MAINE START

Saving Today to Afford Retirement Tomorrow

A MainePERS Program

MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

APRIL 2019

Why Save?

While many of us talk about retirement, the truth is that too many of us don't do enough to plan for our retirement. It may seem like a long way off, but retirement is much closer than you think. The sooner you start saving for it, the more comfortable and secure you'll be when it does arrive.

Retirement planners agree that in order to enjoy the same lifestyle in retirement that you do now, you will need 70-90 percent of your pre-retirement income. It's really never too late to START, or, as the saying goes, "better late than never."

PREPARE FOR YOUR RETIREMENT

- Define your long-term goals.
- Decide when you want to retire.

Introducing MaineSTART

Public employees in Maine have long relied on the Retirement System for meeting their retirement income needs. While the MainePERS defined benefit pension plans are the foundation for financial security in retirement, most public employees will need to supplement their pension benefits with retirement savings--a goal best achieved through a systematic, tax-deferred plan like MaineSTART.

MaineSTART consists of two types of retirement savings plans:

- ✓ **457 Deferred Compensation Plan**
- ✓ **401(a) Defined Contribution Plan**

Although there are differences, both plans work similarly to provide you with a tax-deferred retirement savings program. Both plans offer the same investment options.

Assess your current financial situation

Once you have an idea of what you want for the future, take a good look at your current financial situation. Are you investing in the future now? Saving even a few dollars each week or month will allow your retirement savings to grow over time--and keep you moving closer to a comfortable retirement.

STARTing Early

All financial planning experts agree that the sooner you START saving, the more you'll benefit from tax-deferred compounding. Consider the example of three savers who set aside $4,000 each year. At age 60, the early STARTer can expect to have a substantial edge on the later ones, as shown below:

Age	Amount	Balance at Age 60
25	$ 4,000/year	$ 744,409
30	$ 4,000/year	$ 489,383
35	$ 4,000/year	$ 315,818

Two Key Decisions

When saving for retirement, you face two key decisions:

- ✓ **how much to save**
- ✓ **where to invest**

Retirement Saving Strategies

Traditionally, retirees relied on income from three sources:

- a defined benefit pension plan,
- Social Security, and
- personal savings.

Today, Americans are living longer than ever. With rising medical and housing costs, many retirees worry about maintaining their standard of living as they grow older. The truth is that more than ever, personal savings are the key to a secure and comfortable retirement.

The MainePERS Defined Benefit Plan - the first step to building a solid retirement

One useful way to look at your DB plan benefit is to consider it as the source to cover your basic necessities of living in retirement.

A Defined Benefit (DB) pension plan guarantees you a fixed retirement income for life, based on your years of service, level of compensation, and the age at which you retire.

EXAMPLE:

Joe earns $33,000, $34,000 and $35,000 during his highest salaried three years of his 25-year career as a public worker.

1. AFC Calculation:

33,000 **+** 34,000 **+** 35,000 **=** 102,000 **÷** 3 years **=** 34,000 AFC

2. Benefit Calculation:

AFC (34,000) **x** Years of Service Credit (25) **x** Accrual Rate (2%)

= $17,000 Annual Service Retirement Benefit ($1,417 monthly)

Social Security - Social Security was never meant to be the only source of income for retired Americans. At best, Social Security replaces about 40 percent of an average wage earner's income after retiring. For some workers covered by the MainePERS DB Plan, the Social Security Administration will reduce any Social Security benefit by certain offsets applied under federal law. For younger workers, the available benefits that Social Security will offer when they retire may be different.

Personal savings - The bottom line is that, whatever stage of your career you are in or how far you are from retiring, if you want to retire with a lifestyle that affords more than basic life necessities, you must come up with more of your own retirement income.

The good news is, plans like MaineSTART allow you to save for retirement and enjoy immediate savings with the pre-tax nature of plan contributions; every dollar you put into the plan reduces your taxable income by that same dollar.

The Advantages of Pre-Tax Savings - Getting Uncle Sam on Your Side!

	After-Tax Account	MaineSTART Pre-Tax Account
Annual Income	$40,000	$40,000
Plan Contribution (pre-tax savings)	$0	$4,000
Federal Income Tax	$6,810	$5,810
Maine Income Tax	$2,167	$1,835
Other Deductions (Social Security/Medicare)	$3,061	$3,061
After-tax Investment	$4,000	$0
Take-home Pay	**$23,962**	**$25,294**

Why save with MaineSTART?

We are a trusted provider and we've done the research to design a program to make saving simple, effective, and affordable.

✓Low-cost funds

✓A mix of investment choices

✓Solid performance

The Right Choices

For most savers, the greatest opportunity for long-term returns comes from investing in stocks, and the greatest stability comes from investments in bonds and money-market funds. Finding the right mix depends on when you want the money to be available - your time horizon - and your ability to tolerate risk. Maintaining the right mix, or "asset allocation," means reviewing your circumstances every so often, and rebalancing your investments to return to the "right" allocation.

Target Retirement Date Funds

For savers who want professional investment managers making the asset allocation decisions for them, MaineSTART offers a selection of "lifecycle," or "target retirement date" mutual funds. These funds base your investment allocation on a retirement date of your choice. After you select the Target Retirement Date fund, a professional money manager chooses an asset allocation that assumes greater risk in the early years, changing the allocation over time to reduce risk as your target retirement date nears.

Balanced Option Funds

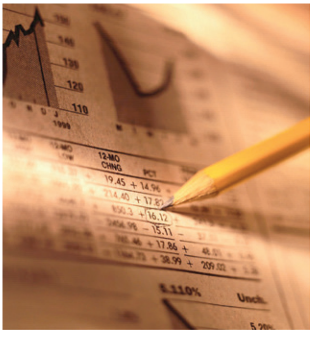
For savers who want professional management, but want to have a fixed asset allocation, MaineSTART offers a Balanced Option Fund. A balanced fund is a fairly stable mix of stocks and bonds, and may be appropriate for those with slightly higher risk tolerances. The risk level of this fund doesn't change as you near retirement.

Market Index Funds

Finally, for savers who want more control of their asset allocation, MaineSTART offers an array of broad Market Index Funds. These funds still help you with the allocation process by greatly simplifying it. The key decision is how much you want to invest in each type of asset. By using broad market funds, you have diversification within each asset type, an important quality for any portfolio. This option is most appropriate for those well versed in finance and portfolio construction.

The MaineSTART Cost Advantage

There is no "free lunch." The high, and often hidden, fees charged by many mutual fund managers can impose a heavy drag on investment results. Some funds offered in the market today charge fees well in excess of 1% of your investment. Also, investment management fees, transaction fees, administration fees, marketing fees, and other fees will drive up costs and reduce your return. Minimizing cost is an important part of improving investment results.



MainePERS offers index funds from a highly regarded nonprofit fund management company. These funds are among the lowest cost in the industry. There are no upfront sales charges or back-end redemption fees, with the exception of an early redemption fee for the International Stock Market Index Fund. Both fees are typical in other mutual funds, and can cost 5% or more of your assets. MaineSTART has <u>no</u> hidden fees. Transaction costs are lower in index funds, further reducing costs to you.

Glossary of Terms

Pension - Compensation that an employee receives from employer-sponsored plan after he/she has retired.

Defined Benefit (DB) plan - A pension plan in which a retired employee receives a specific benefit amount based on salary history and years of service.

Deferred Compensation (DC) plan - An arrangement in which a portion of an employee's income is invested and paid out to the employee at a date after that income is actually earned. Examples of deferred compensation plans include 401(k), 403(b), and 457 plans. The primary benefit of most deferred compensation plans is the deferral of tax, resulting in compounding tax-advantaged returns until withdrawal at retirement.

Defined Contribution plan - A defined contribution plan is a retirement plan where contributions are made by the employee and the employer. The fund's value is based on the amount of contributions made and the return on investment. A 401(a) is an example of a defined contribution plan.

Tax-deferred - refers to income on which taxes can be postponed until a later date.

Compounding - A process whereby the value of an investment increases exponentially over time due to compound interest ("interest on interest") or returns.

Returns -The growth in value of an investment, often expressed as a percentage of the total amount invested. Investment returns may include interest, dividends, and capital gains (appreciation).

Asset allocation - The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and money market funds, to balance growth and income opportunities against risk of loss, based on an individual's specific situation and goals.

Index - A statistical indicator providing a representation of the value of the securities which constitute it. Indices often serve as barometers for a given market or industry and benchmarks against which financial or economic performance is measured. The Dow Jones Industrial Average and the Standard & Poor's 500 are examples of popular indices.

Glossary of Terms *continued*

Index fund - A mutual fund designed to mirror the performance of a specific index, such as the Standard & Poor's 500 (a basket of 500 stocks that are considered to be widely held). Since portfolio decisions are automatic and transactions are infrequent, expenses tend to be lower than those of actively managed funds.

Mutual fund - Pools of money from many investors that are invested by professionals in a portfolio of investments; shares in that portfolio are then issued to the investors.

Lifecycle fund - A highly diversified mutual fund designed to remain appropriate for investors in terms of risk throughout a variety of life circumstances. Accordingly, lifecycle funds offer different risk profiles that investors can shift invested funds between in order to manage risk effectively as they move from early careers to middle age to retirement. Although lifecycle funds all share the common goal of first growing and then later preserving principal, they can contain any mix of stocks, bonds, other securities, and cash.

Money market fund - An open-end mutual fund, which invests only in money market instruments such as Treasury bills, certificates of deposit, and commercial paper.

Stocks - Investments in individual businesses that represent a claim on part of the corporation's assets and earnings. Also known as "shares" or "equity."

Bonds - Investments in debt that are designed to earn interest. U.S. Treasury bonds are generally considered the safest unsecured bonds, since the possibility of the Treasury defaulting on payments is almost zero.

Portfolio - A collection of investments, all owned by the same individual or organization, that can include stocks, bonds, mutual funds, or other securities.

MAINE START

So are you ready to START?

You'll find detailed materials and contact information by visiting www.mainestart.org or contact one of our representatives at 1-800-451-9800.

If you haven't *started* saving for retirement, now is the time!

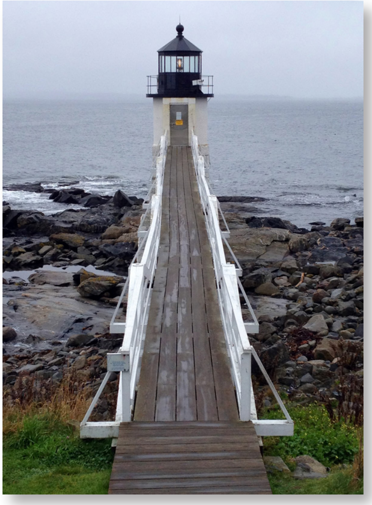
A comfortable retirement is something everyone wants - unfortunately, it's not a right. The truth is, with or without a pension or Social Security benefit to look forward to, it's up to you to start securing your retirement today.

YOU OWE IT TO YOURSELF:

- ✓To save early
- ✓To save consistently
- ✓To save through multiple channels.

WE OWE IT TO YOU:

- ✓To make it easy
- ✓To make it affordable
- ✓To make it reliable.



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