

Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

Vol. 20, No.1, Winter 2005

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Annuities: An Explanation

By John Winkelman, Training Specialist

One of the options for **State** and **County Plan** members at retirement is to use all or a portion of their retirement account to purchase an annuity. Often our members confuse the annuities offered by NPERS with annuities offered in the private sector. Because of this confusion, plan members sometimes dismiss NPERS annuities without fully understanding them. This article explains the basics of annuities, and discusses the choices available to you in the State or County Plan.

Part 1: Why Should I Consider Buying An Annuity?

There are pros and cons to annuities and **it's up to you** to decide if an annuity is the right choice.

Keep in mind the annuities offered to State and County Plan members are provided through NPERS. As a state agency, NPERS' purpose is to provide services, *not make a profit*. This allows us to offer extremely attractive annuity rates. In addition, Cash Balance participants receive an even better annuity rate as part of the plan design.

Pros – An Annuity is:

- **Conservative.** An annuity provides a secure method to guarantee retirement income. Payments aren't subject to market fluctuations and will remain the same through good times and bad.
- **Simple.** Once you purchase an annuity, your work is done. You are not responsible for making the investment decisions. You can relax and enjoy your retirement.

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Putting a Stop to Excessive Trading

As we mentioned in the last newsletter, there are a number of **State** and **County Plan** members that participate in the **Defined Contribution Benefit** and/or **Deferred Compensation Plan** (DCP) who try to "time the market" and trade their shares *excessively* in and out of the 11 investment options. Excessive or short-term trading in fund shares may disrupt management of a fund and raise costs.

We feel it necessary to remind Plan members that effective January 1, 2005, T. Rowe Price, investment fund manager of the International Stock Fund, will implement a redemption fee. As of that date, participants purchasing shares who make more than one "round trip" (i.e., one purchase and one sale or one sale and one purchase) involving the same fund within any 90-day calendar period will violate the policy. Traders may be barred for 90 calendar days or permanently from further purchases of the funds. Transactions placed by such persons will be subject to rejection or cancellation without notice.

T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If deemed in violation, a *2% redemption fee* will be charged on shares if they are redeemed on or before the 90th day from the date of purchase. If shares are redeemed after the end of the holding period, they will not be subject to the redemption fee.

If you have questions, please call NPERS at **800-245-5712** or **402-471-2053**. □

Annuities *(Cont. from page 1)*

- **Secure.** A lifetime annuity ensures you won't outlive your retirement savings. Guaranteeing you won't run out of money isn't always easy. Poor investment returns or living longer than expected could result in running out of money. Lifetime annuities remove those risks.
- **Stable.** An annuity provides established, guaranteed monthly income which makes planning and budgeting for retirement easier.
- **Tax Beneficial.** When taking a large lump sum from your account, you could find yourself in a much higher tax bracket come April 15. With an annuity, you only pay taxes on the monthly benefits – **not** the amount you used to purchase the annuity.
- **Easy.** NPERS will cut a check (or provide direct deposit), withhold taxes (at the rate you specify), and generate a 1099-R IRS document at the end of the year for you to use when filing your taxes. How much simpler could it be!

Cons of an Annuity:

- **You “sacrifice” control of your principal.** If you want to take cash out for any reason, you can't.
- **If you select an annuity with no death benefit, you may not recover the cost of the annuity if you pass away earlier than expected.**

Part 2: What Are the State or County Annuity Options?

NPERS provides six annuity options.

1. Life Only
2. Modified Cash Refund
3. 5-, 10- or 15-Year Period Certain & Continuous
4. 50%, 75%, or 100% Joint and Survivor
5. Non-Spousal Joint and Survivor
6. 5-, 10-, 15- or 20-Year Designated Period

With the exception of the Designated Period annuities, all the annuities provide a monthly payment *for your lifetime*. Once you have made your purchase, you cannot change your annuity option. A complete description of the annuity options is contained in your State or County Plan member handbook. If you do not have a plan booklet you may obtain one from your personnel contact or visit our website at www.npers.ne.gov.

When selecting an annuity, you can choose a fixed monthly benefit that never changes, or you can select a cost-of-living adjustment (COLA) to offset inflation. The COLA annuity starts out with a lower initial benefit but the monthly amount increases 2.5% each year. Whether or not the COLA is “worth it” basically depends on how long you end up living.

At retirement, you don't have to make your decision right away to purchase an annuity but can wait until a later date. Choosing to “do nothing” with your account at retirement is called *deferring* your account. You may defer your account until age 70½ at which time federal tax regulations will require you to begin taking minimum distributions.

Part 3: What the Heck Are These Things?

Traditionally, an annuity is a contract between you and an insurance company. You give the insurance company your money and in return receive regular (usually monthly) payments. The amount of each monthly payment is determined by

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Congratulations!

The Nebraska Retirement Systems is proud to name **Tammy Petersen** as our 2004 Employee of the Year!



Tammy has been with NPERS since 1986, when she began working with the School Plan. She is now a key member of our IT

Team, and has greatly influenced the success of the PIONEER project. Her knowledge and sense of responsibility make Tammy an indispensable part of our agency.

We would also like to congratulate **Sheila Linder**, our 2004 Manager of the Year!

Sheila has been the agency's Administrative Assistant for the past five years. In addition to assisting our Director and



Board Members during our monthly board meetings, she also assists with Qualified Domestic Relations Orders. She handles personnel matters and manages all environmental issues within the agency. Sheila's assistance is invaluable and she is also a kind and generous person.

We are proud to have two such outstanding people represent our agency. Thank you Tammy and Sheila, for going above and beyond everyday and being great team players!

“It's never too late to have a happy childhood”

~Unknown



Time is On Your Side

by Mary Jochim, President - Sterling Financial Advisors

Consider the saving habits of this 20-year old couple. The wife starts putting \$2,000 per year into a tax-deferred investment when she is 20. After 10 years, she decides to stop investing and just let her money grow until she retires. The husband decides to start investing when his wife stops. He invests \$2,000 a year in a tax-deferred investment from the time he is 30 until he retires at age 65. If they both earn 8% on their savings, who will have more money at age 65?

Time and compound interest favor the wife. She will have \$462,648 at age 65, while her husband will only have \$372,204.

Use time to your advantage — start saving early!

Excel graph not available

Who's Your Beneficiary?

Are you one of those **State or County Plan** members who've been hanging around for awhile? When you joined the retirement plan, did they still use typewriters and carbon paper, wear polyester leisure suits, or beehive hairdos?

If so, **when did you last update your beneficiary designation?**

Have you gotten married, divorced or had a child? Has a family member died? Or have any of your named beneficiaries changed their address? If so, it's up to you to make sure our office has your current beneficiary information.

Any new Beneficiary Designation Form received by NPERS will automatically replace what we have on record. So, don't bother calling to ask who you named 10, 15 or 20 years ago (we wouldn't tell you over the phone anyway). Ask your personnel contact for a new form, print it from our web site at www.npers.ne.gov, or call us at **800-245-5712** or **402-471-9505** and request one. Then fill it out, have it notarized, and send it in.

Give yourself peace of mind knowing that if you were to die unexpectedly before having a chance to retire, your retirement account would go where you wanted it to. □

Annual Cash Balance Report Revised

The State and County Cash Balance actuarial reports have been revised by NPERS' consulting Actuary. The reports are for the year ending December 31, 2003, and were presented to the Retirement Board at its regular April 2004 meeting. If you would like a copy of the revised report, please contact NPERS at **800-245-5712** or **471-2053**.



Reminder for Defined Contribution Members

Effective July 16, 2004, **Defined Contribution Benefit** members have more choices for the employer matching funds.

You may now invest your *employer* account among the 11 fund choices available to you in your *employee* account. For more information, refer to the Summer 2004 Retirement Roundup, or call NPERS at **800-245-5712** or **402-471-2053**.

Cash Balance Credit Rate Announced

The new crediting rate will be 5.26% annualized for the coming quarter. The law states that the rate credited to member accounts will be the Federal Mid-term rate plus 1.5% per annum. The Federal Mid-term Rate for January 2005 has changed to an annual rate of 3.76%. The new annual rate of 5.26% will be credited to Cash Balance member's accounts for the period January through March 2005.

At the end of each quarter NPERS updates the interest credit paid to Cash Balance member accounts based on any changes to the Federal Mid-term rate. If this rate is less than 3.5% per annum, the credit rate to member accounts will be no less than 5% per annum. □

Annuities *(Cont. from page 3)*

an interest rate (locked in at time of purchase), your life expectancy (based on how old you are), and the initial premium payment amount (how much you spent).

Annuities offer various payment options. The option you select will determine if you receive your annuity for your lifetime or a set period of time, and whether or not there will be a death benefit. In addition, the option will influence the amount of the monthly payments.

If you don't want to spend your days worrying about your investments and a guaranteed income during retirement is a priority, then an annuity may be right for you. An annuity can also be a valuable part of your overall diversification strategy. If you have other investments, an annuity could provide a great balancing investment. The NPERS annuity will provide the stable base, the security of knowing you will have lifetime income, no matter what happens to the markets and your other investments.

So, is an annuity right for you? It depends. There are several things to consider. Your general health. Family longevity. Estate plans. Other retirement plans. Diversification in your current investments. Cash flow needs in retirement. Social Security estimates. Making an informed decision will require you to do some homework.

To help you with your "homework," NPERS' web site at www.npers.ne.gov provides an annuity benefit estimator. You can use this tool to input a variety of retirement dates and purchase amounts to calculate the monthly benefit for all of the annuity options. You can also review the difference between the cost-of-living adjustment (COLA) and "non-COLA" annuities.

I can't finish this article without saying, if you determine an annuity should be part of your retirement portfolio, you'll be hard pressed to find any more outstanding than the ones offered by NPERS. For more information contact our office at **800-245-5712** or **402-471-2053**, visit our web site at www.npers.ne.gov, or attend one of our State and County "Over 50" Preretirement seminars. You can also call Sterling Financial Advisors, LLC, at **877-970-9300** who are under contract to provide investment education services to State and County Plan members. □

Top 5 Reasons why retirement is a challenge for women workers

- 1 **Two** out of **three** working women earn less than \$30,000 per year.
- 2 **Nine** out of **ten** working women earn less than \$50,000.
- 3 **Half** of all women work in traditionally female, relatively low paid jobs without pensions.
- 4 **Women** retirees receive only **half** the average pension benefits that men receive.
- 5 **Women's** earnings average **\$.76** for every **\$1** earned by men — a lifetime loss of over \$300,000.

From WISER (Women's Institute for a Secure Retirement) newsletter 2004, www.wizer.heinz.org.

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