For Nebraska State and County Employees
Retirement News
Nebraska Public Employees Retirement Systems
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Before You Retire...

Taking the plunge into retirement is a big decision—not one to be made on the spur of the moment. It's best to do a bit of pre-retirement planning before you turn in that resignation. No two retirees are the same, but there are a few steps that most retirees should consider taking before the big day.

Establish a Budget

Have you created the wealth necessary to meet your retirement needs? To answer this question, create a retirement budget showing your estimated income and expenses.

Start with expenses. A good starting point is to review your current expenses – most of them will follow you into retirement. Some expenses may decrease during retirement and some may increase.

Review and research these expenses, especially the ones that may increase. There are multiple books and websites that can help you identify and list common expenses during retirement. Health and medical costs will be the biggest factor for most retirees. Will you need to obtain private coverage, or will you be eligible for Medicare? When should you apply for Medicare and what will your out-of-pocket expenses be?

Expenses That May Decrease:

- **Housing** – Costs may decrease as mortgages are paid off.
- **Taxes** – Distributions from retirement plans are subject to State and Federal income taxes, but retirees with less income during retirement may fall into a lower tax bracket. FICA taxes (Social Security and Medicare) are only applied to earned income and not assessed to withdrawals from retirement accounts.

Expenses That May Increase:

- **Healthcare** – Health-related expenses, including insurance, prescription drug and out-of-pocket medical costs may go up.
- **Entertainment** – Retirees often dine out and attend movies, theater, or musical events to a greater degree.
- **Vacation** – Retirees may incur more travel expenses such as hotels, airfare, or gasoline.

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Age-Based Fund vs. Pre-Mixed Funds

Confused about the difference between the Pre-Mixed and Age-Based funds offered to Defined Contribution and Deferred Compensation participants?

The Aggressive, Moderate, and Conservative pre-mixes are *three separate funds* (out of a total of 13) that members can choose from. The Age-Based fund is a *fourth option* designed to be an "autopilot" investment process utilizing the three Pre-Mixed funds. The Age-Based fund places investors in one of the three Pre-Mixed funds, based upon their age. Younger members begin in the *Aggressive Pre-Mixed* fund and as they grow older and closer to retirement, their investments automatically transfer to the *Moderate* and finally the *Conservative Pre-Mixed* funds.

Participants under age 40 who select the Age-Based option will have all contributions invested in the Aggressive Pre-Mixed fund—a mix of 75% stocks and 25% bonds. Upon reaching age 40, investments are automatically transferred to the Moderate Pre-Mixed fund—50% stocks and 50% bonds. At age 60 the investments will switch one last time to the Conservative Pre-Mixed fund—25% stocks and 75% fixed income (60% Bond and 15% Money Market funds).

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Retirement News
Editor: **John Winkelman**
Asst. Editor: **Angela Hatcher**
402-471-2053
800-245-5712
npers.ne.gov

Now, **review your retirement income**. Estimate how much you will receive monthly from each source. Some sources will be fairly stable and some will fluctuate.

Stable sources include Social Security or annuity payments. What age will be best for you to start drawing Social Security? Benefits can be calculated using the estimator available on the Social Security website and additional assistance is available via your local office. Purchasing an annuity using funds from your State or County retirement account can provide a stable monthly income, taking some of the guesswork out of future income calculations.

You'll also need access to liquid capital during retirement in the form of withdrawals from savings or retirement accounts. Income from personal retirement accounts can fluctuate depending on investment choices and market conditions. Most financial planners recommend limiting annual withdrawals to 4% or 5% of your total account. So a $100,000 account would create $4,000 – $5,000 of annual income. A down market that reduced the account value would result in less income and positive market returns would increase it. There is no way to predict future investment income, but looking at your current account balance and assuming a 4% to 5% rate will give you an estimate to work with.

Now compare your estimated expenses to your income. If you are coming up short on funds, it's time to consider what changes can be made to close the gap.

POTENTIAL SOURCES OF INCOME:

$______________ Social Security

$______________ Employer sponsored retirement plans like your State and County account.

$______________ Voluntary retirement accounts like an IRA or Deferred Compensation. (Note: If you don't have a DCP account, you should consider starting one. The sooner the better, so you can build it for retirement.)

$______________ Other: ____

GET RID OF DEBT!

Pay off those bills, starting with the highest interest rate obligations first. Mortgages with lower rates can be carried into retirement, but credit card debt is a deal breaker. Review mortgage rates and consider a shorter term, lower rate mortgage in an effort to pay off prior to retirement.

REVIEW INSURANCE COVERAGE

Are you currently paying life insurance premiums? How much are you paying and is this coverage still necessary? Coverage that made sense 20 years ago may not be appropriate during retirement. Consider long term care insurance. It may or may not be appropriate, but take the time to research the pros and cons. Review and update your benficiaries.

REVIEW YOUR INVESTMENTS & CREATE A SAFETY NEST EGG

Investments during retirement should be more conservative, but most retirees will still need some exposure to stocks in order to offset inflation and maintain their standard of living. To offset the risk, create a separate "safety net" fund that can be tapped during market downturns. This fund should be large enough to cover at least two years of expenses and should not be exposed to investments that may decrease in value.

ESTATE PLANNING

Create or update your will, power of attorney, advanced medical directives, and beneficiaries. Review and update this information every five years.

IF NECESSARY, CAN YOU MAKE THE TOUGH CALL?

When facing a budget shortfall during retirement, it may be easy to cut back on items like cable TV or dining out. What about more emotional expenses like needy relatives (that includes your kids) or charitable donations? These may well be worthwhile recipients of your money, but your financial needs must come first. Consider donating more *time* than *money* to causes you deem worthwhile.

COMING UP SHORT?

If your estimated income will not cover your expenses, you may need to consider the following options:

Continue Working

Delay retirement to a later age.

Partial Retirement

Continue to work part-time.

Cut Costs

Make changes to reduce your expenses.

A combination of these tactics can be employed in order to balance out income vs. expenses. If your retirement budget depends heavily on reduced expenses, it's wise to do a trial run before you retire. See if you can live within your new budget for at least two or three months. If you can't, then you may have to consider delaying retirement or working part time. Be cautious when reducing your budget. Cutting expenses to the bare bone leaves no room for error during retirement.

2012 DCP Contribution Limits

2012 maximum contribution limits for voluntary Deferred Compensation Plans (DCP) have been announced by the IRS for Section 457, tax sheltered retirement plans.

The standard yearly maximum contribution for 2012 has increased from $16,500 to $17,000 for members under age 50. The additional contribution amount for members age 50 or older remains unchanged at $5,500, increasing their total limit to $22,500. 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) increased from $33,000 to $34,000.

The catch-up is allowed within three years of a member's anticipated retirement, so it cannot be started earlier than age 52. The Age 50 and the Three-Year Catch-Up Provisions may not be implemented simultaneously. $25 per month is still the *minimum* amount a member may defer from salary and contribute to DCP.

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 county employees whose employer doesn't offer a §457 plan. To learn more about this excellent way to save additional money for retirement, please refer to the DCP plan booklet or the Deferred Compensation page on the NPERS's website.

If you'd like to participate, the DCP Enrollment and Change Forms for *State* employees are available on the NPERS website under "Forms." These forms should be submitted to your agency payroll or HR rep so they can set up the payroll deduction. Enrollments are effective beginning the pay period following submission of the form. *County* members should contact their HR department for plan and enrollment information.

2012 SAVER'S TAX CREDIT

Did you know contributing to the voluntary Deferred Compensation Plan (DCP) may help reduce your taxes? **Low and moderate income employees** may be able to significantly reduce their taxes by qualifying for the Federal Saver's Tax Credit, formally known as the Retirement Savings Contribution Credit. By making *voluntary* contributions to an employer sponsored retirement plan or individual retirement arrangement (IRA), you *may* qualify for a maximum 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 2012

CREDIT RATE	JOINT	HEAD OF HOUSEHOLD	SINGLE
50% of $2,000	$0 to $34,500	$0 to $25,875	$0 to $17,250
20% of $2,000	$34,501 to $37,500	$25,876 to $28,125	$17,251 to $18,750
10% of $2,000	$37,501 to $57,500	$28,126 to $43,125	$18,751 to $28,750

Per the 2012 limits, a couple filing a joint return with an AGI of $34,500 or less is eligible for the 50% rate. If each one 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 say $35,000, 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. Even better, contributions made to a Deferred Compensation Plan reduce your taxable income (AGI) and may help you qualify for a higher Saver's Tax Credit.

For more information on the Saver's Credit, review IRS Publication 590, Individual Retirement Arrangements (IRAs), Publication 4703, Retirement Savings Contributions Credit, and Form 8880. Publications and forms can be downloaded at IRS.gov or ordered by calling 800-TAX-FORM (800-829-3676).

Cash Balance Rate

The interest credit rate (rate of return) for participants in the Cash Balance plan is defined in statute as the greater of 5%, or the applicable federal mid-term rate plus 1.5%. When the federal mid-term rate falls below 3.5%, participants in Cash Balance are guaranteed to receive a 5% return on their accounts. The interest credit rate is determined each calendar quarter (January, April, July and October) based on the federal mid-term rate published by the Internal Revenue Service as of the first day of that quarter.

For the month of January 2012, the published federal mid-term rate is 1.17%; therefore the rate of return for Cash Balance participants will remain at the guaranteed rate of 5%.

Each quarter NPERS publishes the Cash Balance rates of return on our website. Go to our home page at npers.ne.gov and look for the "NPERS News" section. Click on the link titled "Cash Balance Rates of Return & Dividends." This page will display the historical returns for Cash Balance since the plan's inception in 2003, and list any dividends issued in prior years.

NPERS Congratulates 2011 Employee and Manager of the Year

The Nebraska Public Employees Retirement Systems is pleased to announce our recipients for Manager and Employee of the year for 2011.

SCOTT SINGLETON
Employee of the Year

Scott works for the "Specialties" division in the Member Services department and has been with NPERS for over six years. Scott processes retirements for the Judge and State Patrol plans. He also handles purchase of service requests for the School plan and helps out in various capacities as needed. Comments made by co-workers as part of the nomination process included:

"Scott is a team player and is willing to take on a task when asked."

"He is easy to talk to and does not shrink from a challenge."

"He is a workhorse in the very best sense of the word."

TERESA ZULAUF
Manager of the Year

Teresa is the manager of the Internal Auditing department. She has been with NPERS for nine years and supervises the NPERS internal auditing staff. Under her leadership, the auditing department has been significantly revamped resulting in greater efficiency and fewer new and outstanding audit points found by the State auditors. Comments made on her nominations include:

"Hard working, dedicated, knowledgeable."

"...always helpful in making important decisions."

NPERS is happy to recognize Scott and Teresa for their years of hard work and dedication to our members. *Congratulations!*

Age-Based vs. Pre-Mix *(Continued from page 1)*

Every Friday UNIFI (Ameritas), the NPERS record-keeper, reviews the age of all individuals who have chosen the Age-Based fund and places them into the appropriate pre-mix depending on their age. A member celebrating their 40th birthday would see their investments switch from the Aggressive Pre-Mixed fund to the Moderate Pre-Mixed fund. Members who wish to *remain* in the Aggressive Pre-Mixed fund would need to change their investment fund choice from the Age-Based fund to the Aggressive Pre-Mixed fund.

For more information on the Age-Based fund or the other investment options, please refer to the NPERS Investment Report or the Investment Education video found on the Financial Facts page of our website.

Frequently Asked Questions About Age-Based Funds

Can I have part of my account invested in the Age-Based Fund and part invested in any of the other 12 options?

Yes. How you distribute your investments in both the "Employee" and "Employer" accounts is up to you. Keep in mind however, the three Pre-Mixed funds already contain a blend of the Small Company, International, S&P 500 and Bond Market funds to provide a diversified portfolio that will automatically rebalance over time.

If I select the Age-Based Fund, can I change my mind and move to a different investment option at a later date?

Yes. Investments may be changed using the online account access or by completing and submitting an Investment Election form to our office. Keep in mind the NPERS excessive trading policy—see the April 2011 newsletter for more information.

When using online account access or the Investment Election form, I have three choices of Age-Based funds: Aggressive, Moderate, and Conservative. If I select the Aggressive Pre-Mixed fund will I stay in that fund?

If you select an Age-Based fund, your account will be invested according to your age (e.g., if you are age 45 and select the Aggressive Age-Based option, the automated process would transfer your entire account into the Moderate Pre-Mixed fund).

Go to npers.ne.gov

Schedules for NPERS Seminars for State and County Plan Members Are Available *NOW* on the NPERS Website.

FALL 2012 STATE & COUNTY
RETIREMENT PLANNING SEMINARS
For Plan Members Age 50 and Over

FALL 2012 STATE & COUNTY
FINANCIAL MANAGEMENT SEMINARS
For Plan Members Under Age 50

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NPERS
Nebraska Public Employees Retirement Systems
P.O. Box 94816
Lincoln, NE 68509
85-28-51