











CHARTING YOUR COURSE SERIES:

10 QUESTION RETIREE GUIDE

Financial planning for public sector late career employees and retirees



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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 throughout 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 towards friendships and social activities tend to be happier in retirement. Learn more about maintaining your health and volunteering opportunities at www.health.gov and 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.

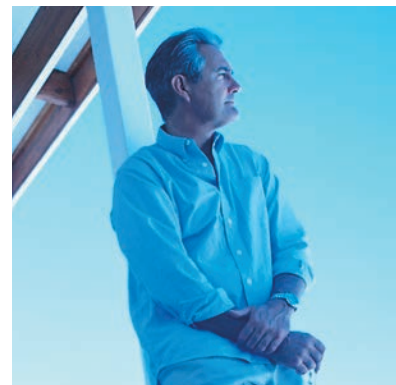
To help you visualize what you need, start with a rule of thumb — you'll spend about 80% of your final year's salary each year during retirement. You may spend more or less depending on your circumstances.

Next, build a customized spending plan based on your actual expenses, both current and future. Consider using the Cash Flow Statement (www.icmarc.org/cashflow) to help you create that plan.

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 3%, 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.

To understand how Medicare works, including the coverage decisions you have to make initially and each year, view our Medicare Checklist (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 (www.icmarc.org/rhs), which can help pay for medical expenses.



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% chance that an individual over age 65 will need long-term care at some point in their life, including a 40% 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 (www.icmarc.org/longtermcare) can help you evaluate insurance options.

For more information on long-term care, view our Long-Term Care Checklist (www.icmarc.org/ltc) and visit www.longtermcare.gov and 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 lifetime 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* (www.icmarc.org/servicecredits) to help you evaluate this decision, including other options that may be available.



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/mystatement. 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 worker 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% of your Social Security benefits may be subject to taxes, depending on your income.

To help you identify what you need to know about Social Security, view our Social Security Checklist (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 for 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. Reverse mortgages have various costs and restrictions to weigh. To learn more, visit www.reversemortgage.org.



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% 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 checklist, 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 help simplify managing your retirement investments, consider consolidating your accounts. For help in consolidating with ICMA-RC, visit www.icmarc.org/simplify or email investorservices@icmarc.org.

To learn more about tax planning for your retirement assets and income, view our Tax Planning Checklist (available at www.icmarc.org/tax) and RMD Checklist (available at 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 a safe and 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.



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.



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.

ICMA-RC has many ways to help you throughout your working *and* retirement years:

- ▶ Your ICMA-RC CERTIFIED FINANCIAL PLANNER™ and Retirement Plans Specialist can help tie all the pieces together and point you in the right direction.
- ▶ An ICMA-RC financial plan (www.icmarc.org/financialplans) provides objective, step-by-step guidance.
- ▶ Getting ready to retire? View additional online resources at www.icmarc.org/realize to assess your readiness.

CRITICAL AGES FOR RETIREMENT PLANNING

Beginning in the year you reach age 50, you may make additional “catch-up” contributions to eligible employer retirement plans and IRAs. In 2014, participants age 50 or older may contribute up to an additional:

50

- \$5,500 over the regular \$17,500 contribution limit to both a 457 deferred compensation plan and a 401(k) plan, for a total of \$23,000 to each plan.
- \$1,000 over the regular \$5,500 limit to an IRA, for a total of \$6,500.

If you are a qualified public safety employee, you may take distributions from a governmental defined benefit plan without being subject to a 10 percent penalty tax.

55

After separation from service, 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 plans¹).

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 plans¹).

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.

63½

You may retire and, through combining COBRA and Medicare/Medigap, have access to adequate health insurance throughout retirement, even if you don't have retiree health insurance through your former employer. COBRA provides continued employer group coverage for 18 months after separation (although you likely will have to pay the full cost, including the portion previously paid by your employer). You become eligible for Medicare and Medigap upon age 65.

65

You may enroll in Medicare, if eligible, and purchase Medigap insurance at standard rates. 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% 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.



ICMA-RC Resources

ICMA-RC helps public sector employees throughout their working *and* retirement years.

- ▶ Contact your ICMA-RC Retirement Plans Specialist or CERTIFIED FINANCIAL PLANNER™ to obtain personalized help. Our services are available to you throughout your retirement.
- ▶ Manage your overall finances with step-by-step guidance by completing an ICMA-RC financial plan.
- ▶ Visit www.icmarc.org/retiree for more information on what you should consider as you near and go through retirement.

visit our mobile site



Use a smartphone to scan the QR code here to link directly to our mobile site. Many smartphones come equipped to scan QR codes or offer free downloads of a QR reader (QR codes may not be readable by all devices).

Some of the products, services, or funds detailed in this publication may not be available in your plan.



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