

State of Missouri Deferred Compensation Plan Automatic Enrollment

An Opportunity for New Employees





Ongoing Quotes from Current Employees and Retirees...

- ❑ “When I started, I didn’t care and then several years had already passed.”
- ❑ “I wish someone would have done this for me...”
- ❑ “I didn’t have the time to sign up and didn’t feel comfortable taking the first step.”
- ❑ “I don’t have enough money to retire.”
- ❑ “Why wasn’t this pushed when I began employment?”
- ❑ “I guess I didn’t save enough – wow...”
- ❑ “Now I have this retiree health insurance premium, and my pension doesn’t even cover it. I didn’t plan for this.”
- ❑ “Is that really all I have?”



Opportunity/Benefit for **New Employees**

- ❑ Easy
- ❑ Lowers taxes/increases savings
- ❑ Gets employees in the savings habit
- ❑ Extremely low fees
- ❑ Options available
 - Custom target date funds
 - Stable income option
 - Brokerage window
- ❑ Saver's Tax Credit (better than a deduction)
 - Annual household income less than \$56,500 (MFJ)
 - Credit up to 50%
- ❑ 457 funds available without penalty upon termination/retirement
- ❑ Unforeseen emergency withdrawals
 - car repairs, funerals, foreclosure, etc.



Why “Auto Enroll”? Why “Personal Savings”?

- ❑ Necessary retirement savings made easier
- ❑ Pension and social security are not enough
 - Replaces approximately 60%
- ❑ Important to prepare employees for retirement
- ❑ Future is uncertain:
 - Longevity – How long will you live?
 - Social security benefits?
 - Medicare benefits?
 - Rising retiree healthcare costs - PPO 300 with **25** years
 - Retiree/spouse w/o Medicare: **\$806**
 - Retiree/spouse w/Medicare: **\$261-\$530**
 - Retiree w/o Medicare: **\$381**
 - Retiree w/Medicare: **\$130**
 - Plus out-of-pocket expenses, deductibles and co-insurance
 - Other unexpected expenses in retirement





More “Why”

- ❑ 4% employee pension contributions don't increase benefits, simply shares the costs
- ❑ Many employees are not savings experts
- ❑ Many do not take time to enroll
- ❑ Deferred compensation plan was created as a convenient, tax-sheltered savings tool (employer match is an extra incentive)



More Data

- ❑ Auto enrollment spurs and increases employee retirement savings
- ❑ Comparative Retirement Contribution Data
 - **7.5%** - Average employee contribution to a retirement plan in the private sector (EBRI)
 - **5%** - Average defined benefit plan contribution (NASRA)
- ❑ Other States: Virginia, Texas, Indiana, Alaska, Georgia and South Dakota have already enacted auto-enrollment, while many others are currently preparing to add auto-enrollment features



The Shortfall is Real - Scenario #1

Using "My Retirement Outlook" – Actual Pension/Social Security estimates

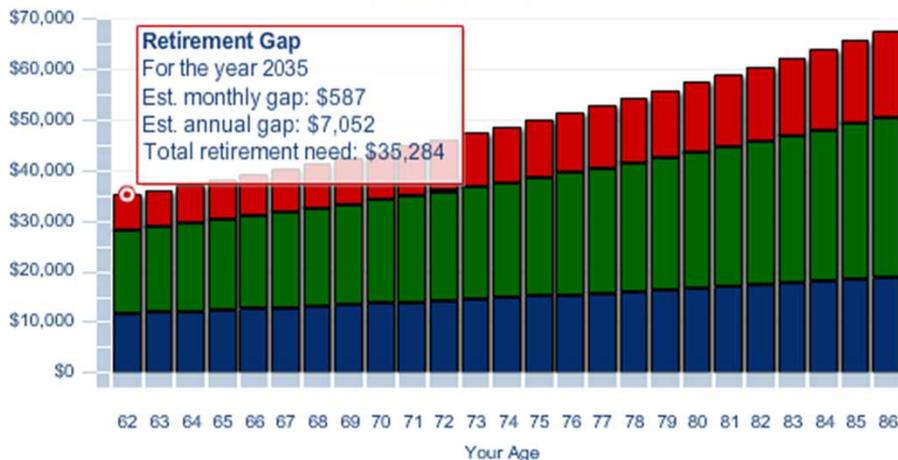
- ❑ Beginning Salary: **\$23,000**
- ❑ Age: 38
- ❑ Retirement Age: 62
- ❑ Anticipated Years in Retirement: 25
- ❑ Assumed Inflation: 2.75%
- ❑ Assumed Annual Salary Increase: 1% (historically 3%)
- ❑ MOSERS/MPERS New Plan Pension and Social Security Replacement



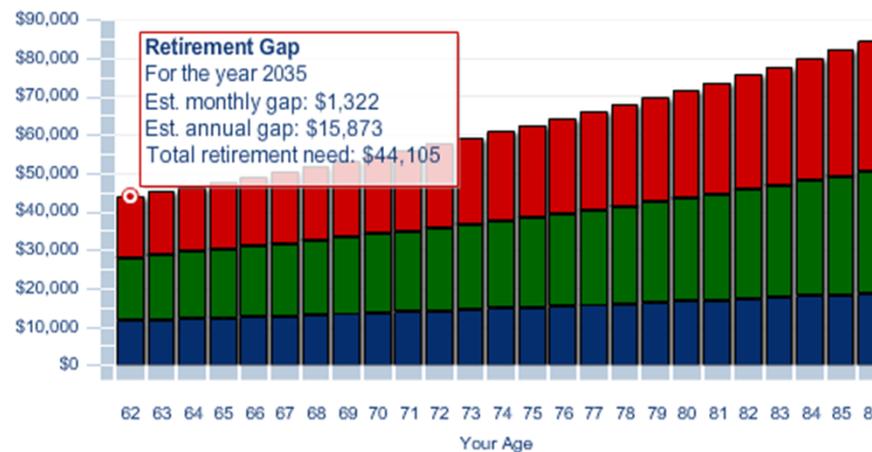
80% Pre-Retirement Salary Replacement – Over **\$7,000** short without personal savings for the first year and increasing throughout retirement

100% Pre-Retirement Salary Replacement – Over **\$15,800** short without personal savings for the first year and increasing every year throughout

Estimated Retirement Income
Future Dollars



Estimated Retirement Income
Future Dollars





The Shortfall is Real - Scenario #2

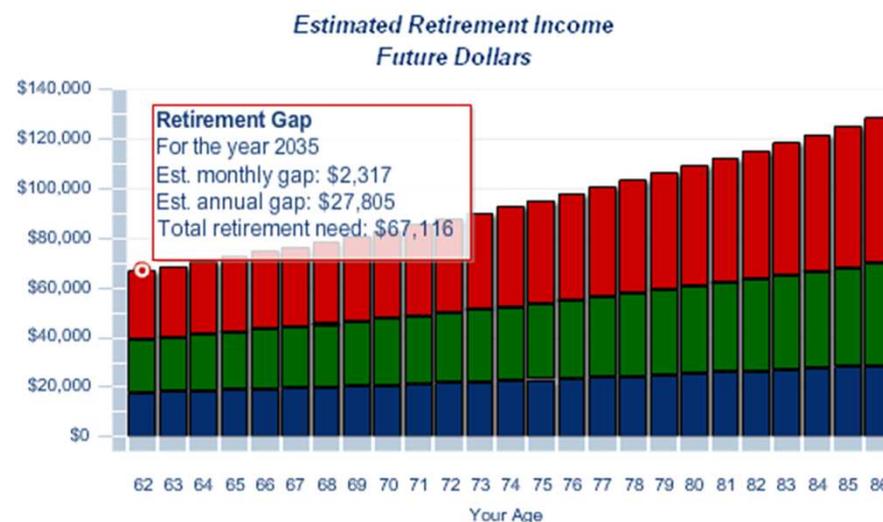
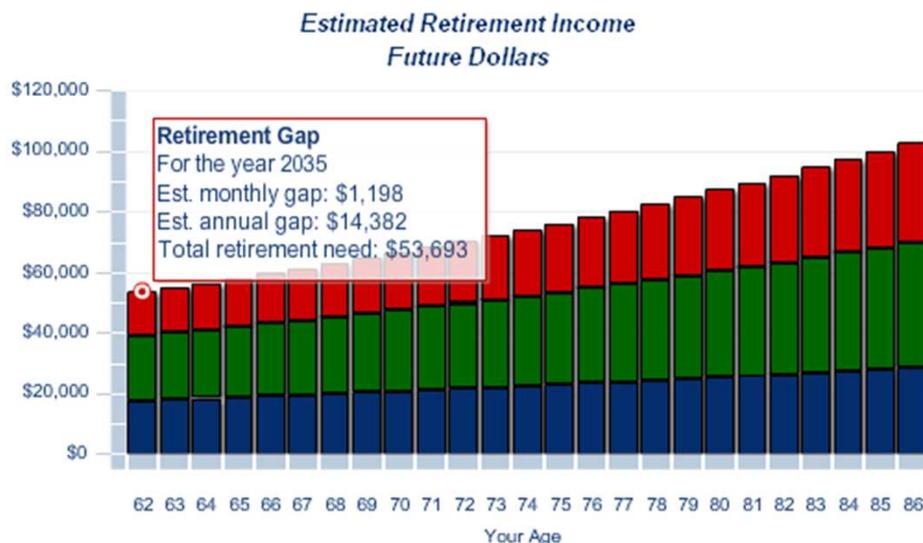
Using "My Retirement Outlook" – Actual Pension/Social Security estimates

- ❑ Beginning Salary: **\$35,000**
- ❑ Age: 38
- ❑ Retirement Age: 62
- ❑ Anticipated Years in Retirement: 25
- ❑ Assumed Inflation: 2.75%
- ❑ Assumed Annual Salary Increase: 1% (historically 3%)
- ❑ MOSERS/MPERS New Plan Pension (Blue) and Social Security Replacement (Green)



80% Pre-Retirement Salary Replacement – Over **\$14,300** short without personal savings for the first year and increasing throughout retirement.

100% Pre-Retirement Salary Replacement – Over **\$27,800** short without personal savings for the first year and increasing every year throughout retirement.





Current Plan Facts

- ❑ Current Participation Rate: 56%
- ❑ New enrollments down by 75% in the past year
- ❑ Participation has decreased by more than 2,000 employees from a year ago



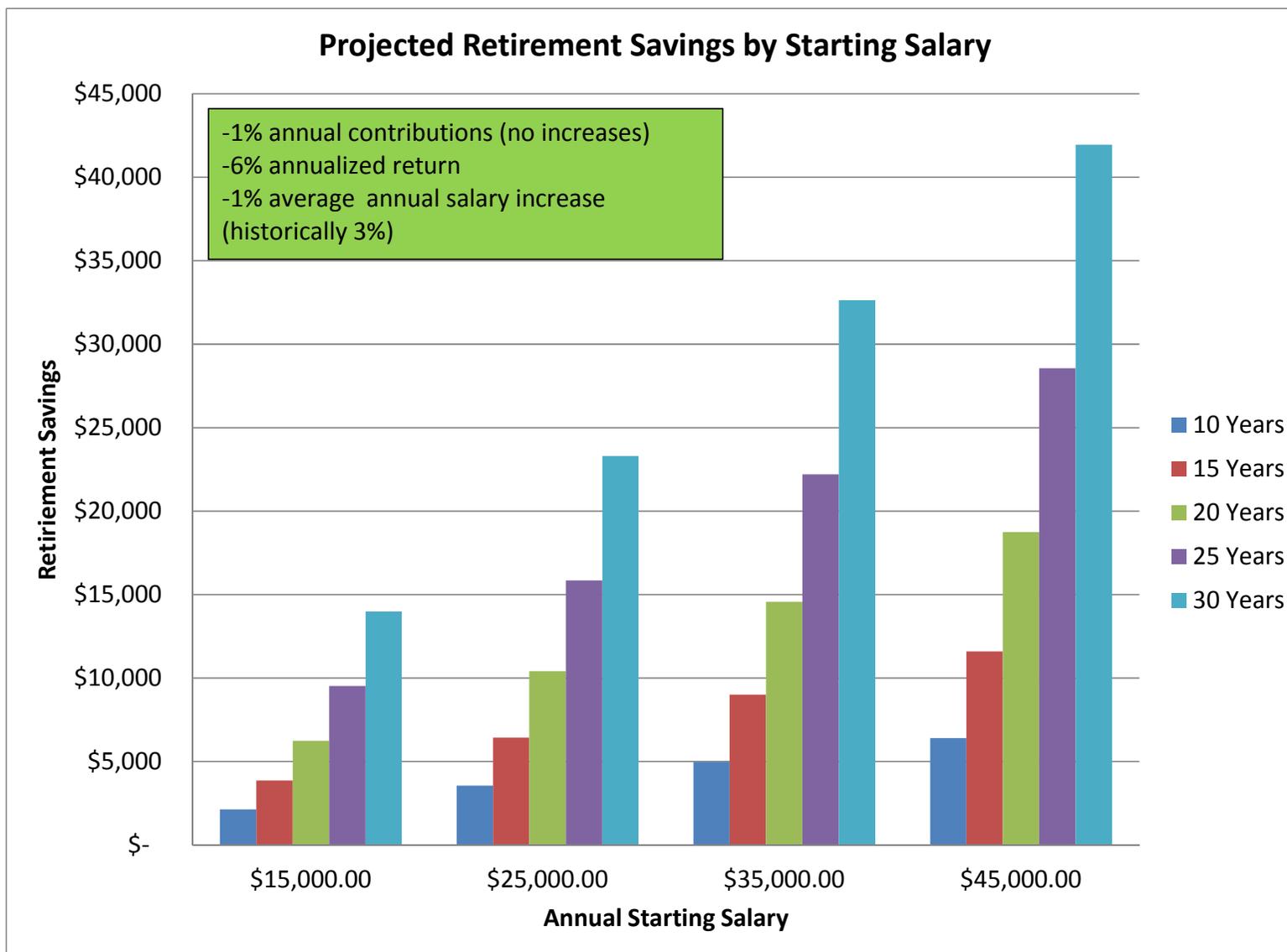
Auto Enroll Benefit Logistics

If Legislation were Passed

- ❑ Who: New Employees
- ❑ What: 1% contribution
 - Equalizes for employees with lower starting salaries
- ❑ When: July 1, 2012
- ❑ How:
 - Simple phone call to opt-out within 30 days & receive refund
 - May increase/decrease/stop contribution throughout career
 - Default is low-fee custom target date fund based on age



Savings Scenarios by Starting Salary





Growth of 1% Contribution – Various Starting Salaries

Annual Salary	1% Pre-Tax Semimonthly Contribution	Taxes Deferred	Annual Tax Deferral	Possible Annual Saver's Credit*	Annual "Actual Contribution"	First Year Retirement Savings	Projected Retirement Savings				
							10 Years	15 Years	20 Years	25 Years	30 Years
\$ 15,000.00	\$ 6.25	\$ 0.77	\$ 18.48	\$ 75.00	\$ 56.52	\$154.39	\$ 2,136	\$ 3,866	\$ 6,249	\$ 9,518	\$ 13,985
\$ 25,000.00	\$ 10.42	\$ 1.60	\$ 38.40	\$ 25.00	\$ 186.60	\$257.32	\$ 3,560	\$ 6,443	\$ 10,416	\$ 15,864	\$ 23,308
\$ 35,000.00	\$ 14.58	\$ 2.94	\$ 70.56		\$ 279.44	\$360.25	\$ 4,985	\$ 9,020	\$ 14,582	\$ 22,210	\$ 32,632
\$ 45,000.00	\$ 18.75	\$ 3.78	\$ 90.72		\$ 359.28	\$463.18	\$ 6,409	\$ 11,597	\$ 18,748	\$ 28,555	\$ 41,955

- 1% annual increase (historical state pay increases have averaged 3%), Taxes Deferred based on Married filing Joint & 0, 6% Return on Investments



Saver's Tax Credit – Little Known Opportunity

- A tax credit for low-to-moderate income savers
- Available since 2002
- A credit from 10-50% of an eligible annual contribution up to \$2,000
- Offsets regular tax liability

Joint Filers	Head of Household	Single	Credit	Maximum Credit
\$0-\$34,000	\$0-\$25,500	\$0-\$17,000	50%	\$1,000
\$34,001-\$36,500	\$25,501 - \$27,375	\$17,001-\$18,250	20%	\$400
\$36,501 - \$56,500	\$27,376- \$42,375	\$18,251-\$28,250	10%	\$200
\$56,501+	\$42,376+	\$28,251+	0%	\$0



Think of Contribution as...

- ❑ Fewer stops at the vending machine – snacks/soda
- ❑ Fewer extra value meals/happy meals
- ❑ A couple pizzas a month
- ❑ Or however you wish to measure a contribution that will help develop an important piece of your future



More on Shortfall



If the average state employee works 25 years and retires making \$35,000 and pension and social security may replace only 63% of that amount, the chart below illustrates what an employee would need to save to replace 80%, 90% or 100% of pre-retirement income .

Income Replacement %	Income Replaced	Annual Income to Replace with Personal Savings	Personal Savings Starting Balance in Retirement	Required Semi-Monthly Savings While Employed
100%	\$35,000	\$12,950	\$202,306	\$146
90%	\$31,500	\$9,450	\$147,629	\$106
80%	\$28,000	\$5,950	\$92,951	\$67
63%	\$22,050			

Assumptions:

6% annualized return while employed/saving for 25 years; 4% annualized return during retirement for 25 years; figured in today's dollars - inflation not considered



My Retirement Outlook – www.modeferredcomp.org

Illustrates the Retirement Income Shortage/Surplus

Plan Updates & Notices

New ING Stable Income Fund Rate
New ING Stable Income Fund rate effective 1st quarter 2011 will be 2.10%

3rd Quarter *Simply Put* Newsletter
In this [Issue](#): Investor Quiz Results, *National Save for Retirement Week*, and more...

News from the Office of Administration on the Nationwide Lawsuit
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Tools

Enrollment

Access **Personal** Account ▶

Access **Brokerage** Account ▶

MO Target Date Funds 🎯

Plan Overview 🔍

Quarterly Fund Performance 📈

Self Directed Brokerage Application 📄

My Retirement Outlook 🇩🇪

Financial Calculators 📊



My Retirement Outlook –

Employee Tool can Determine Required Savings and How it will Affect Your Paycheck

STATE OF MISSOURI
DEFERRED COMPENSATION PLAN

My Retirement Outlook

RETIREMENT CALCULATOR | PAYCHECK CALCULATOR

Tell Us About Yourself

Date of birth <small>(Enter in mm/dd/yyyy format)</small>	<input type="text" value="01/26/1973"/>
Current annual salary:	<input type="text" value="35000"/>
Assumed annual salary increase:	<input type="text" value="1.00"/> %
Number of paychecks received each year:	<input type="text" value="24"/> ▾
Anticipated retirement age:	<input type="text" value="62"/>
Anticipated years in retirement:	<input type="text" value="25"/>
Assumed annual inflation rate:	<input type="text" value="2.75"/> %

Welcome...

This Retirement calculator will help determine how much you need to save on a regular basis in order to meet your retirement investing objectives.

Enter the requested information and then click on Next at the bottom of the screen to advance.

Previous | Next



Thanks for your time and attention!

Questions?



An Opportunity for New Employees