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SIMPLY PUT

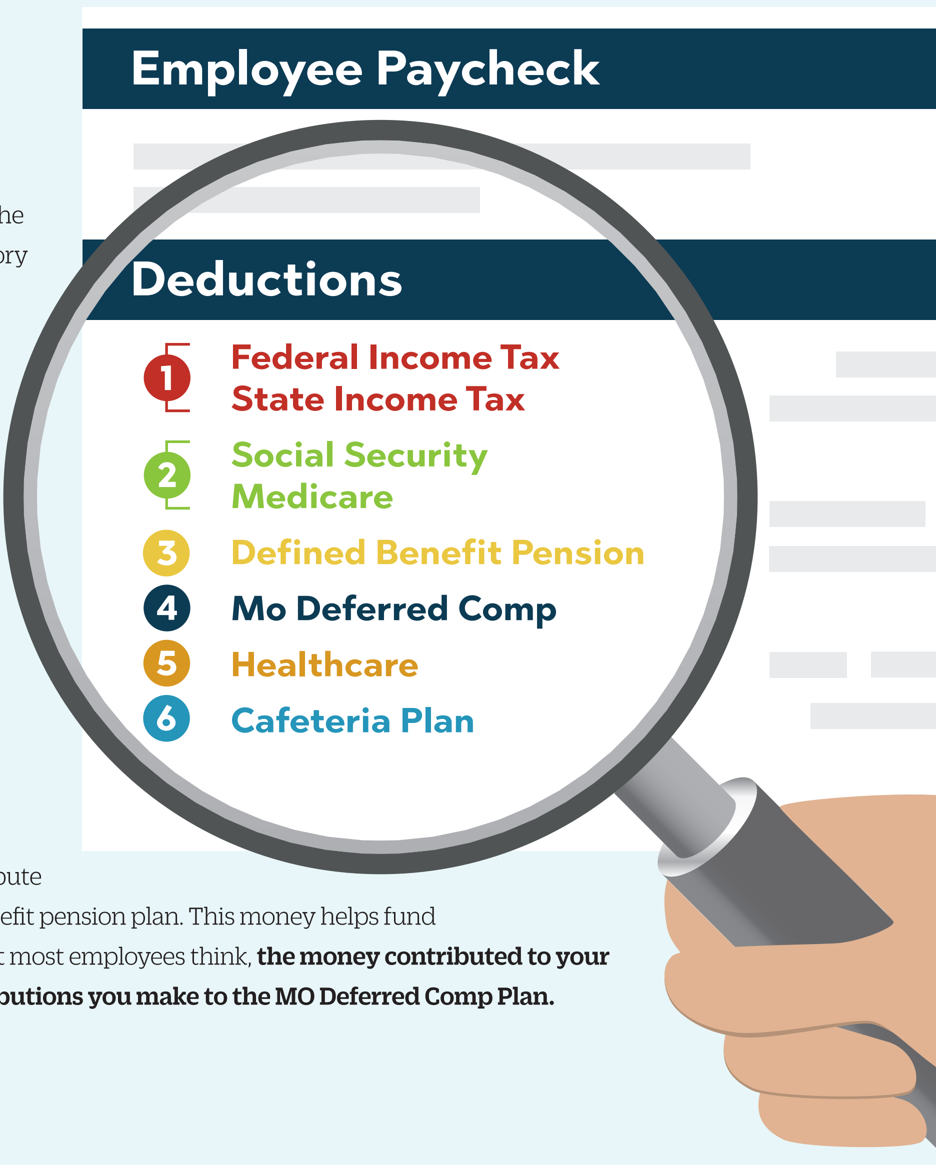
Retirement Savings Education, Simplified

Fourth Quarter 2017

Understanding Your Paycheck

Getting your paycheck is something to look forward to, however it can be a little disappointing once you realize how much money isn't making it to your bank account. So where are all your hard-earned dollars going? The answers can be found on your pay stub. This short electronic document contains information regarding your taxes, insurance, retirement savings, and much more. By taking a closer look at this detailed document and truly understanding where your money is going, you can stay on top of your finances and make the most of your paycheck.

While paycheck deductions vary from person to person, a few withholdings remain the same for all employees. Let's break down a typical state of Missouri paycheck:



1 Federal & State Income Tax

The number of exemptions claimed on your W-4 determines your income tax. Your employer is required to deduct this designated amount from each paycheck to cover your taxes at the end of the year. Federal and state income taxes are mandatory withholdings in Missouri.

2 Social Security & Medicare

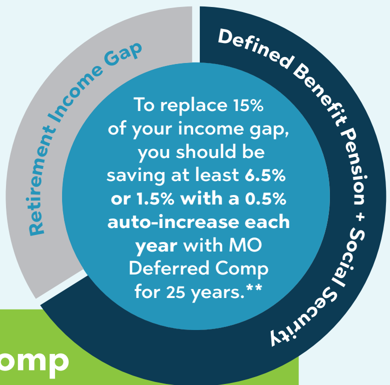
The Federal Insurance Contributions Act (FICA) requires the federal government to withhold 6.2% for social security and 1.45% for Medicare from each paycheck. This money funds the social security and Medicare systems and is designed to help supplement your pension and deferred comp savings in retirement.

3 Defined Benefit Pension

If you were hired after January 1, 2011, you contribute 4% of pay to your MOSERS or MPERS defined benefit pension plan. This money helps fund your pension annuity in retirement. Despite what most employees think, **the money contributed to your retirement plan has nothing to do with contributions you make to the MO Deferred Comp Plan.**

4 MO Deferred Comp Savings

MO Deferred Comp is the state-sponsored retirement savings plan and designed to help you supplement your pension and social security in retirement. While it is a voluntary plan, the money you save with deferred comp is an essential part of your retirement income. For example, the average 25-year employee can replace roughly 70% of their pre-retirement income with their MOSERS or MPERS defined benefit pension,* which leaves 30% of their pre-retirement income unfunded in retirement! To replace only 15% of that retirement income gap, an employee would need to **save at least 6.5% or 1.5% with 0.5% annual auto-increases over 25 years.**** In order to completely replace 100% of their pre-retirement income, the employee would need to save at least 13% per pay period.** Use the deferred comp ***RetiremenTrack Calculator*** to calculate your retirement needs and see if you're on track.



Saving with MO Deferred Comp

You can elect to contribute a percentage of your pay each pay period. Contributions can be made at a minimum of 1% and adjustments can be made in as little as 0.1% increments. You may save up to 100% of your paycheck, not to exceed the annual maximum set by the IRS.

2018 Contribution Limits

Maximum Annual Deferral – under age 50	$18,500
Age 50 and Over Catch-up Provision Limit	$6,000 ($24,500 total)
Pre-Retirement Catch-up Provision Limit	$18,500 ($37,000 total)

Contributions to deferred comp can be made on a pre-tax and/or after-tax (Roth) basis. **Pre-tax 457 contributions are made before taxes are deducted from your paycheck.** Your savings in the pre-tax 457 account, and any investment earnings on those assets, will grow tax-free until funds are withdrawn. **Roth 457 contributions are made after taxes are deducted from your paycheck.** Any savings in this account can be withdrawn tax-free (also known as a qualified distribution) if you are 59 ½ (disabled or deceased) **and** 5 years have passed since January 1 of the year of your first Roth contribution (including rollovers).

To enroll in the plan or to change your current contribution, log on to **Account Access** by visiting modeferredcomp.org or through the **ESS Portal**.

5 Healthcare

The state of Missouri offers medical, vision, and dental insurance to state employees. Your employer will withhold the appropriate amount depending on which options and plans you chose. Luckily, as a state employee, you only pay a portion of the healthcare costs and your employer picks up the rest.

6 Cafeteria Plan

A cafeteria plan, like MO Café, allows you to save money pre-tax on health and dependent care expenses that you expect to incur each year.

Gross vs. Net Pay

Your *gross pay* is the amount you receive before any deductions have been taken out, while your *net pay* is the amount that shows up in your bank account. For example, Diana has a yearly salary of $37,000 and is paid every two weeks or 26 times a year. Each pay period her *gross pay* would be $1,423.08 ($37,000 divided by 26). After all the withholdings – taxes, healthcare, etc. – are taken out of Diana's paycheck, she is left with her *net pay* or take home pay.

When deciding on how much you will need to save for retirement, you should be basing your calculations off your gross pay. Your daily budget should be based on your net pay.

Where can you find your pay stub?

For most state employees, pay stubs can be found by logging in to the **ESS Portal** and clicking **View pay check details.** You can always contact your payroll or HR department for more information on where you to find your pay stubs.

mo deferred comp™

Learn more at
www.modeferredcomp.org

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* *Assumes normal retirement and a single life annuity from MOSERS or MPERS defined benefit pension plan. Social security is an average estimate; replacement income will vary based on when you choose to receive social security benefits and its ability to pay 100% of scheduled benefits. For a more accurate social security calculation, visit www.ssa.gov.*

** *Assumes 6% return and 1.5% average annual salary increases while employed and a 4% return, 2% inflation and 25 years in retirement. Annual contribution limits will apply.*