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SIMPLY PUT

Retirement Savings Education, Simplified

Second Quarter 2016

The Lifelong Employee Benefit

The question often gets asked: *"Why should I save money with the deferred compensation plan when there are other retirement savings options?"* True, there are a number of ways you can save money for retirement, but not all retirement savings plans are created equal. This edition of *Simply Put* highlights differences between various savings options and explains why a growing number of state employees see deferred comp as a lifelong employee benefit.

Some Things to Consider When Choosing a Savings Plan:

Cost: How much do you pay to participate in the savings plan and how much do the investment options inside the plan cost?

Contribution Limits: How much can you contribute to the savings plan each year? Some plans have different contribution limits, which are established by the IRS.

Investment Options: What investment options will you have access to inside the savings plan? Often called the 'investment menu', it could be limited to a few funds or many. Deferred comp, for instance, offers a simple, yet custom investment menu and a brokerage window for those who want to access a variety of investment options.

STRENGTH IN NUMBERS

The numbers below illustrate just how valuable the deferred comp plan benefit is to not only current state of Missouri employees, but also those who have left state employment.

33,384

Number of current state employees actively contributing to the deferred comp plan each month as of April 2016. That's 67% of the total state workforce! Another 3,241 current state employees have a balance but are not currently contributing. That means 73% of eligible state employees have money with deferred comp.

24,373

Number of terminated state employees who still have money with the deferred comp plan as of April 2016. This group includes retired state employees or workers who left state employment for another job.

$5.6 million

Did you know employees who are eligible to receive BackDROP can roll that payment into the deferred comp plan at retirement? It's true! In fact, in April 2016 alone, retiring employees rolled a combined $5.6 million in BackDROP dollars to the deferred comp plan.

mo deferred comp

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www.modeferredcomp.org

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Types of Retirement Accounts

The retirement account types listed above are types that can be offered through an employer. Employer-sponsored retirement plans are typically the easiest and best place for employees to start their retirement nest eggs. The kind of account available to you depends on your employer's classification. For instance, 457 plans, like the MO Deferred Comp Plan, are available to state and local government employees. A 401(k) is usually offered by a for-profit company, while teachers and other employees of nonprofits may be offered a 403(b). In 2016, annual contribution limits on these types of accounts is $18,000 for employees under 50.

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An individual retirement account (IRA) is another type of retirement savings account. IRAs are typically established by individual savers separate from the employer retirement plans listed above. The contribution limits on IRAs differ from employer-sponsored plans and can change depending on your income.

Compare different retirement plan options by visiting **modeferredcomp.org/publications.html** and viewing *The 457 Plan and IRAs* flyer.

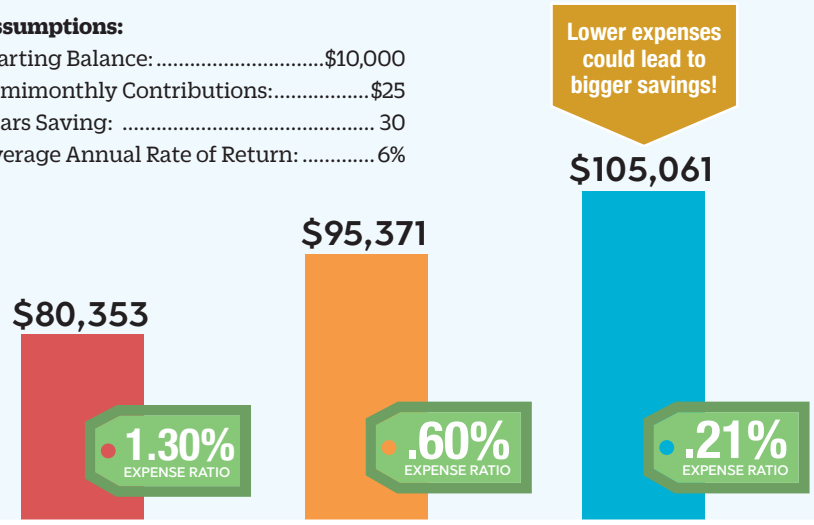
Breaking Down the Costs: Doing the Math

As a deferred comp participant, you pay a flat $15 each year and an additional 0.09% associated with your fund options' expense ratios to participate in this savings plan. These are known as **administrative costs**. Administrative costs will differ from plan to plan.

Expense ratios are the price you pay to invest in a particular investment option. The 1st quarter edition of this newsletter, for instance, illustrated that a Missouri Target Date Fund's average expense ratio is around .21%. In other words, an investor would pay $2.10 in fees for every $1,000 invested. Expense ratios can make a big difference over a long time frame as the chart below illustrates.

The Impact of Expenses Over 30 Years

Assumptions:
Starting Balance: $10,000
Semimonthly Contributions: $25
Years Saving: 30
Average Annual Rate of Return: 6%



Roth Savings Available in Deferred Comp Too

Roth is a buzz word in the savings world that simply means after-tax savings. The advantage of Roth savings is that when you make a qualified withdrawal in retirement, you won't owe taxes on those dollars. While Roth savings are commonly associated with IRAs,* ***you can make both pre-tax and Roth contributions to the MO Deferred Comp Plan as well.***

** You must meet certain eligibility requirements to qualify for tax-free withdrawals in retirement. Check with your retirement plan for specific details.*

Should I leave or should I go?

Moving savings from one retirement account to another is called a **rollover**. As a reminder, you're never required to roll your savings in the deferred comp plan to another account, even after you leave state employment. There are a lot of factors to consider of course, but keeping those savings with the deferred comp plan could be a wise financial decision. The chart above illustrates just how important fees alone can be over the long haul. And don't forget about local education specialists who are here to serve you during and after your career and the custom investment options designed specifically for state of Missouri employees and retirees. Low fees, custom investment options and hands-on, local customer service are what make deferred comp a lifelong employee benefit.