mo deferred comp | Retirement Savings Education, Simplified | Third Quarter 2022

SIMPLY PUT

Measure twice. Retire once.

Have you heard the saying, "*measure twice, cut once*"? It's commonly used in the construction industry, but the phrase can be applied to many areas of life, especially retirement planning.

When it comes to retirement, we've seen too many state of Missouri employees make a cut without measuring and end up back to work because they were not financially prepared. Creating a retirement savings plan, understanding your budget and future income sources, using the correct tools, and taking advantage of free financial education from professionals are steps you should take throughout your career to ensure you "measure twice, retire once." In this newsletter and during National Retirement Security Month in October, we will outline what you can do during your working career to be financially prepared for retirement.

Take Inventory

If you're like most state employees, your income in retirement will come from three places, your:

1. defined benefit pension from MOSERS or MPERS,
2. social security, and
3. personal retirement savings.

Your pension and social security benefits are calculated by a formula. For example, your pension is calculated by taking your Final Average Pay[1] x your Years of Service x a Multiplier percentage that is set by state law. Social security, on the other hand, is calculated differently. You can use the calculators at **ssa.gov** to estimate your social security income. Remember, the best and most accurate way to determine your future retirement income is to get a personalized estimate from each source. Your numbers may change over time but having a base estimate can help give you an idea of how financially prepared you'll be in the future, and help you make educated financial decisions. You may find that your future income in retirement won't be enough to support the retirement you envision, and that you need to be saving more each paycheck. The financial decisions you make now will have a huge impact on your future retirement.

[1] *Average highest consecutive 36 months of pay while working.*

A retirement savings plan serves as a blueprint to help you build a savings balance large enough to live comfortably in retirement.

PLANNING AHEAD

Knowing how much you need each month from deferred comp can help you set a retirement savings goal. Use the table below to help get you started.

Extra Monthly Income Needed *in Retirement*	Savings Balance Needed[2] *at Retirement*
$100	$23,700
$250	$59,249
$500	$118,498
$1,000	$236,996
$1,500	$355,494
$2,000	$473,992

[2] *Assumes 25 years in retirement, 4% annual return and 2% annual inflation.*

Your retirement income gap is the difference between the income you'll need during retirement and the income you'll receive from your guaranteed income sources (social security & defined benefit pension).

Design Your Retirement Savings Blueprint

Your retirement savings plan, aka blueprint, should be the foundation for making all financial decisions both now and in the future. Your retirement savings plan can be as simple or complex as you want to make it. The key thing to look at is your future cash flow (the money in and the money out) and then determine what you need to save and invest throughout your career to fill the income gap.

Here are a few things to consider when creating your retirement savings plan:

- How much you spend each month on regular and emergency expenses and how that may change in retirement
- How much guaranteed monthly income you will receive from social security and your defined benefit pension from MOSERS or MPERS
- Ongoing inflation & market volatility
- Your spouse's or significant other's income
- Future healthcare costs

Outsource the Work

Just like building a house, you and your contractor are probably not going to do all the work yourselves. Instead, you may outsource some of the tasks. The MO Deferred Comp Plan has several tools that allow you to *outsource the work* and focus on what's most important to you. The Auto Increase Tool, percent-of-pay contributions, and target date investment funds can help take the work out of saving for retirement.

- The **Automatic Increase Tool** automatically increases your retirement savings contributions each year by an amount of your choice. It allows you to build a better retirement savings balance without the hassle and stress of constantly reevaluating your savings strategy.
- **Percent-of-pay contributions** automatically adjust when you receive pay increases and promotions, while flat dollar contributions do not. It's hands-down a better way to save and can help you accumulate more money for retirement.
- **Target date funds** automatically rebalance to become more conservative up to - and through - a target retirement date. This means you could stay in one fund your entire career, taking the guesswork out of choosing an investment option.

Measure Twice

Throughout your career, things in your life will change, including your finances. It's important to regularly check your retirement savings strategy and make sure you don't cut your income short in the future. Think about it this way. If you're building a shelf and cut a board too short, you would have two obvious options: start over from scratch or make your shelf smaller. Neither option is ideal, and both options will take time and more work on your part. If you had measured twice before making a cut, you could have avoided the mistake. The same goes for your income in retirement. If you measure twice or three or four times, throughout your career, you can avoid an unmanageable income gap in retirement.

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