How to plan for your retirement

Retirement might seem so far away, you don’t spend a lot of time thinking about it. You’re busy enough trying to figure out how to make ends meet today. Or, retirement seems so close, you don’t want to think about it. You haven’t yet begun to plan, and you’re concerned it might be too late to do anything meaningful.

Either way, there’s good news. Planning for retirement doesn’t have to be hard and no matter when you begin, you will benefit from having a plan.

We can help you get started. Here are tips on creating a plan.

**How much money will you need to retire?**

Your pension will be an important part of your income in retirement, but it’s just one component. The amount of money you’ll need can vary significantly, based on factors that include:

- The retirement lifestyle you’ll want to lead;
- Your health;
- Whether you’ll carry any debt into retirement;
- Your life expectancy; and
- Other sources of income you’ll have.

**How much money will you have when you retire?**

You’ll need solid information and good tools to help determine how on track you are.

- The DRS Web site (www.drs.wa.gov) offers a benefit estimator that will help you determine what your pension benefit will be under a variety of different scenarios (for example, different retirement dates), using your actual account data. Just choose “log in to my defined benefit account” from the Account Access menu on our home page. If you haven’t already registered for this service, it takes just a couple of steps to do so.
- The Plan 3 section of the site (www2.icmarc.org/xp/plan3) contains a life expectancy calculator and one that helps you calculate your retirement savings. If you’re a Plan 3 member, you can also access your account data by selecting “log in to my Plan 3” from the Account Access menu.
- The Deferred Compensation Program (DCP) site (www.drs.wa.gov/dcp) offers an online calculator that shows your savings growth over time with DCP and how different rates of contribution affect your paycheck. Another calculator helps you see how long your savings could last in retirement.

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- The Choose to Save Web site (choosetosave.org), sponsored by the Employee Benefits Research Institute, contains several tools, including a Test Your Savings Knowledge quiz and a Ballpark E$timate® that assists with estimating the money you’ll have in retirement, including projected Social Security benefits.

If there’s a gap between what you’ll need and what you’ll have…
That’s where your plan comes in. Be sure to keep it flexible enough to adjust for changes in both your professional and personal life. Your plan might include:

- **Identifying your retirement lifestyle goals.** Will you want to travel the world or stay close to home? Different life choices can mean different financial goals.

- **Taking care of your health.** The cost of medical care can be one of the largest expenses you incur in retirement. Getting regular checkups now, eating right and exercising can have a big impact on what those costs will be when you retire.

- **Paying down debt.** Carrying debt lessens the money you have available to save. Paying off your debt while you are still generating a paycheck will not only allow you to save more, but also give you more flexibility in retirement.

- **Signing up for DCP or another similar savings vehicle.** You can get started with DCP by deferring as little as $30 a month from your paycheck or as much as $1,375 a month in 2009. *Here’s an important tip:* If you’re age 50 or over, the IRS allows you to save even more.

- **Or…increasing your contribution to DCP or another savings vehicle.** Making even a small adjustment in the amount you save each month can have a big impact over the long run. Use the calculator on the DCP Web site to see the impact of different contribution amounts.

**When your retirement is in sight**
If you are within five years of retirement, be sure to sign up for one of our free informational seminars, which are held throughout the state.

If you are within two years of retirement, contact us for a written estimate of your benefits. We will review your account in detail and verify your service credit, compensation and contributions before creating the estimate and sending it to you. Our online retirement planning checklist will help you keep track of what you need to do in the two year period before you retire.

**Each goal you set – and each step you take – makes a difference**
You’ve already taken an important step by reading this article and considering the information. Next, check out the tools we’ve referenced here and the many others available to you through the Internet or other sources. Use that information to develop your personal plan for retirement.

Then put your plan into action. You may be surprised how much easier it becomes to think about retirement.

**Why is a DRS seminar one of the hottest tickets in town?**
At one of our free seminars, you’ll learn what you need to do to prepare for retirement and you’ll hear from representatives of the Social Security Administration, Public Employees Benefits Board and VEBA (a medical expense reimbursement plan).

Register at: www.drs.wa.gov/member/retirementplanning/workshop.htm or call us at 1-888-711-6676 (360-664-7300 in the Olympia area).
Focusing on the future during a volatile market

If you're a Plan 1 or Plan 2 member, recent market fluctuations do not affect your pension benefit, which is based on your compensation and years of service.

Market ups and downs may affect the defined contribution portion (your contributions, which you've directed to specific investments) of your Plan 3 or Judicial Retirement Account benefit. Market volatility may also affect your Deferred Compensation Program account or other investments.

It's important to remember that you're investing for the long term. To avoid emotional investing, changes should be made using a thoughtful, deliberate strategy.

How contribution rates are determined

When you retire, the monthly benefit you receive will have been funded over time by your contributions, your employer's contributions and investment returns.*

The goal is to fund the pension plans at 100 percent, which means the last dollar of assets would be expected to match the last dollar of benefits paid to the last member or beneficiary.

Each year the state actuary studies the financial condition of the plans to determine their overall health and status. Every five years, the actuary studies the experience of the plans. The actuary uses math, statistics and financial theory to analyze the probability of events that could affect the plans in the future (including inflation, salary increases, the rates of retirement and disability, and the expected life span of members) and develop assumptions about them.

The actuary uses those assumptions to make recommendations that include increasing or decreasing the contribution rates or leaving them at the existing level. Historically, contribution rates have fluctuated. For example, in 1977 the PERS Plan 2 member rate was 5.51 percent, but in 2000 it went as low as 1.54 percent. On average, the PERS 2 member rate has been about five percent.

The Pension Funding Council evaluates the actuary's assumptions and recommendations and in turn makes a recommendation to the state Legislature (for all plans except LEOFF Plan 2). Earlier this year, the council voted to adopt the contribution rates recommended by the actuary. The Legislature will make the final determination on adopting any changes to the rates.

For LEOFF Plan 2, the actuary presents assumptions and recommendations to the LEOFF Plan 2 Board, which evaluates them and makes decisions on contribution rates.

If you would like more information on plan funding and contributions, visit the state actuary's Web site at http://osa.leg.wa.gov.

*There are two exceptions. One is Plan 3, where your employer's contributions fund the defined (guaranteed) benefit you receive and your contributions provide a defined contribution benefit. The second is LEOFF Plan 2, which also includes state contributions.

New early retirement provisions now in place

New provisions for early retirement became effective this summer for PERS, TRS and SERS Plan 2 and 3 members who are at least age 55 and have 30 or more years of service.

These new provisions carry a smaller benefit reduction for retiring early, but it’s important to remember that if you return to work for a public employer, your pension benefit will stop until you leave employment or turn 65.

For more information, contact us or read the brochure Thinking About Retiring Early? (available on our Web site under “publications”).
January brings the opportunity for change

TRS Plan 3 members can change their contribution rate
If you’re a TRS Plan 3 member, you have the opportunity once a year – between January 1 and January 31 – to change your contribution rate. If you decide to do so, you’ll find the TRS Plan 3 Contribution Rate Change form on the Plan 3 site, under publications and forms. Complete the form and submit it to your employer by January 31.

Eligible Plan 2 members can transfer to Plan 3
The following members are eligible to transfer to Plan 3 during the January window:

• PERS Plan 2 state or higher education employees who established membership before March 1, 2002;
• PERS Plan 2 local government employees who established membership before September 1, 2002; and
• SERS and TRS Plan 2 members hired before July 1, 2007.

To transfer, complete a Member Information form and turn it in to your employer between January 1 and January 31. Remember, the decision to join Plan 3 cannot be changed at a later date.

Are you a PERS member who formerly served as a judge?
House Bill 2887, passed by the 2008 Legislature, allows a PERS member who previously served as a judge to purchase a higher benefit multiplier for that past service. The benefit multiplier is a factor in the formula that is used to calculate your pension benefit. A higher multiplier may increase your benefit.

To learn more, please read the frequently asked questions on our Web site or call a PERS Judicial Benefit Team analyst at (360) 664-7966 or 1-800-547-6657. You can also reach us by e-mail at recep@drs.wa.gov.

DRS unveils new investment options
While life may not always be simple, investing in it can be. DRS and the Washington State Investment Board recently unveiled new investment options – Retirement Strategy Funds – specifically designed for those who don’t have the time or the desire to build and monitor a diversified investment portfolio.

Each of the funds offers an investment mix that automatically adjusts as you move closer to your target date for retiring or withdrawing your funds. All you need to do is select the fund with the year that most closely corresponds to your target date (for example, the 2020 Retirement Strategy or the 2030 Retirement Strategy).

The new investment options are available to Deferred Compensation Program participants, as well as Plan 3 and Judicial Retirement Account members. You can find more information on our Web site.