

SIMPLY PUT

Retirement Savings Education, Simplified

First Quarter 2021

Your Money in Retirement: Keep the End Game in Mind

No matter how old you are or what stage you are in your career, you need to be thinking about retirement; specifically, where your money will come from in the future. Successfully managing your finances in your golden years begins with knowing and understanding your sources of income. This may include income from a defined benefit pension plan, social security, personal savings, rental income, part-time work, and so on. The more you think about and prepare for retirement now, the better off you'll be later on in life.

Retirement Income Sources for an Average State of Missouri Retiree

Social security is the foundation of retirement income for most people, however, it "was never meant to be the only source of income for people when they retire."¹ It replaces a percentage of your working income in retirement and your benefit is based on the earnings in which you pay social security payroll taxes. **The average medium-income employee can expect to replace roughly 25% to 30% of their working income in retirement with social security.**² For more information or to run a custom social security estimate, visit www.ssa.gov.

A **defined benefit pension plan** provides vested state of Missouri employees guaranteed income in retirement. State employees are either a member of the Missouri State Employees' Retirement System (MOSERS) or MoDOT & Patrol Employees' Retirement System (MPERS), depending on which state agency you work for. **Your monthly defined benefit pension benefit amount is based on a formula: Final Average Pay x Multiplier x Years of Service.** For an accurate estimate of your defined benefit pension benefit, please contact either **MOSERS** (www.mosers.org) or **MPERS** (www.mpers.org).

"Vesting" is a legal term that means to give or earn a right to a present or future payment, asset, or benefit. To vest with the state of Missouri, an employee must work for a minimum of five years in a state position.

Test your KNOWLEDGE

- Which deferred comp calculator estimates your future retirement income using your pension, social security, and personal savings?
 - Grow Your Retirement Savings
 - RetiremenTrack
 - Small Changes, Big Savings
 - Income Estimator
- What was the name of deferred comp's 2021 America Saves Week campaign?
 - Retirement Savings Basics
 - Jargon-Free Savings
 - What's Your Excuse
 - Money Savings TipToks
- What is the 2021 IRS contribution limit for those under age 50?
 - \$19,500
 - \$7,000
 - \$26,000
 - \$11,500

ANSWERS: 1. b, 2. d, 3. a



Learn more at
www.modeferredcomp.org
VPN000-001-202101



Retirement Income Sources *continued...*

Personal savings can be money saved within the MO Deferred Comp Plan, a 401(k), an IRA, a traditional savings account, or another retirement savings vehicle. Your personal savings are funded by your contributions to your account(s) and any investment returns. If you're a vested state employee, your personal savings will supplement your defined benefit pension benefit and social security in retirement. If you're not vested, your personal savings could be your primary source of income in retirement.

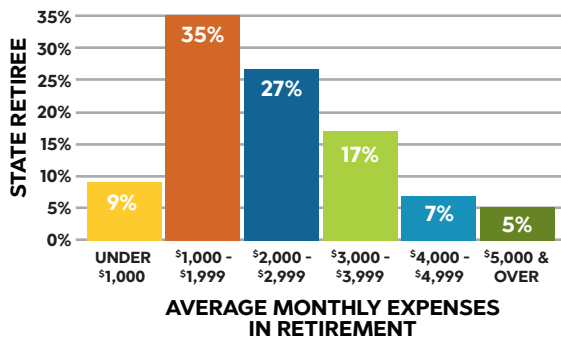
In addition to these three retirement income sources, some retirees may have **rental properties, an income-generating hobby, or work part time** to help support their lifestyles in retirement.

RETIREE STATS³

67%
OF STATE
RETIREES

said their expenses did NOT decrease in retirement.

35% OF STATE RETIREES spend between \$1,000 and \$1,999 on monthly expenses.



58% OF RETIREES started receiving social security between age 62 and 64.



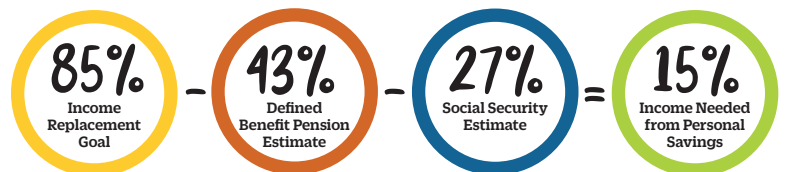
Retirees stated their highest expenses were:
1) mortgage, 2) health care, 3) utilities,
4) credit card debt, and 5) transportation.

How Income Sources Fit Together

Each income source will make up a percentage of your income in retirement. **Most state employees will need to replace between 85% and 100% of their working pay in retirement to cover their monthly expenses.** For example, if you make \$2,500 a month while working, you may need between \$2,125 and \$2,500 to live comfortably in retirement. Generally speaking, the higher your social security and defined benefit pension benefits are, the less you may have to save to meet your goals. The lower your social security and defined benefit pension benefits are, the more retirement savings you will need. Here is a hypothetical example to help you understand how income sources might work together to make up your income in retirement.

For Example:

Kendra plans to work for the state for 25 years and retire at age 65. If she does, she can expect to replace roughly 43% (25 years x 1.7% multiplier) of her current working pay with her defined benefit pension benefit.⁴ She also estimated social security would replace an estimated 27%.¹ Kendra doesn't want to work part time in retirement, nor will she have any additional income sources. If Kendra wants to replace 85% of her working pay in retirement, she will need to replace 15% of her working pay with her personal savings. To do this, Kendra will need to save at least 1.5% with a .5% annual auto-increase or 6.5% each paycheck over her 25-year career with the state.⁵



¹www.ssa.gov; ²Social security is an average estimate. Social security income replacement varies based on when an employee chooses to receive social security benefits (whether as early as age 62 or full social security retirement age) and social security's ability to pay 100% of scheduled benefits. Via SSA.gov, the current statement from the Social Security Administration: "Estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 79% of scheduled benefits" (subject to change periodically). According to MO Deferred Comp's 2020 Retirement and Savings Survey, nearly 60% of retirees take their social security benefit prior to age 65. ³2020 MO Deferred Comp Retirement & Savings Survey; ⁴Assumes normal general employee retirement and a single life annuity from MOSERS or MPERS defined benefit pension plan. ⁵Assumes 6% return and 1.5% average annual salary increases while employed and a 4% return, 2% inflation and 25 years in retirement. Annual contribution limits will apply.