PERS and Retirement Overview

Presented by Frank Goulard, 2006 (rev 5/8/06)
Purpose: provide information and educate in order for *you* to better plan *your* future retirement years

1) **Employee Categories**: Tier 1-- hired before 1/1/1996
Tier 2-- hired from 1/1/1996 thru 8/28/2003
OPSRP ("Tier 3")-- hired since 8/29/2003

Recent court cases' results had the following impacts:

- Tier 1 regular accounts in 1999 changed to 11.33% (instead of 20%), 2003 changed to be 8% (instead of 0%). Those changes are reflected in your PERS 2004 annual statement which you received in January 2006.
- Each year, starting in 2003, Tier 1 regular account earns 8%, no more no less.
- No 6% employee contribution to Tier 1 or Tier 2 accounts after 12/31/2003. For all employee categories, this 6% contribution now goes to your IAP, starting 1/1/2004. Tier 1 and Tier 2's existing regular and variable accounts will continue to change with each year's credited investment returns.

RESOURCES:

PERS Oregon www.oregon.gov/PERS, including benefit estimate calculator
Social Security www.ssa.gov, including benefit estimate calculator

www.aarp.org
www.retireplan.about.com
www.hsainsider.com
www.clarkhoward.com
www.bankrate.com
www.fincalc.com
www.retirementliving.com
www.thirdage.com/money
www.fireseeker.com
www.stretcher.com
www.irahelp.com

"Order and simplification are the first steps toward the mastery of a subject."
-Thomas Mann

2) **Retirement Benefit and its calculation:**
A plus B is your benefit from working for a PERS-covered employer;
C is your USA Social Security benefit.

A. Tier 1 and 2, receive the highest of:

- Money Match Method: actuarial factor(“AEF”) * account balance * 2
- Formula Method: yrs of service* Final Average Salary (“FAS”)* .0167
  For unreduced benefits: Tier 1, 58 yrs of age and Tier 2, 60 yrs of age or 30 yrs of service. Otherwise, 8% reduction/yr for early retirement.
- Formula plus Annuity Method, Tier 1 only, if hired before 8/21/1981:
  (yrs of service * FAS* .01) + (account balance * AEF)

(Additional minor adjustments for pre-1991 state income tax remedy, waiting time purchase, variable account employer match in money match method)
(Payout choice of all annuity, lumpsum with annuity, or double lumpsum; and annuity option 1, 2, 2A, 3, 3A) www.oregon.gov/PERS

OPSRP (“Tier 3”):

- Formula Method: yrs of service * FAS* .015
  For unreduced benefits: 65 yrs of age, or age 58 w/ 30 yrs of service.

(Fewer payout choices: all annuity, with full and half survivor options)

Summary of A above:	**Tier 1**	**Tier 2**	**OPSRP (“Tier 3”)**
	Formula	Formula	Formula
	Money Match	Money Match	
	Formula+Annuity		

B. IAP for Tier 1, 2, and OPSRP employees, which is in addition to A above:

- Distributed to members upon retirement in a lumpsum, OR, monthly, quarterly, or annually over a 5-, 10-, 15-, or 20-yr period.
  eg: $36K salary in 2004, 3%ann cola, 3%ann step first 10yrs, 8% rate; then IAP acct balance ~ $14K(5yrs), 40K(10yrs), 80K(15yrs), 143K(20yrs), 239K(25yrs), 385K(30yrs).

C. Social Security www.ssa.gov

- Early retirement as early as 62 vs. full retirement age (66 for those born 1943-1954) vs. delaying to age 70: reduction of 5 - 6.67%/yr for early retirement and increase of 8%/yr to delay.
- Benefits reduction between age 62 and full retirement age if wages are above $12,480/yr2006. No reduction beginning month of full ret age.
- 50% of benefit is taxable if joint adjusted gross income is $32,000 to $44,000; up to 85% is taxable if joint AGI is above $44,000.
- Medicare begins at age 65, Part A hospital insurance included. Part B doctor, outpatient, etc is addnl $88/mo premium. Can also buy optional Medigap/Supplemental policy. Part D Rx $32/mo premium.

3) **When and how should I retire?**

-Considerations

- Health Insurance & Expenses (premium, out of pocket cost, Rx)
- Housing Expense
- Children or others who are dependent on you
- Other major expenses both foreseen and unforeseen: next home, home repairs, transport (car, boat, plane, etc), travel/vacations, hobbies.

-Develop a retirement budget of 8 expense categories, for future years & dollars:

*Health	*Housing
*Food	*Apparel & Services
*Transportation	*Entertainment
*Reading & Education	*Income Taxes, federal and state

-Retirement Income: “the three-legged stool” of PERS pension, Social Security (www.ssa.gov), and Other Investments (qualified accounts such as IRA, 401k, 403b-TSA, 457, and nonqualified accounts).

-Spreadsheet assets, income, and total expenses from present to future years. Itemize your last two calendar years of expenses for future budgeting purposes. Take into account future inflation and other changes. Include a proper annual withdrawal percentage in retirement years, e.g. up to 4%.

TO DO: Personalize this to *your* situation & goals. Be active & fit in all realms. Create a 3-page document with income/assets vs expenses, and any notes:
page 1: your current monthly budget with categories,
page 2: end of year annual columns for remaining fulltime working years,
page 3: end of year annual columns for retirement years with projections.
This 3-page document will help you keep a focused financial map and goal.

ASSETS	End of 2005	End of 2006-retire	**ASSETS**	2007	2008
PERS Tier1/2, Account balance x 2			PERS –ee lumpsum		
IAP			IAP		
403b,457,IRAs			403b,457,IRAs		
Nonqualified accts/savings			Nonqualified accts/savings		
Home equity			Home equity		
Assets TOTAL			**Assets TOTAL**		
			PERS –er annuity		
			Early ret, soc security		
			Work		
			Income TOTAL		
			8 expense categories		
			Expense TOTAL		