plans, an hour-long presentation from an estate planning attorney, and three plus hours dedicated to various financial management topics. The Preretirement seminars are for plan members at and over age 50. These seminars provide participants with comprehensive information regarding their State and County retirement plans and the distribution options available at retirement. In addition, the program includes Medicare, Financial, and Estate Planning guest presentations.

Publications

The NPERS Education Services department has created several publications designed to educate plan participants on a wide variety of financial related topics. Topics include investment education, tips for buying a home or automobile, managing assets after retirement, and rolling retirement assets into the private sector. In addition, NPERS publishes an Annual Investment report which provides current data on the various investments utilized in the Nebraska State and County retirement plans.

2016 DCP Contribution Limits

2016 maximum contribution limits for voluntary Deferred Compensation Plans (DCP) have been announced by the IRS for section §457, tax sheltered retirement plans. The limits for 2016 remain the same as the limits previously set for 2015.

The standard yearly maximum contribution for 2016 is $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 some county employees whose employer does not offer a section §457 plan. Please refer to the NPERS website for more information and DCP enrollment forms.

Defined Contribution Annuity Rate Change

Effective January 1st, the annuity rate for **Defined Contribution** members has been updated from the 2015 rate of 3.64% to the 2016 rate of 3.57%. Per Nebraska statutes, this rate is determined using the January Pension Benefit Guaranty Corporate rate (2.82%) plus 0.75%. The annuity rate for **Cash Balance** members remains unchanged at 7.75%.

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QUARTERLY CASH BALANCE RATE

For the quarter beginning January 1st, 2016, 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.

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