Retirement Season Is Upon Us!

Spring and summer is a very busy time here at NPERS. This is the time period when the majority of School Plan members wrap up employment and apply for their retirement benefits. NPERS is pleased to report we are on track with processing these applications and getting benefit checks to our retirees in a timely manner. At this time, we have received approximately 850 School retirement applications for the months of June and July—a record number! To date, our staff has processed nearly 400 of these retirements and are putting in extra hours as they continue to work on the remaining applications. Congratulations to all our new retirees!

2012 LEGISLATION

The 102nd Legislature, second session, adjourned on April 18. During this session, one bill impacting the School, Judges, and Patrol retirement plans was passed.

LB 916

The bill allows retirement benefits to be awarded by a court to victims of specific crimes committed by a plan member. Benefits can be awarded when a plan member is convicted of or pleads no contest to a felony defined as assault, sexual assault, kidnapping, child abuse, false imprisonment, or theft by embezzlement and is subsequently found liable for civil damages. Benefits may be awarded following a retirement distribution to a member and the bill exempts any benefit or annuity payments “reasonably necessary for the support of the employee or any of his or her beneficiaries.”

The bill implements provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) requiring a member’s beneficiary be entitled to any additional death benefit that he or she would be entitled to had the member been employed during the period of qualified military service when their death occurred.

The bill adds language allowing rollovers to a Roth IRA upon termination or retirement, and excludes per diem payments from the definition of compensation.

SCHOOL PLAN

Effective 9/1/12, school employees under age 18 are not eligible to join the plan. The bill clarifies that unpaid voluntary, or substitute service, during the first 180 calendar days after retirement, can only be provided on an intermittent basis.
For most Americans, **FIXED DEBT** will consume the majority of their lifetime income.

Fixed debt represents long-term, ongoing payments made to pay off loans (debt) for items such as mortgages, school loans, or car payments. These expenditures generally represent a stable percentage of total monthly expenses. Your remaining income after fixed debt should be enough to cover living expenses with some left over for retirement savings. It is also wise to have cash set aside to pay for any unexpected expenses or financial emergencies.

Acceptable levels of fixed debt can be measured by a “Debt to Income” ratio (DTI). This is determined by calculating the percentage of monthly income (take home) spent on fixed debt. Most financial institutions recommend a DTI ratio no higher than 36%. A DTI of 20% or below is considered excellent. A DTI ratio above 36% makes it difficult to set aside funds for retirement and individuals with DTI ratios at 50% or higher run the risk of missing or defaulting on payments, running up credit card debt, and damaging their credit ratings.

For most Americans, there are three items that account for the majority of fixed debt – mortgages, car loans, and school loans. Many individuals mistakenly assume lenders will not approve loans above and beyond what they can afford. This is not the case. Before signing on the dotted line, calculate the monthly payments for all fixed debts to ensure the DTI ratio remains at or under 36%.

How much of your DTI should these three items represent? Percentages vary based on the source of the data, but as a starting baseline...

**MORTGAGE**

Houses account for the largest percentage of fixed debt but also represent an investment that over the long term will usually grow in value. Plus, you get to live in them. How much house can you afford? Many lenders recommend total monthly housing expenses (mortgage payments and maintenance) account for no more than 28% of income. When reviewing estimates, be sure they represent the total monthly cost and include items such as property taxes, insurance premiums, mortgage insurance, association dues, etc. Spending a bit more – say up to 33% - may not be a bad idea, but only if other areas of fixed debt can be reduced to keep the DTI ratio under 36%.

Most expenditures (or debt) fall under three categories:

<table>
<thead>
<tr>
<th>FIXED DEBT</th>
<th>MONTHLY EXPENSES</th>
<th>FLEXIBLE EXPENSES</th>
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</table>

**MAXIMUM RECOMMENDED DEBT-TO-INCOME RATIO**

Remaining Income  FIXED DEBT – 36%

Where Did Your Money Go?

For most individuals, the amount they spend has an inverse effect on the amount they save for retirement. Many spend too much and save too little. In order to free up additional funds and save more, it’s important to understand “where the money goes” and set spending limits. The first step in this process involves creating a monthly budget listing all expenditures.

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PERB Officers and New Members

At the January 23 meeting, the Public Employees Retirement Board (PERB) re-elected Denis Blank to serve as Chair and Glenn Elwell as Vice-Chair for the 2012 calendar year. Denis Blank recently retired from the Nebraska Department of Agriculture and represents state members on the PERB. Sgt. Glenn Elwell serves in the State Patrol Investigative Services division and represents Patrol members.

Two new members, Stuart Simpson and Ron Ecklund, have been appointed by the Governor and approved by the Unicameral to serve on the PERB.

Stuart Simpson was appointed to fill the school plan member vacancy left by Mark Shepard. Mr. Simpson is the district business manager for North Platte Public Schools. He previously served as President of the Nebraska Association of School Business Officials and currently serves on the board of directors for the North Platte Public Schools Foundation. He received his MBA and BA in Business Administration from Chadron State College.

Ron Ecklund was appointed to fill the vacancy left by Don Pederson. Mr. Ecklund is a retired partner at HBE Becker Meyer Love LLP, CPA’s in Lincoln and continues to practice with the firm on a part-time basis. Mr. Ecklund has previously served as a Director and Chair of the Lincoln Electric System Administrative Board, the Lincoln Independent Business Association, and the Lincoln Community Foundation Board. He received his MBA and BS from the University of Nebraska.

NPERS welcomes Mr. Simpson and Mr. Ecklund to the PERB and looks forward to working with them.

THANKS TO MARK SHEPARD AND DON PEDERSON

We would like to extend our sincere gratitude to Mark Shepard and Don Pederson for their years of service on the Public Employees Retirement Board (PERB). Mark was appointed to the PERB in 2005 to serve as a representative of School Retirement Plan and Don has served as a “public” member since 2007. Both Don and Mark have been outstanding assets to the Board. We wish them the very best in their future endeavors.

An “Official” NPERS Seminar?

This summer, we have become aware of newspaper advertisements and mail from financial advisors offering retirement planning services/seminars for NPERS retirees. As a potential retiree, members may be targeted by investment advisors offering their services. These ads may be misleading and cause plan members to mistakenly conclude these individuals are affiliated with our agency. These advertised services and seminars are not sanctioned or held in connection with our office. Information provided in these seminars may or may not be accurate or up to date with current legislation.

The NPERS Educational Services staff has the greatest level of expertise regarding our plans. We conduct day-long retirement seminars across the state for our plan members, pursuant to Nebraska state law. These seminars are listed in our newsletters and on our website. We also offer a shortened “Retirement 101” seminar which may be presented to State agencies, Counties, and Schools by request. Members may visit our website, npers.ne.gov, to view our current list of full day sessions.

If you have any questions concerning NPERS seminars, please contact our office.

Handbooks Revised

The member handbooks for the School and Judges Retirement plans have been revised recently. You may access the latest versions on the “Publication” page on the NPERS website.

Be on the lookout!

NPERS account statements for School, Judges, and Patrol Plans will be mailed in mid-August. Check your mail to keep abreast of your account status!
SCHOOL LOANS

Money spent on higher education is generally a good investment. Earning a degree can enhance career prospects and increase earning potential, but piling on too much student loan debt can do more harm than good. As tuition continues to increase, it’s becoming more expensive to earn a degree. As of 2012, the total estimated annual cost (includes in-state tuition, fees, room and board) to attend the University of Nebraska – Lincoln is $17,230 (Source: CNN Money).

So how much is too much student loan debt? It’s difficult to calculate a DTI ratio as monthly payments will vary depending on the terms of the loan and there is no way to accurately predict future earnings. A ballpark amount can be calculated assuming payments of 10% of gross income averaged over a ten year time span. In other words, an individual who assumes they will earn a total of $500,000 during the ten years following graduation should limit themselves to $50,000 in total student loans.

Again, it’s difficult to calculate a DTI ratio for the above scenario but chances are good the monthly payments will consume at least 15% or more of take home pay. As wages increase over time this percentage will drop, but other fixed debt should be limited during the initial years following graduation to keep the total DTI ratio under 36%.

CAR LOANS

Cars are poor investments. Unlike a properly maintained home, the vast majority of cars will decrease in value over their lifetime. Americans love cars and we often spend more than we should on them. Many auto industry “experts” recommend car payments consume no more than 20% of monthly income. This is too much to allocate on an asset that will depreciate in value. To compound the issue, if mortgage payments are at 28% of income, adding another 20% of debt pushes the DTI ratio to 48% - and that doesn’t include any school loan payments.

To give another perspective, the total purchase price should not exceed one-third of gross annual income. An individual making $30,000 a year (pre-tax) should spend no more than $10,000. Monthly payments vary depending on terms of the loan but generally this will result in a 9% to 11% DTI ratio.

THE TOTAL DTI RATIO

Many individuals will carry mortgage, auto and school loan debt at the same time. If they follow the above guidelines of 28% for the house, 15% for school loans, and 10% for car loans – this will put them at a DTI of 53%, well over the 36% limit. Generally the mortgage and auto are the two areas of fixed debt that can be adjusted until the school loan is paid off or the salary increases.

Of these three, the car should be the first target when attempting to reduce the percentage of DTI. Individuals with no mortgage payments or school loans (or other forms of fixed debt) may be tempted to spend more than the amount recommended above, but this is not a sound financial decision. Any extra income is much better spent creating a pool of money that can be used for a down payment on a future home purchase, paying for tuition, or saving more for retirement.

<table>
<thead>
<tr>
<th>Remaining Income</th>
<th>Fixed Debt (Percent of Income)</th>
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<tbody>
<tr>
<td></td>
<td>House – 28%</td>
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<tr>
<td></td>
<td>School – 15%</td>
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<td></td>
<td>Car – 10%</td>
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The recommended percentage of fixed debt is 36%. Home mortgages and car loans may need to be adjusted until school loans are paid off or salary increases in order to attain the goal of 36%.