Security Benefit Financial Essentials

SAVING AND PLANNING WORKSHOP – 403(b) PLANS

Illinois Education Association Tier 2 Members
Agenda

• Your Options for Retirement

• Why it Matters

• How to Take Action
Your Options for Retirement
Social Security

• **Overview**
  Illinois TRS members **do not pay into Social Security** during their career

• **Other Employment**
  If you have also worked for a different employer and paid into Social Security, you may be eligible for reduced benefits

• **Spousal Employment**
  You may also be able to claim reduced Social Security benefits on behalf of a spouse who paid into Social Security during their working career
Social Security

• **Windfall Elimination Provision (WEP)**
  The WEP automatically lowers Social Security benefits for most retired TRS members unless the member accumulated 30 years of “substantial earnings” in other employment — essentially holding a second full-time job while being a full-time teacher.

• **Government Pension Offset (GPO)**
  The GPO automatically reduces the benefits a TRS member could normally expect to receive from a spouse’s participation in Social Security by $\frac{2}{3}$ of the members pension.
Teachers' Retirement System of the State of Illinois (TRS)

• **Overview**
  A defined benefit pension plan for public school teachers in Illinois, outside the city of Chicago. Plan benefits are based on a formula that includes age, final average salary, and years of service.

• **Benefit Tiers**
  Members of TRS, whose first public service in Illinois was on or after January 1, 2011, are members of Tier 2. Members whose first public service was prior to January 1, 2011, are Tier 1.

• **Constitutional Protections**
  Pension benefits are protected in the Illinois Constitution and cannot be diminished or impaired.
Illinois TRS

Tier 1 Eligibility

Tier 1 members first contributed to TRS or another reciprocal pension system prior to Jan. 1, 2011.

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>62</td>
</tr>
<tr>
<td>10</td>
<td>60</td>
</tr>
<tr>
<td>20</td>
<td>55 (discounted annuity)</td>
</tr>
<tr>
<td>35</td>
<td>55*</td>
</tr>
</tbody>
</table>

* Tier 1 members with 35 years or more are eligible to receive a retirement annuity of at least 74.6% of their final average salary, if they will reach age 55 between July 1 – Dec. 31. (Members are considered to have attained age 55 on the preceding June 1.) TRS members who are currently employed by a state of Illinois agency may retire under the Rule of 85 if certain eligibility criteria is met. Contact TRS to see if you qualify - 877-9-ASK-TRS.
Illinois TRS

Tier 2 Eligibility

Tier 2 members first contributed to TRS on or after Jan. 1, 2011 and have no pre-existing creditable service with a reciprocal pension system prior to Jan. 1, 2011.

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>62*</td>
</tr>
<tr>
<td>10</td>
<td>67</td>
</tr>
</tbody>
</table>

*Tier 2 members may retire at age 62 with at least 10 years of service, but will receive retirement benefits reduced 6% for every year the member is under age 67.
Illinois TRS

Tier 2 Benefit Calculation

• **Final average salary (FAS)**
  Benefits will be based on the member’s highest average salary earned during eight consecutive of the last 10 years of service (YOS).

• **Maximum retirement benefit**
  The maximum benefit a member can receive is 75% of their FAS.

• **Capping average salary**
  In determining a FAS, no member’s salary will exceed a limit that is tied to the Consumer Price Index. Benefits will still be determined by the following formula:

\[ \text{FAS} \times 2.2\% \times \text{YOS} = \text{Annual Benefit} \]
Illinois TRS

Tier 2 Earnings Limitations

• Tier 2 members have an annual salary rate limitation specified at 40 ILCS 5/1-160(b-5), which may be adjusted on a yearly basis.

• If a Tier 2 member works a partial year, reportable creditable earnings are prorated based upon the annual salary rate limitation.

<table>
<thead>
<tr>
<th>Tier 2 Annual Earnings Limitations*</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$112,408.32</td>
<td>$113,644.91</td>
<td>$114,951.83</td>
<td>TBD</td>
</tr>
</tbody>
</table>

*Applicable only to Tier 2 members establishing membership with TRS or a reciprocal system Jan. 1, 2011.
Illinois TRS

Tier 2 Benefit Calculation Example

<table>
<thead>
<tr>
<th>Full Retirement Age</th>
<th>67</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAS</td>
<td>$64,000</td>
</tr>
<tr>
<td>Multiplier</td>
<td>2.2%</td>
</tr>
<tr>
<td>YOS</td>
<td>33 years</td>
</tr>
<tr>
<td>Estimated Monthly Benefit</td>
<td>$3,872/month</td>
</tr>
</tbody>
</table>

Source: Teachers' Retirement System of the State of Illinois
https://www.trsil.org/members/tier-ii/guide/chapter-eight-retirement-benefits
# Illinois TRS

## Will state pension be enough?

<table>
<thead>
<tr>
<th>Type of Benefit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual pension benefit</td>
<td>$57,312</td>
</tr>
</tbody>
</table>

You can't control state pension amounts.

You can't control inflation or unexpected expenses.

Illinois TRS – BRING MORE

Why BRING MORE to your retirement?

One of the advantages of being a public school teacher is that your service builds a guaranteed lifetime pension from TRS.

But you can enhance your pension if you start to BRING MORE to your retirement savings. And the earlier you start, the better off you’ll be in the future.

Don’t leave your future on autopilot.
Illinois TRS – BRING MORE

Four strategies to help you BRING MORE:

• Consult a qualified financial professional

• Avoid the “here and now” trap. Your life will change. Set realistic goals to achieve the future you desire.

• Research the options available to help you BRING MORE, such as an IRA and your 403(b) plan

• Keep in regular contact with TRS about your pension

Please visit the TRS website to read more about the BRING MORE campaign:

https://www.trsil.org/members/tier-ii/bring-more
Supplemental Savings

How can you save more?

Can’t Control
- State Pension

Can Control
- Personal Savings
  - 403(b) account
  - IRAs
  - Other savings
Supplemental Savings

Two ways to help you save for the future

**PRETAX**

Contributions are made to an account *BEFORE* income taxes are calculated

<table>
<thead>
<tr>
<th>Account</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>403(b)</td>
<td>From your paycheck</td>
</tr>
<tr>
<td>IRA</td>
<td>On your own to an individual account</td>
</tr>
</tbody>
</table>

**AFTER-TAX**

Contributions are made to an account *AFTER* income taxes are calculated

<table>
<thead>
<tr>
<th>Account</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank savings account</td>
<td>On your own to individual account AND earnings are taxable</td>
</tr>
<tr>
<td>Roth 403(b)</td>
<td>From your paycheck</td>
</tr>
<tr>
<td>Roth IRA</td>
<td>On your own to individual account</td>
</tr>
</tbody>
</table>
## Supplemental Savings

<table>
<thead>
<tr>
<th>Sample Paycheck</th>
<th>After-tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income Per Pay Period</td>
<td>$1,000</td>
</tr>
<tr>
<td>Tax-deferred Contributions (403(b)/IRA)</td>
<td>N/A</td>
</tr>
<tr>
<td>Current Taxable Salary</td>
<td>$1,000</td>
</tr>
<tr>
<td>Tax (at federal tax rate of 24%)</td>
<td>$240</td>
</tr>
<tr>
<td>Take Home Pay</td>
<td>$760</td>
</tr>
<tr>
<td>After-tax Contribution (savings account)</td>
<td>$100</td>
</tr>
<tr>
<td>Net Take Home Pay</td>
<td>$660</td>
</tr>
<tr>
<td>Tax Savings</td>
<td>$0</td>
</tr>
</tbody>
</table>

This hypothetical tax-deferred investment does not reflect deduction of any fees associated with the investment product to which contributions are directed. It is important to note that while taxes on amounts invested in tax-deferred investment are deferred until withdrawn, withdrawals are subject to ordinary income tax and, if made prior to age 59½, may be subject to a 10% IRS penalty tax. Conversely, earnings from investments that do not offer tax deferral are taxed currently, and withdrawals from such an investment are not subject to the penalty tax.

Some situations such as your personal investment horizon and income tax brackets (both current and anticipated), changes in tax rates and tax treatment of investment earnings, and lower maximum tax rates on capital gains and dividends may impact the results of this comparison. Each person’s situation is different so these and other considerations must be taken into account when making an investment decision. For illustrative purposes a tax rate of 24% has been used; however, a person’s tax rate will likely change over time.
YOUR OPTIONS FOR RETIREMENT

Pretax vs. After-tax

<table>
<thead>
<tr>
<th>Sample Paycheck</th>
<th>After-tax</th>
<th>Pretax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income Per Pay Period</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Tax-deferred Contributions (403(b)/IRA)</td>
<td>$0</td>
<td>$100</td>
</tr>
<tr>
<td>Current Taxable Salary</td>
<td>$1,000</td>
<td>$900</td>
</tr>
<tr>
<td>Tax (at federal tax rate of 24%)</td>
<td>$240</td>
<td>$216</td>
</tr>
<tr>
<td>Take Home Pay</td>
<td>$760</td>
<td>$684</td>
</tr>
<tr>
<td>After-tax Contribution (savings account)</td>
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<td>N/A</td>
</tr>
<tr>
<td>Net Take Home Pay</td>
<td>$660</td>
<td>$684</td>
</tr>
<tr>
<td>Tax Savings</td>
<td>$0</td>
<td>$24</td>
</tr>
</tbody>
</table>

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Why it Matters

The importance of saving on your own
What will retirement look like?

ON AVERAGE, WE ARE LIVING LONGER

- 1 in 2 men will live to be 90
- 1 in 2 women will live to be 92

MARRIED PEOPLE ARE LIVING EVEN LONGER

- 1 in 2 spouses will live to be 96
- 1 in 4 spouses will live to be 100

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1 Gallup Poll – Social Series: Economy and Personal Finance, April 2-11, 2018
2 Annuity 2012 mortality table published by the Society of Actuaries, Base Year 2017
Retirement expenses could look different

Annual Medical Costs  
Today’s Cost: $11,748  
In 20 Years: $31,968

New Car  
Today’s Cost: $36,270  
In 20 Years: $70,925

Annual Groceries  
Today’s Cost: $8,573  
In 20 Years: $16,764

Annual Long Term Care  
Today’s Cost: $82,128  
In 20 Years: $160,598

—

WHY IT MATTERS

8 HealthView Services’ 2018 Retirement Health Care Costs Data Report
7 USDA Food Plans: http://www.cnpp.usda.gov, September 2018. An inflation rate of 3.41% was used to calculate future grocery costs, and is derived using the historic consumer indexes.
6 USDA Food Plans, September 2018. An inflation rate of 3.41% was used to calculate future long term care costs, and is derived using the historic consumer indexes.
5 HealthView Services’ 2018 Retirement Health Care Costs Data Report
4 U.S. Department of Health & Human Services – Costs of Care, October 2017. Annual cost of semi-private room. An inflation rate of 3.41% was used to calculate future long term care costs, and is derived using the historic consumer indexes.
How much will I need?

Everyone’s retirement income needs are different, but on average, a state pension is not enough to meet expenses.

### Why It Matters

<table>
<thead>
<tr>
<th>Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income needed</td>
</tr>
</tbody>
</table>

How do you fill your income gap during retirement?
How much will I need?

403(b) accounts and IRAs can be used to:

- Help you generate retirement income; or

- Provide time for you to wait and maximize other sources of income

**WHY IT MATTERS**

How do you fill your income gap during retirement?
Saving on your own for retirement matters because it may be the only way to bridge the gap between what you have and what you need.
How much can I save?

**Time:** Your most valuable asset. If you saved just $100 per paycheck, how much might you eventually accumulate? It’s never too early – or too late – to start saving for retirement.

This illustration does not take into account the effect of any state or federal taxes. The performance of the investment, 8%, in the illustration is hypothetical and in no way relates to the actual or expected performance of any investment. The results of an investment may differ substantially. Investing involves risk and there is no guarantee of investment results. This illustration assumes $100 invested 26 times per year.
The basics of tax-deferred saving

- Tax-deferred saving is available in a 403(b), 457 or IRA
- Save pretax now, pay taxes on withdrawal at retirement
- Depending on tax brackets, it might be like getting as much as 24% extra for every dollar you save!

<table>
<thead>
<tr>
<th>Acct. type</th>
<th>Annual Limit</th>
<th>Annual “Catch-up”</th>
<th>Total</th>
<th>Potential tax savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>403(b)</td>
<td>$19,000</td>
<td>$6,000</td>
<td>$25,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>457</td>
<td>$19,000</td>
<td>$6,000</td>
<td>$25,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>IRA</td>
<td>$6,000</td>
<td>$1,000</td>
<td>$7,000</td>
<td>$1,680</td>
</tr>
</tbody>
</table>

Assumes a federal tax rate of 24%
How to Take Action
Early Career (working < 10 years)

TIME – YOUR MOST VALUABLE ASSET

• Put retirement savings first; contribute money each and every pay period

• Homes, cars and even college tuition can all be financed with loans – retirement can’t

• Payroll deferrals make it easy
  • Automatically deducted from your paycheck
  • Can easily adjust contribution amount at any time
Mid-Career (10-25 years)

ACCUMULATION PHASE

• Review your savings plan. Has it kept up with:
  • Job changes
  • Annual raises
  • Salary schedule changes

• Review your pension benefit

• Determine a strategy to take retirement income

• Adjust your portfolio risk, if necessary
Balancing Risk

- Those with more time before retirement, or more appetite for risk, may choose investments with higher returns.

- As you approach retirement, more conservative investments may help you mitigate loss.

- Remember that your account does not automatically update for you!
Late Career (Last 10 years)

BE READY FOR DISTRIBUTIONS

• Review your savings plan, pension benefit and retirement income strategy
• Adjust your portfolio risk, if necessary
• Consider an estimated retirement date
• Factor in the economic outlook
• Ensure post-retirement budget is still appropriate
When do I need to decide to take benefits?

- **55**: 403(b) and other retirement plans allow penalty-free distributions when separated from service.
- **59½**: Standard age for penalty-free withdrawals from Traditional IRA accounts.
- **65**: Qualify for Medicare.
- **70½**: Must begin taking withdrawals from tax-deferred accounts (RMD).

**Age**

- **50**: 55
- **55**: 60
- **60**: 65
- **65**: 70
- **70**: 75

- **62**: May qualify for early Social Security Benefits (may be reduced by as much as 30%).
- **67**: Full retirement age Social Security; multiple options: 1) Take benefits 2) Delay benefits until age 70.
- **70**: Delay taking Social Security Benefits until age 70; benefit may be up to 30% higher.
A checklist to get started

- Review the plan options

- Create an Account – TRS Account Access
  
  https://member.trsil.org/subsections/secureaccountaccess/security/signin.aspx

- Determine the best way for you to save for today and for retirement

- Start small – start now

- Review your plans annually
Tools available to you

**Online Calculators**
What will my pension and/or social security benefit be?

**Income Gap Report**
Are there any potential income gaps in your retirement plan?

**Paycheck Analysis Report**
Think you can’t contribute more? Have your financial professional run a paycheck analysis report. You might be surprised.

**Income and Spending Strategy**
How are you going to start taking income in retirement?
Talk to your financial professional to develop a plan.
Summary

Regardless of your career stage, you can take control of your personal financial picture.

EARLY CAREER

*Get started.* Start to save now and leverage the power of tax-deferral accounts.

MID-CAREER

*Move forward.* Understand your pension benefit and adjust your strategy now to reach your retirement goals.

LATE CAREER

*Be ready.* Develop a strategy to maximize your income to meet your ever-changing needs throughout retirement.
This presentation and other educational training workshops can be arranged to be presented for IEA members in each district.

• Designed to illustrate the value of IEA/NEA membership
• NEA Retirement Specialists will work with IEA members in each school district
• NEA Member Benefits training program consists of four modules:
  • NEA Member Benefits review
  • TRS/IMRF pension introduction
  • Review of supplementary 403(b) savings opportunities
  • Student loan consultation
To Make Arrangements for an NEA Retirement Specialist to visit your district please call:

Dave Zahller
NEA Retirement Program State Director

Dzahller@RPConsult.us
630-297-5981

SecurityBenefit.com

One Security Benefit Place
Topeka, KS 66636
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Our Mission: Since 1892, Security Benefit has believed everyone deserves an opportunity to achieve financial security. We deliver innovative retirement solutions to individuals and families across America to help them build strong futures now and for generations to come.
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