Why not make a resolution to do some pre-retirement planning? Below are some tips that can help you build a financially healthy future. We also suggest you visit [www.choosetosave.org](http://www.choosetosave.org) from the American Savings Education Council for savings information and many useful calculators.

**Know how much money you’ll need.**
Experts estimate you’ll need 70-90% of your pre-retirement income to maintain your present standard of living when you stop working. Have you done the math? The Internet offers many tools you can use to do a savings need calculation, but we like this one: the Ballpark E$timate offered at [www.choosetosave.org](http://www.choosetosave.org).

**Don’t wait. Set goals and start now.**
Many people spend more time planning a two-week family vacation than they do planning for what is likely to be the longest vacation of their life – retirement. With good health, your retirement could last 30 years or more. Do you know how you’re going to pay for it? Just saving some money each month will not be enough. You’ll need to calculate a realistic retirement savings goal.

**Understand the Power of Money.**
The single greatest power in saving money is time, because time allows you to take advantage of compound interest. Compound interest is where you earn interest on your interest. Delaying even one year can cost you more than you know.

**Save Money the Easy Way.**
Automatic pay-roll deduction is one thing that makes employer offered deferred compensation plans so attractive. Before you get your paycheck in your "hot little hands," you can defer a portion of it, thereby deferring taxes which won’t become due until you withdraw the money. Over time, the deferral of taxes and compounding of interest make a big difference in the amount of money you will accumulate. The §457 Deferred Compensation Plan (DCP) is available to State of Nebraska employees immediately upon hire (no waiting period). To sign up, see your human resource contact. For information on how DCP works, contact NPERS at the numbers listed or visit the web site at [www.npers.ne.gov](http://www.npers.ne.gov). Each county offers their own deferred compensation plan, so county employees should contact their County Clerk.

**Consider Opening an IRA.**
An IRA, individual retirement account (Roth or traditional), is another valuable tool for tax-advantaged savings.

**Don’t Touch That Money Until Retirement.**
Leave it and let it grow. If you withdraw your money too soon, you will lose principal and interest, and you may lose tax benefits. If your employment with the State or County ends before you reach age 55, you may defer your retirement account until a later date. Or you can roll your money over into an IRA or other qualified plan but before deciding, be sure to compare management fees you would be charged to be sure you get the best deal.

**Consider Your Social Security Statement.**
Resolve to save for your future and use your personalized Social Security Statement and the 90-day period between receipt of your statement and your birthday to develop a financial plan for achieving your major life goals (e.g., retirement, first home purchase, college for
Mortgage Lending – The Long or Short of it

There are many things to consider when buying a home. Go long-term or short-term, what’s right for you?

Consider Fred and Wilma. They are anxious to become the owners of a prestigious house. Naturally, they are both positively bubbling over with excitement. Wilma, in particular, can barely restrain her enthusiasm for the home of her dreams. However, she has the financial brain of the couple and wants to make the best possible choice for mortgage financing. She must choose between a 15 year mortgage at 5% and a 30 year mortgage at 5.5%. In either case, they will borrow $100,000, pay the same in closing costs and neither mortgage note has a prepayment penalty.

A quick analysis of their situation reveals that their monthly payment on the 15 year mortgage (principal and interest only) will be $791. Over the course of the mortgage they will pay $42,343 in interest. Of course, that interest is deductible. Let’s assume that Fred and Wilma are in the 25% tax bracket for the next 30 years. That means, after-tax, the interest costs them $31,757. Their total after tax payments will be $131,756. Interest on debt sure adds up over time doesn’t it?

The 30 year mortgage results in monthly payments of $568. Total interest payments will be a whopping $104,404. But, thanks to the deduction Uncle Sam gives them, the after tax-cost of the interest is “only” $78,303 making their total after tax payments equal to $178,303. The 30 year mortgage gives them payments that are lower by $223 but it costs them $46,547 more, after-tax.

One answer would be to take the sure thing, borrow for 15 years and run. But, consider the flexibility of the 30 year mortgage. If they were to invest the $223 per month in common stocks that returned 6%, after tax, for 15 years they would have over $65,177. The balance due on their 30 year mortgage after 15 years is about $69,490. Within the next 8 months, they will actually have more saved than their balance due on their mortgage. The key to this strategy is Fred and Wilma must actually save the $223 each and every month. If they don’t, they may have been better off with the “forced savings” imposed by the 15 year mortgage. Investing involves risk and you may incur a profit or a loss. The examples provided are hypothetical and do not suggest or guarantee particular rates of return for any investment. The examples do not include transaction costs and tax considerations that would reduce an investor’s return.

How about these three alternative strategies that take advantage of the inherent flexibility of a 30 year mortgage with no prepayment penalty. If Fred and Wilma make 13 payments every year, starting in the first year, the extra $567.79 will reduce their after-tax interest cost to $63,478 and pay off the mortgage about 5 years ahead of schedule.

As an alternative, they might pay the next month’s principal along with each payment. For example, with their first payment, they would also pay the $110 in principal that would otherwise have been due on their second payment. Every month they would pay a little more in extra principal. This strategy results in after-tax interest costs of $44,529 and a pay-off in year 18, a little over 13 years ahead of schedule.

A simpler alternative would be to send a flat amount along with each month’s mortgage payment. Sending $100 per month would reduce their after-tax interest cost to $51,990 and pay off the mortgage about 8 years early. Each of these alternatives requires discipline. If one does not have the discipline to actually send the mortgage lender the additional funds then the forced savings of the 15 year mortgage might be the best bet.

Of course, this brief article is no substitute for a careful consideration of all of the advantages and disadvantages of this matter in light of your unique personal circumstances. Before implementing any significant tax or financial planning strategy, contact your financial planner, attorney or tax advisor as appropriate.

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Cash Balance Rate

The new credit rate will be 5.98% 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. Thus the Federal Mid-term Rate for the previous quarter has changed to an annual rate of 4.48%. The new annual rate of 5.98% will be credited to Cash Balance member’s accounts for the period January through March 2006.

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.
Since January 2004, NPERS has been using PIONEER, our paperless, automated technology system, to manage member accounts and process retirement benefit payments. PIONEER was custom designed and built to our unique specifications needed to administer our six retirement plans with over 97,000 members.

NPERS is proud of the success of PIONEER and the improvements realized in our service to members, our accuracy and response times, and greatly reduced security risks. Each phase of the project was implemented on time and within budget and, most importantly, it works!

PIONEER, which stands for Pension Information of Nebraska for Efficient and Effective Retirement, has been a rewarding challenge. Just in time for the wave of “baby boomer” retirements, PIONEER accepts contribution reporting from employers via the Internet, calculates retirement benefits and retrieves members’ historical information efficiently and effectively.

In 1999, we outlined our need to upgrade our information system and streamline our procedures and received approval from the Legislature and the Governor to conduct a feasibility study. The next year, the Appropriations Committee and the Retirement Committee of the Legislature overwhelming approved our detailed project plan and granted spending authority.

An imaging system to electronically manage the many paper documents we handle was built in Phase I. We also moved our office location, reorganized our work teams and implemented a “call center” and member services department. In Phase II, we installed the web-based employer reporting system and created the new integrated membership database to house our plan members’ historical data. We also installed a website benefit estimate calculator and added downloadable forms. And finally, in Phase III we installed a benefit payment system to process monthly benefit payments to over 14,000 retired plan members.

DCP – That Little “Extra” for Retirement

Participating in a §457 deferred compensation plan is a voluntary way to accumulate supplement retirement income, and is separate from your mandatory State or County Retirement Plan.

With a deferred compensation plan, you authorize your employer to defer a portion of your annual compensation (current salary), pre-tax, to a later date such as retirement. This tax deferred portion is placed into an account and invested under your direction. Contributions are pre-tax which lessens the “hit to your paycheck” and lowers the salary reported to the IRS, thereby reducing your income taxes.

At retirement when you start drawing from your account, the proceeds are taxed as ordinary income, which is when most participants typically fall into a lower tax bracket. You can increase, decrease, stop or start contributions at any time. The §457 Deferred Compensation Plan (DCP) is available to State of Nebraska employees immediately upon hire with no waiting period (each county offers their own deferred compensation plan).

State employees may defer (contribute) a minimum of $25 per month. The maximum amount you may contribute during a calendar year is the lesser of 100% of your annual compensation less mandatory retirement contributions or a dollar limit established by the IRS. The dollar limit for 2006 is $15,000.

If, in previous years, you have not contributed the maximum amount you could have contributed, you may elect to “catch-up” contributions using the “Age 50” catch-up provision or the “three year” catch-up provision (they may not be used simultaneously).

Here’s how they work. For the age 50 catch-up, if you are age 50, you may contribute an additional $5,000, so your maximum contribution would be the standard $15,000 plus the $5,000 age 50 “catch-up,” or $20,000. For the 3-year catch-up, you may elect to catch up contributions if you are within three years of retirement (age 55). The total deferral cannot exceed twice the annual maximum for the year ($30,000) for 2006 and the catch-up must be completed before the calendar year in which you elect to retire. In order to participate in the 3-year catch-up, you must contact the Retirement for the proper procedure to be approved.

Any changes to your contribution levels must be requested in the month prior to the change. At retirement you may also elect to defer accumulated sick pay and vacation pay, or back pay, and contribute it to your DCP account, provided you sign an agreement to defer such amounts prior to the calendar month in which you would otherwise receive such amounts, subject to the annual or catch-up limits.

For further information on DCP, State of Nebraska employees should contact NPERS at 800-245-5712 or 402-471-2053. If you’d like to enroll in DCP, the form is available on our website at www.npers.ne.gov and must be signed by your agency contact before submitting to NPERS. County employees should contact their County Clerk.

PIONEER’s success includes these features: web access for members and employers; electronic access to data for staff; paperless work process for staff; improved recordkeeping and account-
Congratulations 2005 Team Players!

The Nebraska Retirement Systems is proud to name Pam Williamson as our 2005 Employee of the Year!

Pam has been with NPERS since 1988 when she began working as our receptionist. She is now part of Education Services where she designs the layout of the Retirement Roundup, member information handbooks and all other NPERS publications. Pam works on several committees in the office and is always looking for ways to boost the morale of her fellow coworkers. Her positive outlook, along with her abilities have made Pam an important part of our team.

We would also like to congratulate Randy Gerke, our 2005 Manager of the Year!

Randy was hired as the manager of our Accounting Department in 2003. He previously worked for the City of Fremont and Midland College before coming to NPERS. Since joining our agency, Randy has earned the trust and respect of his staff and co-workers by going above and beyond his required assignments. That and his ability to improve existing procedures are just a few of the reasons he deserves this recognition.

We are proud to have these special people represent our agency. Thank you Pam and Randy for your outstanding service and contributions to the NPERS team!

Resolution (Cont. from pg. 1)

your children, or anything else on your personal wish list). If you already have a financial plan, use the statement and 90-day time period to re-evaluate your financial strategy annually and track your progress.

Ask Questions. You might consider hiring a financial advisor who can answer questions and help put a financial plan together for you. When it comes to questions regarding your mandatory State or County Retirement Plan, or the Deferred Compensation Plan for State of Nebraska employees, contact NPERS at 800-245-5712 or 402-471-2053 or visit our website at www.npers.ne.gov.

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As in the purchase of a new car, maintenance and minor adjustments are part of the program. Technology upgrades will continue to be necessary to respond to federal and state law changes that affect the retirement plans we administer. Since the beginning of our project in 2000, 16 legislative bills have passed that have required changes or upgrades to the initial system design. And, we continue to scan and image boxes upon boxes of paper files into the system, and clarify members’ historical salary and service information. But when we consider where we were seven years ago before PIONEER with where we are now, the results and our success are commendable. Other pension sponsors have visited Lincoln to admire PIONEER and to learn how to do what we have done.

NPERS has outlined the success of the PIONEER project in a Technology System Update report to the Nebraska Legislature, Committee on Appropriations. To view the report, visit NPERS’ website at www.npers.ne.gov or call 800-245-5712 or 402-471-2059 to request a paper copy.

PIONEER (Cont. from page 3)