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Retirement Savings Education, Simplified

First Quarter 2017

All About Deferrals

What is a contribution or deferral?

In everyday, deferred comp terms, a **deferral** or **contribution** is an amount of money you set aside towards your retirement within a designated retirement savings account, such as a 457(b), 401(k), or 403(b). Contributions into the deferred comp plan can come in the form of a monthly deposit from a state of Missouri employee's paycheck or a rollover from another retirement account. It's important to remember that all the contributions an employee saves within MO Deferred Comp are always 100% owned by the employee.

con·tri·bu·tion

(/ˌkäntrəˈbyo͞oSH(ə)n/): a gift or payment to a common fund or collection

de·fer·ral

(/dəˈfərəl/): a prepayment of an expense or revenues

Percent-of-Pay Contributions

Why are percent deferrals so great? The answer is simple: **Percent-of-pay contributions are an automatic, hassle-free way for a saver to maintain their savings strategy as their career evolves with the state.** Plus, saving with percent-based contributions has many advantages over traditional dollar deferrals. Keep in mind, percent-of-pay deferrals can be made at a minimum of 1% and adjustments can be made in as little as 0.1% increments. Here are deferred comp's top two reasons you should save with percent-based contributions:

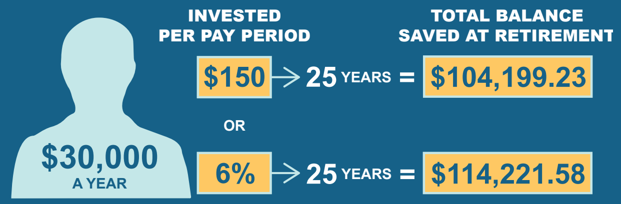
1. **Percent-based deferrals allow savers to take advantage of the plan's auto increase tool.** Auto increase is a voluntary feature that will routinely adjust a saver's percentage-based contribution (in as little as 0.1% increments) on an anniversary date he or she chooses. This tool allows plan participants to grow their savings contributions each year without significantly affecting their take home pay and requires minimal work upfront.

2. **Percent-of-pay contributions allow deferrals to deferred comp to evolve with an employee's career.** This means if an employee's salary changes – due to a promotion or job change, for instance – so will the participant's retirement savings contribution.

For example, if you earn $1,000 each paycheck and contribute 2.5% of your pay to the deferred compensation plan, that's the same as saving $25 with each paycheck. If a saver's pay increases to $1,500 each paycheck, his or her new contribution would automatically change to $37.50 per pay period ensuring that deferrals stay aligned with his or her savings goal.

Need more convincing?

Consider this, if an employee who began employment earning $30,000 a year invested a flat-dollar amount of $150 a month (or $75 every semi-monthly pay period) for 25 years, he or she would have saved $104,199.23 at the end of his or her career. However, if the employee invested 6% (the same starting amount in percent form) instead of the flat-dollar amount, he or she would have a balance of $114,222. That's over a $10,000 retirement savings difference with only a maximum $20.23 increase in contributions over the course of the employee's career.

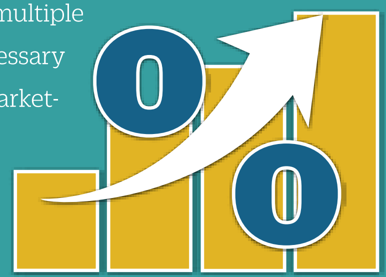


To further explain, take a look at the **Percent-of-Pay vs. Dollar Deferral** comparison chart below.

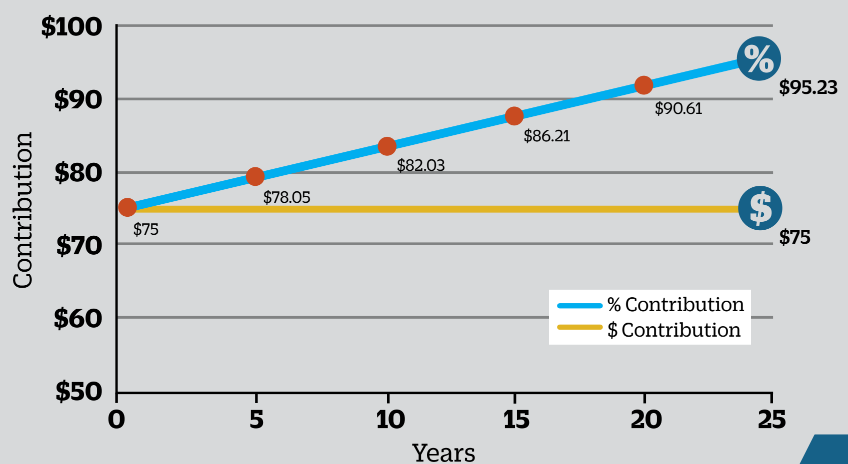
Increasing Your Deferral

Why is it crucial to your savings?

Recent studies show that retirement savers, like yourself, will need to significantly increase your deferred comp contributions if you want to maintain a similar or comfortable lifestyle in retirement. According to the experts, there are multiple factors that are to blame for the necessary future deferral increase, such as a market-wide expected low investment returns, lower income during your career and in retirement, increasing life expectancy, and rising daily expenses. With all of these components possibly coming into play in the near future, state of Missouri employees need to start thinking about their future retirement now. Creating a savings plan, that includes routine contribution increases, can ultimately help you reach your retirement savings goal in the future.



Percent-of-Pay vs. Dollar Deferral Increase Per Pay Period



*Assumes at 6% rate of return and a 1% salary increase per year.

Need help getting started?

If you need help, MO Deferred Comp education specialists are located around the state for one-on-one consultations, seminars, or even a quick phone call to discuss your savings strategy. Unlike most financial advisors, education specialists do **NOT** earn commissions on the money you contribute to the deferred comp plan or the investment options you choose, making them a trusted source of valuable benefit information.

Change Your Contribution

1. Log on to **Account Access** by visiting modeferredcomp.org or through the ESS Portal.
2. In the menu, click the **Access My Accounts** option.
3. Choose **Contributions** in the left-hand menu.
4. Click the **Change My Contribution Amount** button at the top of the page.
5. Type in your contribution percentage.
   Use the handy ***Dollar to Percent calculator*** within **Account Access** or on modeferredcomp.org to convert your preferred dollar deferral into a percentage.
6. Click the **Next** button and follow the prompts.

2017 IRS Contribution Limits

Contribution Limit Requirements	Per Requirement	Yearly Total
Maximum Annual Deferral - Under Age 50	$18,000	$18,000
Age 50 and Over Catch-up Provision Limit	$6,000	$24,000
Pre-Retirement Catch-up Provision Limit	$18,000	$36,000

mo deferred comp

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