For Nebraska State and County Employees

Retirement News

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

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RETIREMENT NEWS

Editor: John Winkelman
Asst. Editor: Angela Hatcher

402-471-2053
800-245-5712
npers.ne.gov

THE Time TO Plan IS Now

Have you ever asked yourself, "How much will I need for retirement, and what amount should I save each month to achieve this goal?" Taking a bit of time to ponder your future financial needs is monumental, yet many of us will devote more time planning a vacation than planning for retirement.

"He who fails to plan, is planning to fail."

– Winston Churchill

The very first step is determining "how much?" *Unfortunately there is simply no way to answer that question*! Individual variables such as longevity and health expenses will create significant fluctuations. What about investment elections, market returns, and inflation? It's essentially impossible to determine a retirement nest egg amount that will be *exactly* right. So what now?

There are multiple methods that can provide a "ballpark" number to help you consider your nest egg goal. This article will cover two methods that may help you set your nest egg goal, and give some tips on how to meet that goal.

The first method is explained in the "How Large Should My Nest Egg Be?" handout found on the NPERS Financial Facts webpage. This calculation looks at an individual retiring at age 65 and their gross salary (income) at that time. Then factoring in various assumptions, an estimated amount required to maintain that same standard of living is calculated out to four different ages.

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Lancaster Joins PERB

Pamela Lancaster

Pamela Lancaster has been appointed by Governor Ricketts and approved by the Unicameral as the new County representative on the Public Employees Retirement Board (PERB). Mrs. Lancaster has been a Hall County Supervisor for the past 20 years, often serving as Chairman. She was President of the Nebraska Association of Counties in 2010. She received her BA in Education from UNK and specialist degrees in the Disadvantaged Child and Reading from the University of Guam while teaching for the Department of Defense. She presently serves on two National Association of Counties Committees representing Veterans and Workforce Development.

The staff at NPERS welcomes Pamela Lancaster to the PERB!

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Here are the assumptions:

You retire at age 65.
You are single.
Inflation averages 4% annually.
Your Social Security is calculated using current rates.
Social Security COLA's will average 1.6% annually.
Your retirement plan account balances earn 5% annually during retirement.

Salary At Age 65	Life Expectancy/Nestegg Amount*			
	Age 85	Age 90	Age 95	Age 100
$20,000	$234,000	$292,000	$349,000	$406,000
$30,000	$402,000	$496,000	$588,000	$679,000
$40,000	$534,000	$659,000	$782,000	$903,000
$50,000	$673,000	$830,000	$985,000	$1,137,000
$60,000	$808,000	$996,000	$1,182,000	$1,364,000
$70,000	$942,000	$1,162,000	$1,379,000	$1,592,000

How should you read this chart? Assuming a gross salary of $30,000; if you expect to live to age 90, you would want to have accumulated approximately $496,000 when you terminate employment at age 65. If ALL the assumed variables are correct… and dare I say they won't be, this amount will allow you to maintain your $30,000 a year standard of living up to age 90.

The second method employs the asset distribution process outlined in the NPERS "Nest Egg Management After Retirement" handout. As a general rule of thumb, many financial advisors currently recommend a 4% annual distribution rate from retirement assets. A rough estimate of your nest egg can then be calculated using this rate of distribution. If you anticipate needing $30,000 of annual income during retirement, then you will need a nest egg of approximately $750,000 to provide those funds.

$750,000 X .04 = $30,000

Why are the numbers so different from method one to method two? There are several reasons.

The first method is significantly more complicated and includes Social Security benefits plus the effect of inflation, the second method does not. They also differ in the preservation of your nest egg. Under the first method, your account is depleted upon reaching the age selected for life expectancy. If you die prior to that age there would be funds left. If you lived longer, you would have depleted your nest egg at that age. The second method, in theory, provides an income of $30,000 per year and retains the initial balance of $750,000 regardless of how long you live.

Which method is "best?" That is a tough question. Under the first, your life expectancy is a critical and unknown factor. Under the second, inflation could create issues later in retirement. Poor investment returns or higher distribution amounts can have a drastic effect on both methods. *The mission is not to determine an exact amount, but to determine an initial ballpark figure.*

Once you have set your ballpark nest egg goal, now you need to take the steps required to achieve it. Again, there are variables that will come into play.

How long do you have to save? The sooner you start, the easier it will be to reach your goal. Individuals who fail to begin saving at an early age will slowly lose out on the power of compounding interest. Ask yourself, "At what age do I want to begin my retirement and how many years do I have left to save?" *The longer you delay, the more difficult it will be to reach those goals.*

Once you have established a saving timeline, then you need to estimate how much to save each month. This amount will vary depending on the rate of return you hope to achieve from your investments. Historically, an aggressive strategy will have greater volatility and a higher rate of return *over time*. Conversely, a conservative approach will result in lower returns but there will be less volatility *over time*. An aggressive strategy can reduce the amount you need to save each month BUT you need to carefully consider your tolerance for risk and your retirement timeline. Which approach is right for you? Only you can answer that question.

An aggressive portfolio will be a bumpy ride. You must be able to shrug off the temporary reductions in account value that occur during a down market, and resist the urge to panic – and sell. Selling during a down market can turn a temporary reduction in account value into a *permanent loss*. Professional investors recommend buying rather than selling during these downturns as stock is essentially on sale. Keep in mind how much time you have until retirement. An aggressive investor should consider moving a portion of their investments into more conservative options as they grow closer to retirement.

For more information on the do's and don'ts of investing, please consider viewing the Investment Education video found on the NPERS website. This video covers the 13 investment options available for the voluntary state's Deferred Compensation Plan and provides an outline on the basics of investing.

Now let's put together a few "action plan" examples.

For our example, let's assume a nest egg goal of $500,000 at age 65. Your personal goal may be higher or lower, but this is what we will use for the example. Using an online savings calculator*, let's break out the amount for both a "conservative" (4% compounded daily) and "aggressive" (7.5% compounded daily) rate of return.

If you start early at age 25, you have 40 years to save!

Aggressive 7.5%	Conservative 4%
Monthly amount to save…	
$164.05	$422.06
Daily amount…	
$5.39	$13.88

If you wait just five years and begin at age 30, now you have 35 years to save.

Aggressive 7.5%	Conservative 4%
Monthly amount to save…	
$244.55	$546.13
Daily amount…	
$8.04	$17.95

If you delay until age 40…

Aggressive 7.5%	Conservative 4%
Monthly amount to save…	
$567.35	$971.17
Daily amount…	
$18.65	$31.93

There is no way to know the actual rate of return a conservative or aggressive investor will obtain in future markets. Obviously you will never see a fixed rate of return due to market fluctuations. The point is starting early and the investment strategy you select, will both have a significant impact on the amount you need to save.

Each individual is different. It is *your* responsibility to determine *your* retirement goal and select an investment strategy/saving rate that will work for you.

*For this article we used the savings calculator found on the Bankrate.com website. Nest Egg numbers were provided by Morey-Voorhees Financial Services, Omaha, Nebraska. *Please note NPERS does not endorse any private vendor or entity.*

"Do… or do not. There is no try." – Yoda

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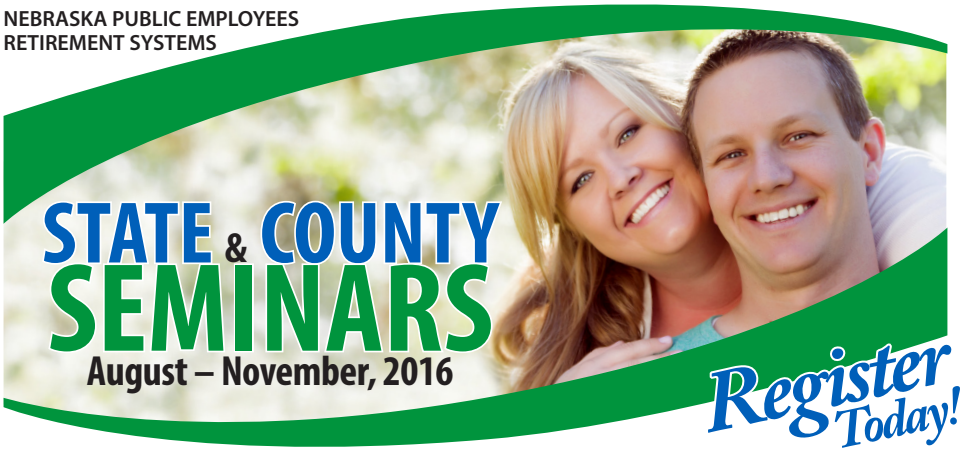


It's nearly State & County seminar season! This year's schedule and the enrollment brochures are already available on the NPERS website. We strongly encourage early enrollment. It's not unusual for some sessions to reach capacity. If you wish to attend, please do NOT wait until seminar season is nearly over to submit your registration!

Eligible State and County employees are entitled to receive paid leave to attend up to two Financial Management *and* two Retirement Planning seminars. Members who fall outside the age restrictions of a specific seminar, or wish to attend more than twice may do so at the $20 fee, but will not be eligible to receive paid leave time. Members may also bring one guest for an additional $20.

Materials, food, & refreshments are provided at the sessions, so **pre-registration is required.** In order to receive a refund of registration fees, members must notify NPERS of any cancellations at least three business days prior to the seminar.

Financial Management seminars begin September 1, and end on November 15.
Retirement Planning seminars begin August 31, and end on November 16.

Registration forms will be mailed approximately one month prior to the first seminar.

Retirement Planning Program

FOR PLAN MEMBERS AGE 50 AND OVER

Retirement Planning seminars are provided for State and County members age 50 and over. These full-day seminars provide participants with comprehensive information regarding their State and County retirement plans and the distribution options available at retirement. In addition, the program includes Medicare, Financial, and Estate Planning presentations.

NORFOLK
AUGUST 31

LINCOLN
SEPTEMBER 7
SEPTEMBER 14
OCTOBER 5
OCTOBER 6
OCTOBER 19
OCTOBER 20
NOVEMBER 16

GRAND ISLAND
SEPTEMBER 8
NOVEMBER 8

VALENTINE
SEPTEMBER 20

GERING
SEPTEMBER 21

LA VISTA
SEPTEMBER 29
OCTOBER 18

COLUMBUS
OCTOBER 25

NORTH PLATTE
NOVEMBER 2

Financial Management Program

FOR PLAN MEMBERS UNDER AGE 50

The Financial Management seminar provides a basic overview of the mandatory and voluntary retirement plans offered to State and County members, and an hour-long presentation from an estate planning attorney. The main focus of this full-day seminar is dedicated to "The Complete Financial Management Workshop," presented by a licensed financial planner. This segment 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.

NORFOLK
SEPTEMBER 1

LINCOLN
SEPTEMBER 15
NOVEMBER 15

GERING
SEPTEMBER 22

LA VISTA
SEPTEMBER 28

NORTH PLATTE
NOVEMBER 3

GRAND ISLAND
NOVEMBER 9

Annual Investment Report Now Available

The NPERS Annual Investment Report detailing the plan year ending December 31, 2015, is now available for download from the NPERS website.

Visit our website to view this and other NPERS publications, including the *Annual Report to the Legislature*, member newsletters, and plan handbooks. Go to **npers.ne.gov**.

No 2016 Dividend for Cash Balance Plans

Each year an actuarial study is conducted to determine the funded status of the State and County Cash Balance plans. If the study finds adequate funding, the Public Employees Retirement Board (PERB) may issue a dividend to Cash Balance members. All dividends must conform to the actuarial requirements stipulated in state statute and board policy. The plan must be 100% actuarially funded before and after the dividend.

Last year, the actuarial study found the funded status had increased to a point where the PERB could issue a dividend to State and County Cash Balance members. This year the current actuarial study found both plans to be in good financial condition, but the funded status was not high enough to allow the PERB to issue a dividend this year.

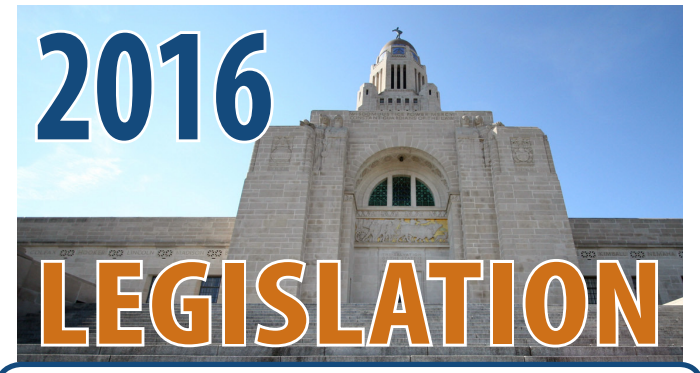
The full actuarial valuation reports may be viewed on NPERS' website at npers.ne.gov.

New Record Keeper Fees Impact DC, CB, and DCP Plans

As mentioned in the April newsletter, new fees for record keeping services will go into effect October 1, 2016. These fees will impact Defined Contribution, Cash Balance, and Deferred Compensation (DCP) participants.

Under the terms of the new contract, the monthly record keeping fees for Defined Contribution participants will be $2.30. For Cash Balance members the fee will be $2.05, and DCP participants will pay a fee of $1.95. Partial distributions and systematic withdrawals will be charged $5 per distribution. Full (final) distributions of account balances greater than $100 will be charged $75.

There will also be a monthly fee of $0.50 for delivery of statements or documents mailed to plan participants. Members can avoid this mailing fee by signing up for electronic distribution of correspondence.



During the 104th Legislature, second session, the following bills impacting the State and County retirement plans were passed and signed into law.

LB 922 – Retirement Board

The bill staggers the terms of board members in order to prevent multiple terms from expiring in the same year.

Provisions of this bill were amended into LB 447.

LB 986 – Retirement Board

In addition to annual actuarial reports, this bill requires an experience study to review actuarial assumptions be conducted at least once every four years, or at the request of the Nebraska Retirement Systems Committee. In addition, the bill requires a confidential, initial, and final draft of actuarial valuation reports and experience studies be provided to the Governor and the Nebraska Retirement Systems Committee.

Provisions of this bill were also amended into LB 447.

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

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QUARTERLY CASH BALANCE RATE

For the quarter beginning July 1, 2016, the rate of return for Cash Balance participants is 5%.

The current and historical Cash Balance rates of return are available via the "Cash Balance Rates of Return & Dividends" link on our website.