

# AUTOMATIC INCREASE OVERVIEW

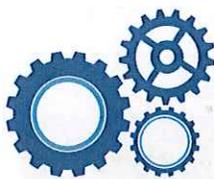
## LEGISLATIVE PROPOSAL:

Automatically increase contributions to the deferred compensation plan for any employee hired on or after July 1, 2016. The automatic increase will be in the amount of 0.5% of salary and occur annually at the beginning of the fiscal year.

To be eligible, employees must be employed for at least one year and still be at the 1% automatic enrollment default. The automatic increase cap will be 5% of salary, which will be reached after 8 years of continuous employment with the state of Missouri. Similar to the 1% automatic enrollment, this is a voluntary feature and employees will have the opportunity to adjust to an alternative automatic increase preference (in as little as one-tenth of one percent) or opt out.



## WHY AUTO INCREASE?



"People prefer an automated way of doing repetitive tasks, as long as one essential condition is met. They want to be in control. As long as they know they're still in charge and can make changes as needed, they see automatic procedures as a great benefit."

**Stephen Moser**, *Seven Misconceptions about Retirement Plan Auto Features*

### Personal Savings are Crucial

For the average state of Missouri employee, pension and Social Security benefits could replace approximately 65% of a preretirement paycheck. This makes personal savings a requirement to reach suggested retirement savings levels.



**76%** of automatically enrolled state employees still contribute **1%** of pay.

**60%** of ALL deferred compensation plan savers are contributing **\$50 or less** each month.

As of June 2014, the average MOSERS pension benefit for career state employees was **\$1,378 per month**.

The first automatic increase "event" will not occur until **after at least 1 year of employment**.

Under auto increase, the contribution difference between years 1 and 2 for an employee earning \$30,000 per year could be about **\$6.44 per paycheck**.

*(see Breaking Down the Numbers table on the next page for details)*



### Stagnant Contributions Among Participants

A voluntary automatic increase tool has been available to Plan participants since early 2013. The tool allows participants to automatically increase contributions in as little as one-tenth of one-percent (0.1%) increments. Currently less than 1% of participants utilize this feature.

### Low Contribution Rates Among Most Participants

Monthly Contribution Level	% of Active Plan Participants
\$25 or less	25%
\$35 or less	43%
\$50 or less	60%
\$100 or less	80%

See reverse side for more information

THE STATE OF MISSOURI DEFERRED COMPENSATION PLAN

# AUTOMATIC INCREASE OVERVIEW

## Account Balances by Age

Average Active Employee 457 Account Balance: \$20,218					
By Age:	0-30	31-40	41-50	51-60	61 and over
Average Balance:	\$1,166	\$7,603	\$20,030	\$29,421	\$42,896
Median Balance:	\$328	\$3,275	\$7,770	\$10,624	\$12,190



The highest **average** balance by age group (\$42,896) would only produce **\$159** a month (\$1,908 a year) in retirement income, while the highest **median** balance (\$12,190) would produce **\$45** a month (\$540 a year).

*Assumes 30 years in retirement at a 2% annual rate of return*

## Breaking Down the Numbers: Auto Increase Converted to Dollars by Salary Level

Annual Salary & Deferral Amounts Per Pay Period (semimonthly) with Auto Increase									
Year	Deferral %	\$25,000 Salary	Increase	\$30,000 Salary	Increase	\$40,000 Salary	Increase	\$50,000 Salary	Increase
1	1.0%	\$10.42	-	\$12.50	-	\$16.67	-	\$20.83	-
2	1.5%	\$15.78	\$5.36	\$18.94	\$6.44	\$25.25	\$8.58	\$31.56	\$10.73
3	2.0%	\$21.25	\$5.47	\$25.50	\$6.57	\$34.00	\$8.75	\$42.50	\$10.94
4	2.5%	\$26.83	\$5.58	\$32.20	\$6.69	\$42.93	\$8.93	\$53.66	\$11.16
5	3.0%	\$32.52	\$5.69	\$39.02	\$6.83	\$52.03	\$9.10	\$65.04	\$11.38
6	3.5%	\$38.32	\$5.80	\$45.98	\$6.96	\$61.31	\$9.28	\$76.64	\$11.60
7	4.0%	\$44.23	\$5.91	\$53.08	\$7.09	\$70.77	\$9.46	\$88.46	\$11.82
8	4.5%	\$50.26	\$6.03	\$60.31	\$7.23	\$80.41	\$9.64	\$100.51	\$12.05
9	5.0%	\$56.40	\$6.14	\$67.68	\$7.37	\$90.24	\$9.83	\$112.80	\$12.28

*Assumes 1% annual salary increases*

## Automatic Increase vs. Stagnant Contributions: Comparing Retirement Balances & Income

Starting Salary	Balance at Retirement after 25 Years			Monthly Income in Retirement for 30 Years		
	With Auto Increase	No Auto Increase	Balance Difference	With Auto Increase	No Auto Increase	Monthly Income Difference
\$25,000	\$70,349	\$18,415	\$51,934	\$260	\$68	\$192
\$30,000	\$84,419	\$22,098	\$62,321	\$312	\$82	\$230
\$40,000	\$112,559	\$29,464	\$83,095	\$416	\$109	\$307
\$50,000	\$140,698	\$36,830	\$103,868	\$520	\$136	\$384

*Assumes 7% annual return while employed, 2% annual return in retirement and 1% annual salary increases*