BUILDING PUBLIC SECTOR RETIREMENT SECURITY

10 QUESTION RETIREE GUIDE

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QUESTION 1

What Does Retirement Mean to Me?

Retirement marks the beginning of a new chapter in your life and includes a number of important financial responsibilities, such as:

- Establishing a retirement spending plan
- Paying for health-care costs and planning for potential long-term care needs
- Prudently managing your investments
- Managing retirement account distributions and taxes
- Ensuring your income lasts through the lifetime of you and your spouse or partner (if applicable)

Retirement also brings an array of opportunities, such as:

- Spending more time with family and friends
- Enjoying personal hobbies and traveling
- Participating in community activities
- Dedicating time to mentoring or helping others

Studies indicate that those in good health and who orient themselves toward friendships and social activities tend to be happier in retirement.

Maintaining your health: www.health.gov
Volunteering opportunities: www.volunteermatch.org

QUESTION 2

How Much Will I Spend in Retirement?

Just as you had a plan for saving during your working years, you should also have a spending plan for your retirement years.

To help you visualize what you need, start with a rule of thumb — you'll typically spend about 80 percent of your final year's salary each year during retirement. You may spend more or less depending on your circumstances.

Consider using the Cash Flow Statement to help you create that plan:

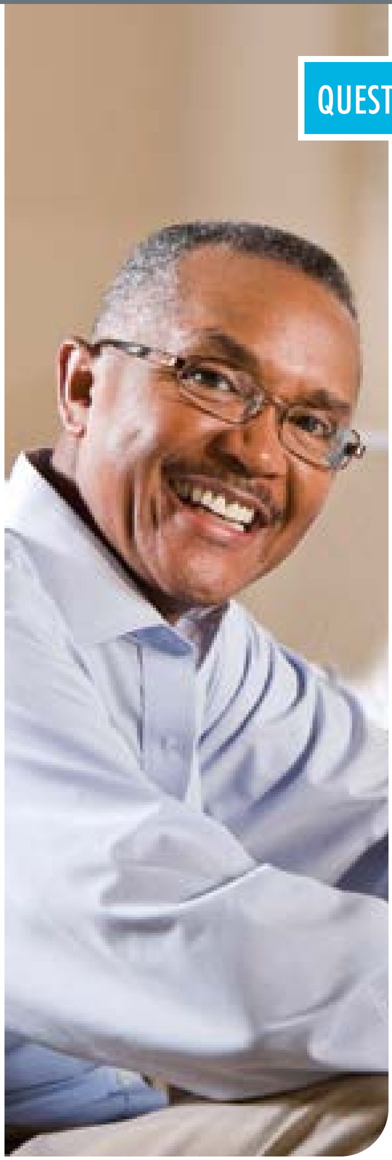
www.icmarc.org/cashflow

Next, build a customized spending plan based on your actual expenses, both current and future.

A potentially significant expense in retirement is taxes, including pension income, Social Security benefits, retirement account withdrawals, investments in taxable accounts, as well as state income, property, and sales taxes.

Your expenses may change as you grow older, particularly as your circumstances change. Certain discretionary spending, such as for travel and hobbies, may decline in your later retirement years, but this may be offset by other expenses such as increased health care costs. Updating your spending plan will help you visualize and account for these changes.

Finally, take into account inflation. Price increases will add up over time. For example, even at an inflation rate of three percent, prices will double in about 24 years.



QUESTION 3

How Will I Pay for Health Care?

Health care costs may be significant, depending upon your health, longevity, access to affordable supplemental coverage, the level of premiums, and your out-of-pocket expenses.

Many public sector employers provide health care coverage for retirees. Contact your benefits office to determine what coverage may be available to you and your spouse, its cost, and how it is coordinated with Medicare.

If your employer does not provide retiree health coverage, consider purchasing individual, private insurance to cover the period between when you retire and Medicare eligibility, which is age 65 for most individuals. In addition, since Medicare only covers about one half of a typical retiree's health care costs, supplemental insurance will likely be needed.

View these steps for more about Medicare coverage decisions you have to make initially and each year:
www.icmarc.org/medicare

For more detailed information about Medicare, visit:
www.medicare.gov

Some ICMA-RC participants also have access to a Retirement Health Savings Plan which can help pay for medical expenses:
www.icmarc.org/rhs

Take a moment to estimate your health care costs at and through retirement at:
www.icmarc.org/health

QUESTION 4

What about Long-Term Care Coverage?

If you or your spouse become chronically ill or disabled and need help with daily life activities, you may need long-term care. Most long-term care services are not covered by employer-sponsored health care or Medicare.

There is a 70 percent chance that an individual over age 65 will need long-term care at some point in their life, including a 40 percent chance of requiring care in a nursing home.

Since costs for long-term care and nursing home coverage can be significant, retirees may want to consider purchasing long-term care insurance.

Premiums and coverage can vary widely. ICMA-RC's Long-Term Care Quote Service can help you evaluate insurance options:
www.icmarc.org/longtermcare

For general information on long-term care, visit:
www.longtermcare.gov
www.eldercare.gov

QUESTION 5

What Do I Need to Know about Pension Income?

For most public sector employees, the principal source of retirement income will be a defined benefit pension plan.

To understand your pension benefit, including when you can begin receiving benefits and how much you will receive, contact your benefits office. Pensions can typically be structured to pay out over your life only or at a reduced amount over the life of you and your spouse. Select your payout option carefully, as it is typically irrevocable.

In setting up your spending plan, also consider whether your pension benefit includes a cost-of-living adjustment that allows your payments to better keep up with inflation.

You may be eligible to increase your pension amount through the purchase of "service credits." Review ***Purchasing Service Credits — A Balancing Act*** to help you evaluate this decision, including other options that may be available:

www.icmarc.org/servicecredits

QUESTION 6

What Do I Need to Know about Social Security?

Another important source of retirement income for most public sector employees is Social Security. There are several aspects of Social Security benefits that you should consider.

When you begin benefits is significant because of the potential to limit or increase your lifetime income. Although you are eligible to begin receiving reduced benefits at age 62, it may be advantageous to delay your benefits until your full retirement age (age 66 or 67 based on your year of birth) or until you reach age 70 to receive higher amounts.

To estimate your benefits, visit
www.ssa.gov/myaccount

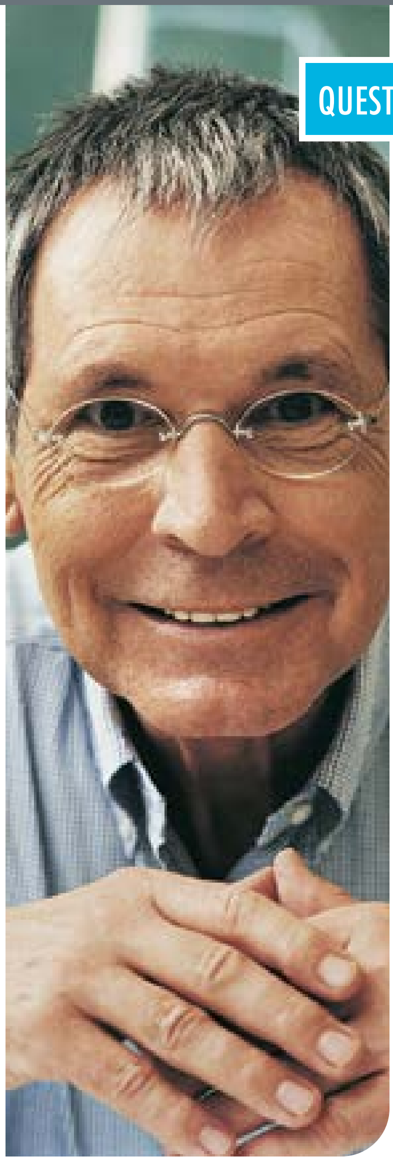
To customize projected estimates, visit
www.ssa.gov/estimator

A spouse, ex-spouse and surviving spouse can receive benefits based on your work record, and vice-versa. If married, there are various strategies to consider that can help maximize the potential benefits you both receive over your lifetimes.

If you are a public sector employee who does not pay into Social Security, the amount you otherwise would receive may be reduced. Your potential spouse or survivor benefit may also be impacted. To learn more, visit www.ssa.gov/gpo-wep.

Up to 85 percent of your Social Security benefits may be subject to taxes, depending on your income.

Use this additional resource to help you identify what you need to know about Social Security (www.icmarc.org/socialsecurity). For more detailed information about Social Security, visit www.ssa.gov.



QUESTION 7

Will My Savings Be Enough?

Once you've calculated your pension and/or Social Security benefits, compare them to your expected or actual spending in retirement. Use the worksheet at www.icmarc.org/incomegap to determine if there is a gap between this income and your estimated expenses. Filling the gap is the role of your 457 deferred compensation plan and other savings.

In evaluating the gap, consider:

- How long you may live. Half of individuals will live longer than their life expectancy.
- Inflation will increase your living expenses over time.
- Rates of return on your investments will vary year to year and may be subpar for a sustained period of time.

If your retirement savings are unlikely to be enough, you can consider delaying retirement, part-time employment, or reducing your planned spending in retirement. For homeowners, another potential source of income is a reverse mortgage.

To learn more, visit www.consumer.ftc.gov and search for "reverse mortgages."

Download the Reverse Mortgage Guide.

QUESTION 8

How Should I Manage Retirement Account Withdrawals and Taxes?

A smart withdrawal strategy takes into account how different retirement accounts you may own will be taxed:

- Withdrawals from tax-deferred 457 plans and traditional IRAs are generally taxed as ordinary income.
- Qualifying withdrawals from a Roth IRA, or Roth assets from a 401 or 457 employer retirement plan, are generally tax free.
- Withdrawals from taxable, non-retirement accounts may be taxed at lower capital gains rates.

Also consider tax rules that may apply depending on your age and circumstances:

- Withdrawals from retirement accounts prior to age 59½ may be subject to a 10 percent penalty tax. To learn more, visit the IRS website (www.irs.gov).
- Retirement accounts, other than Roth IRAs, are generally subject to taxable IRS required minimum distributions (RMDs) beginning in the year you turn age 70½.
- If you are inheriting a retirement account, additional tax rules apply. To learn more, view our Inheriting Retirement Accounts Checklist (www.icmarc.org/inherit).

Each year, manage your tax bill by comparing the tax treatment of your different accounts with your specific circumstances, including:

- Changes in tax rates that affect you
- Unusually higher or lower current and expected future income
- Whether it makes sense to buy or sell based on your investment objectives

It may make sense to delay distributions from tax-deferred accounts as long as possible to minimize up-front taxes. Delaying distributions of Roth assets may be wise to maximize potential tax-free growth. Alternatively, taking withdrawals each year from multiple types of accounts, with an eye towards staying in as low a tax bracket as possible, may be best. Different strategies may make sense during years in which you are in an unusually high or low tax bracket. For detailed guidance, consult a qualified tax professional.

To learn more about tax planning for your retirement assets and income, visit:
www.icmarc.org/taxplanning
www.icmarc.org/rmd

QUESTION 9

How Should I Manage My Investments in Retirement?

First, consider keeping about five years of retirement spending requirements in an accessible investment, such as a money market or stable value fund, to reduce exposure to market risk. This bucket of money should generally be replenished annually.

Consider a diversified mix of stock and bond funds for the remainder of your investments. You can select the specific funds on your own from your available investment menu, or select a single, diversified target-date or target-risk fund that automatically readjusts its risk level based on its objective.

Another option is a lifetime income fund, with guarantees and a diversified, rebalanced investment mix, to help your assets generate income no matter how long you live. The guarantees are subject to an additional fee, the insurer's claims-paying ability, and restrictions due to excess withdrawals. However, these funds can help provide both financial security and control for you as well as your spouse and loved ones.

To learn more, visit www.icmarc.org/incomegap.

Download the Retiree Income Solutions Guide.

QUESTION 10

What Estate Planning Steps Do I Need to Consider?

Estate planning is not just for the wealthy. It ultimately involves ensuring decisions made about your assets, medical issues, and dependent children are carried out per your wishes rather than the courts' and state law.

A proper estate plan can help, after your death, to minimize the:

- emotional and financial burden on your loved ones;
- potential costs and delays of probate; and
- potential impact of federal and state estate and inheritance taxes.

In addition, an estate plan also can help direct decisions if you become incapacitated.

Consider meeting with a qualified-estate planning attorney to review existing documents or to create new ones, including:

- beneficiary designations for your retirement accounts, annuity contracts, and life insurance policies in order to direct distribution of assets;
- a will, and also a trust, to direct distribution of other assets (through a will you can also designate who will care for minor children and other dependents);
- a living will, medical power of attorney, and a financial/durable power of attorney to direct medical and financial decisions if you become incapacitated.

Also consider reviewing whether you would benefit from charitable giving and other gifting strategies.

To learn more about key estate planning documents, visit www.icmarc.org/estate.

To learn more about designating beneficiaries for your retirement accounts, visit www.icmarc.org/beneficiary.

To help organize your records, visit www.icmarc.org/recordkeeper.

CRITICAL AGES FOR RETIREMENT PLANNING

50

Beginning in the year you reach age 50, you may make additional "catch-up" contributions to eligible employer retirement plans and IRAs. In 2020, participants age 50 or older may contribute up to an additional:

- $6,500 over the regular $19,500 contribution limit to both a 457 deferred compensation plan and a 401(k) plan, for a total of $26,000 to each plan.
- $1,000 over the regular $6,000 limit to an IRA, for a total of $7,000.

If you are a qualifying public safety employee, you may take withdrawals from a governmental defined benefit plan or 401 defined contribution plan, without being subject to a 10 percent early withdrawal penalty tax. Separation from service must occur in or after the year you turn age 50.

55

If eligible, you may begin withdrawing from retirement plans sponsored by the employer you left without being subject to a 10 percent penalty tax (the penalty tax does not apply to 457 deferred compensation plans[1]). Separation from service must occur in or after the year you turn age 55.

59½

You may begin withdrawing from employer retirement plans, if eligible under plan rules, or from an IRA without incurring the 10 percent penalty tax (the penalty tax does not apply to 457 deferred compensation plans[1]).

62

You can begin receiving your Social Security benefits; however, the amount will be reduced by 25 to 30 percent, depending on the date of your birth.

65

You may enroll in Medicare, if eligible, and purchase Medigap insurance at standard rates. If you sign up for Medicare after three months have passed since the month of your 65th birthday, you may face higher premiums. Your Medigap open enrollment period lasts for six months starting on the first day of the month in which you are 1) at least age 65 and 2) enrolled in Medicare Part B. During this period, an insurance company cannot deny you a Medigap policy, make you wait for coverage, or charge you more for a Medigap policy because of your health.

66–67

Depending on your date of birth, you may begin unreduced Social Security benefits during this age range and earn any amount related to employment without impacting this benefit.

70

You may begin maximum Social Security benefits, if your starting date was delayed to this age. There is no advantage to delaying benefits past this age.

70½

Required minimum distributions (RMDs) from employer retirement plans and Traditional IRAs begin the year you reach age 70½. You may generally delay RMDs from plans sponsored by an employer for whom you are still working until you retire.

[1] 10 percent penalty tax never applies to withdrawals of original 457 plan contributions and associated earnings. But a penalty may apply to non-457 plan assets rolled into a 457 plan and subsequently withdrawn prior to age 59½.

Next Steps

Ensuring a comfortable retirement involves a variety of topics including spending, investing, asset distributions, insurance, real estate, taxes, and estate planning. Each is potentially complex and all are interconnected, so decisions you make in one area can impact others.

Consider getting help from qualified financial, tax, insurance, and/or legal professionals to help guide your decisions. Be sure to understand the services they provide, how much they charge, and how they get paid.

Your ICMA-RC Certified Financial Planner™ professional and Retirement Plans Specialist can help tie all the pieces together and point you in the right direction.

Additional Resources

An ICMA-RC financial plan provides step-by-step guidance.

www.icmarc.org/financialplans

Learn more about what you should consider as you near and go through retirement.

www.icmarc.org/retiree

Download ICMA-RC's mobile app from the App Store™ or Google Play™ to keep track of your ICMA-RC retirement account whenever and wherever it's convenient for you.

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