Retirement News

Nebraska Public Employees Retirement Systems STCO • July 2010

Providing Information to State and County Employees

In this issue...

NPERS Wants YOU!

by John Winkelman

One comment our seminar staff hears repeatedly from attendees at our over age 50 Retirement Planning seminars is, "I wish I would have gone to a seminar when I was younger!" As retirement draws closer, the importance of preparing for this moment *at the start of your working career rather than the end* takes on a whole new level of clarity.

It's been said that two things in life are unavoidable, death and taxes. NPERS would like to add retirement to that list. At some point, most individuals will want to slow down and take control of their time and lives. Spend more time doing what *they* want to do rather than what the *boss tells them* to do. We all have different pictures of the retirement dream. For some it may mean spending quality time with family, for others it may be travel, hunting and fishing, golf, charitable work, or any number of leisure activities that enrich our lives and provide happiness.

In order to have time to pursue these goals, most of us will need a complete or partial reduction in employment—retirement. The subsequent loss of income will also require the financial means to sever those ties—savings. Without savings, retirement becomes difficult, if not impossible, and creating a nest egg for retirement does not happen overnight. Individuals who wait until the middle or end of their careers to begin planning for retirement generally discover a rocky road ahead—and time is not on their side.

> **"Individuals who wait until the middle or end of their careers to begin planning for retirement generally discover a rocky road ahead..."**

How much time have you spent planning for retirement? Do you know *how large* your nest egg should be when you retire? Most individuals have never taken the time to perform a retirement nest egg calculation, and those who have often discover they need to save more. To assist with this process, each year NPERS conducts seminars across the state to help our members learn how to manage their finances, and plan for retirement.

We offer two separate programs for State and County employees.

Retirement Planning Program – Over Age 50

Our Retirement Planning seminars are open to State and County members age 50 and over. Eligible State and County employees are entitled to receive *paid leave* to attend up to two Retirement Planning seminars. These seminars include:

- Comprehensive information regarding your retirement plan and your distribution options at retirement.
- A one-hour Financial Planning presentation.
- A one-hour Estate Planning presentation.

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No Cash Balance Dividend

The 2009 year end actuarial reports for the State and County Cash Balance trust funds have been completed. The good news is both plans are still financially sound despite the recent market turmoil and current economic conditions. The report advises current contributions from plan members and the employer match will be sufficient to meet funding requirements. Consequently, no additional contributions will be required from the State of Nebraska during the 2011-2012 fiscal year. Given the current budget situation this is certainly good news.

The PERB also uses the results of the annual actuarial report to determine if a dividend can be considered for Cash Balance members, and the dividend rate. The current report indicates assets for both plans are still below the 100% funded threshold. By law, the PERB is required to maintain a cushion of 10% over the 100% funded ratio before any dividend can be considered. Given the current funded status, no Cash Balance dividends will be issued this year for State and County participants.

The full actuarial valuation reports are available on the Publications page of the NPERS' website.

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Financial Management Program – Under Age 50

Our Financial Management seminars are open to State and County plan members under age 50. Eligible State and County employees are entitled to receive *paid leave* to attend up to two Financial Management seminars prior to age 50. For more information on these seminars please refer to the associated article in this newsletter.

The cost to attend either seminar is $20 for eligible members. You may bring a spouse or one guest for an additional $20. Non-Members or additional guests are welcome to attend at the higher rate of $30.

Seminars begin this year on September 1, and end November 18. Registration forms will be mailed to eligible members approximately one month prior to the first seminar. Individuals who wish to take advantage of early enrollment may do so at this time by visiting the State and County seminar page on our website. Here you can fill out and print the registration form, then mail to our office with the required payment to reserve your spot in the desired session.

2010 STATE & COUNTY RETIREMENT PLANNING SEMINARS

Location	Venue	Dates
LINCOLN	SECC—Continuing Education Center, 301 S. 68th St. Pl.	September 2; September 29; September 30; October 28; November 17; November 18
GRAND ISLAND	Holiday Inn—Midtown, 2503 S. Locust	September 8; November 4
GERING	Gering Civic Center, 1050 M St	September 16
VALENTINE	Niobrara Lodge, 803 E. Hwy 20	September 23
OMAHA	Educational Service Unit (ESU) #3, 6949 S. 110th (La Vista)	October 7; November 10
NORTH PLATTE	Holiday Inn Express, 300 Holiday Frontage Rd.	October 14
NORFOLK	NECC—Lifelong Learning Center, 801 E. Benjamin	October 21

Financial Management Seminars

Why do younger State and County employees "put off" attending an NPERS seminar? Perhaps they don't understand there is a significant difference between our **Financial Management** and **Retirement Planning** seminars.

Each fall NPERS offers a comprehensive Financial Management seminar for State and County employees under 50 years of age. This full day program includes a basic overview of both the mandatory and voluntary retirement plans offered to State and County members, and an hour long presentation from an estate planning attorney.

The bulk of the program is dedicated to *The Complete Financial Management Workshop*, which is presented by a licensed financial planner. This workshop is a detailed program that provides a wealth of information designed to assist individuals in assessing their personal financial situation, set goals, and map out the proper course of action to achieve financial security.

The Complete Financial Management Workshop includes:

- **Risk Management** – How to protect your assets.
- **Cash Management** – Managing your income, budgeting, avoiding debt, improving credit scores.
- **Investment Concepts** – Basic steps to smart investing.
- **Tax Management** – Are you paying too much?
- **Retirement Planning** – How much will you need and how to properly save for retirement.

The cost to attend is $20 per person for eligible plan members. Members may also bring a guest for an additional $20. Eligible members are entitled to receive paid leave time to attend up to two Financial Management seminars (see Neb. Rev. Stat. §84-1511). This means the State of Nebraska is paying you to attend a seminar. Members over age 50 or those who wish to attend more than twice may do so at the $20 fee, but are not eligible to receive paid leave time to attend. Non members may attend for $30.

The fee includes a light breakfast, noon meal, and if you're lucky there might be an afternoon snack. Members also receive *The Complete Financial Management Workshop* workbook to take home (guests are not eligible for the workbook unless they attend as a non member for $30). Considering all you get, it's quite a bargain – especially when you are getting paid to attend! A similar course in the private sector would be considerably more expensive.

Financial Management seminars begin this year on September 1, and end November 3. Registration forms will be mailed to eligible members approximately one month prior to the first seminar. Individuals who wish to take advantage of early enrollment may do so at this time by visiting the State and County seminar page on our website. Here you can fill out and print the registration form, then mail to our office with the required payment to reserve your spot in the desired session.

2010 STATE & COUNTY FINANCIAL MANAGEMENT SEMINARS

Location	Venue	Dates
LINCOLN	SECC—Continuing Education Center, 301 S. 68th St. Pl.	September 1; October 27
GERING	Gering Civic Center, 1050 M St	September 15
GRAND ISLAND	Holiday Inn—Midtown, 2503 S. Locust	November 3
VALENTINE	Niobrara Lodge, 803 E. Hwy 20	September 22
OMAHA	Educational Service Unit (ESU) #3, 6949 S. 110th (La Vista)	October 6
NORTH PLATTE	Holiday Inn Express, 300 Holiday Frontage Rd.	October 13
NORFOLK	NECC—Lifelong Learning Center, 801 E. Benjamin	October 20

Understanding RMDs

by John Winkelman

Each year, retired plan members who are age 70 ½ and older are required by federal law to take a taxable Required Minimum Distribution (RMD) from their mandatory State or County, and voluntary Deferred Compensation Plan (DCP) accounts. Keep in mind, these regulations only apply to State, County or DCP retirement accounts *when a member has terminated employment*.

Determining the Amount

The amount of the RMD is determined by the total 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 2010 RMD you would use the account balance as of December 31, 2009. To assist, the IRS provides worksheets on their website to calculate the RMD for a given year. Once the RMD amount has been determined, it must be withdrawn from the account in the form of a *taxable* distribution.

Tax Penalties

If a member fails to withdraw the full amount of the RMD by the applicable deadline, a 50% tax penalty is assessed on the portion of the RMD they failed to take. This penalty may be waived if they can establish to the IRS that the shortfall in distributions was due to reasonable error and reasonable steps are being taken to remedy the shortfall.

2009 RMD Waiver

In response to adverse market conditions during 2008 & 2009, Congress passed and the President signed the "Worker, Retiree, and Employee Recovery Act of 2008" which *waived the RMD for 2009*. This waiver did not include Cash Balance participants. Barring any future changes to legislation, RMDs are again required for the 2010 calendar year.

Due Dates

There are two different "due dates" for RMD distributions and the 2009 suspension has somewhat complicated this issue. The IRS website stipulates, "An account owner must take the first RMD for the year in which he or she turns 70 ½. However, the first RMD payment can be delayed until April 1st of the year following the year in which he or she turns 70 ½. For all subsequent years, including the year in which the first RMD was paid by April 1st, the account owner must take the RMD by December 31st of the year *[sic]*."

This means the April 1st "delayed" deadline is for the *first year only*! Each following year the RMD must be taken by the "standard" due date of December 31st. For example, if a member turns 70½ during 2010, they have the option to wait until the delayed April 1st 2011 due date to take the 2010 RMD. From that point on they must follow the standard December 31st schedule. Their 2011 RMD must be taken no later than December 31st of 2011.

What if we bring the 2009 RMD waiver into the equation? If a member turned 70½ during 2009, the RMD was waived for the first year (2009), but the 2010 RMD must be taken. What is the due date? December 31st of 2010… or April 1st of 2011? Even though the RMD was waived for 2009, it still qualifies as the *first* year of eligibility. Subsequently 2010 is considered the *second* year and the RMD is due no later than December 31st, 2010.

Notification

Clearly this can be a complicated process but NPERS does provide assistance. We send an initial notification letter to **Defined Contribution** and **Deferred Compensation** retirees approaching age 70½. This letter alerts the member 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 up to or exceeding the RMD. If they do not take a distribution by the due date, then an estimated RMD amount will be calculated in our office and a check issued to the member.

Cash Balance Members

Things get even more complicated for **Cash Balance** members. The design of the Cash Balance plan allows *only one* distribution after termination. When the member elects to take a distribution, they can pick from multiple options but *they must decide how they wish to disburse all the funds in the account*. If a member requests a partial withdrawal, any funds remaining in the account will cease earning the Cash Balance rate of return and must be used to purchase an annuity. For more information on annuity options, please refer to your plan booklet.

If a **Cash Balance** member has terminated employment and deferred taking a distribution, at age 70½ the RMD laws will force a withdrawal. At that time NPERS will send the RMD notification letter and the member will have the following options:

1. Use the Cash Balance account to purchase an annuity. The monthly annuity payments will fulfill RMD requirements.
2. Elect to be paid the RMD in a lump sum and rollover the remaining balance of the Cash Balance account to another qualified retirement plan (IRA, etc.). It will be the responsibility of the member to ensure all future RMD's are taken from the rollover account.
3. Elect to be paid the Cash Balance account in one lump sum.

The Cash Balance member may also select from a combination of the above options as long as they incorporate the *entire account at the same time*. For example, they may use part of the account to purchase an annuity and roll the remainder to another qualified retirement plan (IRA, etc.). They must however ensure that the taxable portion of the distribution (the monthly annuity payments) will satisfy the RMD amount for that year. *Funds rolled into another qualified retirement account are not a taxable distribution and will not count toward satisfying the RMD amount*.

If a Cash Balance member fails to make a selection from the disbursement options, state statute requires NPERS to use the entire account to purchase the Five Year Period Certain and Continuous annuity for the member. This purchase must be made prior to April 1st of the year following age 70½. **NOTE**: Due to processing timelines, if the member wishes to take a different distribution than the Five Year Period Certain and Continuous, they must file an application no later than January 15th of that same year.

Remember, these **Cash Balance** distribution limitations do not apply to **Defined Contribution** or the voluntary **Deferred Compensation** plans. In those accounts a member may set up systematic withdrawals or take a lump sum each year to satisfy the RMD requirements. They must, however, take a separate RMD for each account.

Legislative Update

On April 14th, the 2nd session of the 101st legislature was adjourned. During this 60 day session, only one bill affecting the retirement plans administered by NPERS was passed and signed into law – LB950. The provisions relating to the State, County and Deferred Compensation retirement plans include:

Clarifies in the **County**, **State** and School retirement plans that a disability must have occurred while the member was a participant in the plan. In the **County** Employees Retirement Plan it clarifies that disabled employees are not required to receive medical examinations after age 55.

Provisions related to the passage of LB 403 in 2009 are amended into the **County**, **Judges, State Patrol, School, State** and the **Deferred Compensation** retirement plans. Language in LB950 states, "*no employee… shall be authorized to participate in the retirement system… unless the employee (a) is a United States citizen or (b) is a qualified alien under the federal Immigration and Nationality Act, 8 U.S.C. 1101 et seq., as such act existed on January 1, 2009, and is lawfully present in the United States.*"

Language is stricken in several sections of the **County** and **State** Employees Retirement Acts prohibiting use of forfeiture funds to pay administrative costs for the Defined Contribution and Cash Balance plans. Forfeiture funds are employer contributions deposited to plan member accounts that are forfeited by plan members who cease employment before vesting occurs. Other statutes provide for the use of forfeiture funds.

LB 950 contains an emergency clause and will go into effect "when passed and approved according to law," and its provisions are operative on July 1, 2010.

Investing in Uncertain Markets

by Jeffrey States, State Investment Officer

The Nebraska Defined Benefit Retirement Plans and the State and County Cash Balance Benefit Plans (collectively called the "Benefit Plans") have seen strong investment returns since they bottomed in early March of 2009. For the twelve months ending March 31, 2010 the Benefit Plans total return, minus investment fees, is in excess of 37.0%. This is a good sign for the financial health of the Benefit Plans, but we still have a long way to go to recover the losses experienced during the prior eighteen months.

> **" A successful investment strategy will consist of creating a plan and following it."**

Although the recovery has been strong in the past year, there is a great deal of uncertainty and disagreement about what lies ahead over the short-term. Since rising to its most recent peak of 1217 points on April 23, 2010, the S&P 500 has declined by approximately 10% through June 11. Projected returns over the next twelve months range from either a negative OR positive return of 12 to 15%. The differences in these expectations result from differing views on:

- The strength of the US and Global economies.
- The continuing European monetary and credit problems that began with Greece.
- High and rising levels of government debt in the US and other countries.
- Weak job growth and high unemployment.

What appears certain is no matter which outcome is correct; the markets will continue to be volatile.

In times like this it is important to remain focused on a long-term strategic investment plan and not try to time the market. No one can consistently predict the market. Most of the market's gains occur in just a few strong, but unpredictable, trading days. To benefit from the markets long-term performance, we need to be in the market for the long-term.

A successful investment strategy will consist of creating a plan and following it. When creating the investment strategy for Nebraska's Benefit Plans, the Investment Council:

- Reviews the long-term investment strategy and investment goals.
- Matches the investments to the level of risk that is comfortable.
- Diversifies the investments across the three asset classes --stocks, bonds and short-term investments to help protect the portfolio during market downturns.
- Diversifies within each asset class by owning different investments to offset company risk, interest risk, credit risk and other variable economic factors.
- Factors in dollar cost averaging.

The Nebraska Investment Council (NIC) will be performing an asset allocation study with the assistance of its investment consultant Ennis Knupp during the summer. This study will allow the NIC to consider its long-term investment objectives and return goals, tolerance for different types of risks and to consider changes in the asset allocation and investment structure.

Fee Reduction for County Defined Contribution

Keeping plan expenses to a minimum is a top priority here at the Nebraska Public Employees Retirement Systems (NPERS). In light of this, we are pleased to announce the Public Employees Retirement Board (PERB) approved the reduction of NPERS administrative fees for members participating in the **County Defined Contribution** plan. Effective June 25th, the current fee of 25 basis points will be reduced to 5 basis points (.0005). For a $10,000 account, this would translate from a $25 annual fee to a $5 annual fee.

The administrative fee for the **State Defined Contribution** plan remains unchanged at 5 basis points.

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