Welcome!
Financial Essentials Workshop
FEW are on track, are you?
Agenda

Retirement and Benefits

- Defined Benefit (DB) Hybrid Retirement Plan – Main
- Purchase Service Credit
- Personal Savings: 457 Deferred Compensation
- Retiree Health Insurance Credit (RHIC)
- FlexComp
- PERSLink Member Self Service (MSS)

Financial Planning

CollegeSAVE

Legal Concerns
YOUR Retirement Stool

How much will I need to retire?

- How do I plan for a secure financial future?
- Can I maximize retirement benefits?
- Could I be saving more?
- Will I need to return to work?
# Myths of Financial Planning

<table>
<thead>
<tr>
<th>Myth</th>
<th>Truth</th>
</tr>
</thead>
<tbody>
<tr>
<td>I only need a fixed-income for 10 to 15 years.</td>
<td>Many will spend 20+ years in retirement.</td>
</tr>
<tr>
<td>My living expenses will be lower during retirement years.</td>
<td>What are you cutting out? Inflation will erode purchasing power (similar to 3% tax).</td>
</tr>
<tr>
<td>Social Security will replace my pre-retirement earnings and it won’t be taxed.</td>
<td>Social security is only a partial replacement and strong possibility 50-85% will be taxed.</td>
</tr>
<tr>
<td>I’ll be in a lower tax bracket.</td>
<td>Less income doesn’t mean lower taxes.</td>
</tr>
</tbody>
</table>

*Source: FinancialAnswers.com*
Sources of Retirement Income

FEW people are confident in their savings for retirement.

| NDPERS Replacement Goal (with 2% multiplier at NRD) |
|-----------------|-----------------|
| 25 Years Employment | 50% Pre-retirement Earnings |

90% of pre-retirement income with Social Security

No guaranteed COLA

How do you close the gap?

Social security 30-40%
Pension 50%
Personal Savings 10-20%
Defined Benefit (DB) Hybrid Retirement Plan - Main
Your employer sends to NDPERS 15.26% of your gross earnings each pay period (overtime not included)

- 7% Employee Account (Your Member Account Balance)
- 7.12% Employer Account (General Pool of Funds)
- 1.14% Retiree Health Insurance Credit (RHIC)
DB Plan – Service Credit and Vesting

- One month of service credit for each month NDPERS receives contributions on your behalf.

- *Vested* means you are legally entitled to a monthly benefit.

- You become vested the earlier of:
  - Achieving 36 months (3 years) of service credit, or
  - Turning age 65 during active employment.

- **ANNUITY** - receive a monthly retirement payment for life.
# DB Plan

**Retirement when hired before 1/1/2016**

<table>
<thead>
<tr>
<th>Normal Retirement</th>
<th>Early Retirement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifetime benefit</td>
<td>Lifetime benefit</td>
</tr>
<tr>
<td>At the earlier of:</td>
<td>Reduced by 6% for each year or 0.005 for each month if:</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Attain Age 65</td>
<td>Not Age 65</td>
</tr>
<tr>
<td>or</td>
<td>or</td>
</tr>
<tr>
<td>Achieve “Rule of 85”</td>
<td>Have not met “Rule of 85”</td>
</tr>
<tr>
<td>(Member’s Age + Service Credit)</td>
<td></td>
</tr>
<tr>
<td>Example: 60 years old</td>
<td><em>Must be at least age 55</em></td>
</tr>
<tr>
<td>+ 25 years service</td>
<td></td>
</tr>
<tr>
<td>= 85 years</td>
<td></td>
</tr>
</tbody>
</table>
## DB Plan

Retirement when newly hired on or after 1/1/2016

<table>
<thead>
<tr>
<th>Normal Retirement</th>
<th>Early Retirement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifetime benefit</td>
<td>Lifetime benefit</td>
</tr>
<tr>
<td>At the earlier of:</td>
<td>Reduced by 8% for each year or</td>
</tr>
<tr>
<td></td>
<td>0.667 for each month if:</td>
</tr>
<tr>
<td>Attain Age 65</td>
<td>Not Age 65</td>
</tr>
<tr>
<td>or</td>
<td>or</td>
</tr>
<tr>
<td>Achieve “Rule of 90” with minimum age of 60</td>
<td>Have Not met Rule of 90</td>
</tr>
<tr>
<td>(Member’s Age + Service Credit)</td>
<td>*Must be at least age 60</td>
</tr>
</tbody>
</table>

Example: 60 years old  
+ 30 years service  
= 90 years
DB Plan
Retirement Benefit Formula

- Final average salary (FAS)
  Average of your highest 36 salaries during the last 180 months worked

- Benefit multiplier
  2.00%

- Years of service credit (YOS)
  One month of service for each month of contribution

Calculation:
FAS × 2.00% × YOS = Single Life Monthly Benefit
Are you on track?

FEW consider unexpected events
Disability Benefits

- Disability retirement
  - Vested after 6 months
  - Must separate from employment
  - Determined by medical consultant or Social Security award

- 25% of Final Average Salary (FAS)
  - $100 per month minimum

- Recertification required
Assumption: Member is not receiving a retirement benefit.

- **Lump sum payment**
  - Member vested or non-vested
  - Any beneficiary (spouse or non-spouse)

- **Lifetime survivor benefit**
  - Member must be vested
  - Spouse only
  - Amount based on normal retirement
    - Not at normal retirement, benefit is 50% of Single Life amount
    - At normal retirement, benefit is 100% Joint & Survivor amount
# Account Balance & Separation of Employment

<table>
<thead>
<tr>
<th>NOT Vested</th>
<th>Vested (36 months or age 65)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leave member account balance</strong> with NDPERS</td>
<td><strong>Receive a lifetime annuity</strong></td>
</tr>
<tr>
<td>▪ Return to service, accrued service and account balance are recognized</td>
<td>▪ Retire as early as age 55 (age 60 if hired after 1/1/2016) or attain “Rule” or age 65</td>
</tr>
<tr>
<td>▪ Account accrues interest*</td>
<td>▪ Interest no longer accrues once payments begin.</td>
</tr>
<tr>
<td><strong>Lump Sum Refund</strong></td>
<td><strong>Lump Sum Refund</strong></td>
</tr>
<tr>
<td>▪ Tax Penalties</td>
<td>▪ Tax Penalties</td>
</tr>
<tr>
<td>▪ Forfeit service credit and RHIC</td>
<td>▪ Forfeit service credit and RHIC</td>
</tr>
<tr>
<td><strong>Direct Rollover</strong></td>
<td><strong>Direct Rollover</strong></td>
</tr>
<tr>
<td>Forfeit service credit and RHIC</td>
<td>Forfeit service credit and RHIC</td>
</tr>
<tr>
<td><strong>Combination rollover/refund</strong></td>
<td><strong>Combination rollover/refund</strong></td>
</tr>
</tbody>
</table>

*Interest accrual subject to legislative change
Are you on track?

FEW create a plan & take action early
Increase your Retirement Benefits

Purchase Service Credit!

It may help
1. Vest earlier
2. Increase lifetime benefit
3. Increase health credit
4. Reach “Rule” earlier
Types of Service

1. Previous Public Employment
   Includes Military, Federal, Legislative

2. Unpaid Leave of Absence

3. Generic Service Purchase
   - 60 months
   - Must be vested

4. Unused Sick Leave
   At separation from employment
# Service Purchase Example

**No Purchase**

- $3,000 FAS
- $2.00% Multiplier
- **20** Years of Service

\[ \text{Monthly} = \frac{3,000 \times 2.00\% \times 20}{12} = 1,200 \]

\[ \text{Annually} = 1,200 \times 12 = 14,400 \]

\[ \text{Over 20 years} = 14,400 \times 20 = 288,000 \]

**Purchase - 60 months**

- $3,000 FAS
- $2.00% Multiplier
- **25** Years of Service

\[ \text{Monthly} = \frac{3,000 \times 2.00\% \times 25}{12} = 1,500 \]

\[ \text{Annually} = 1,500 \times 12 = 18,000 \]

\[ \text{Over 20 years} = 18,000 \times 20 = 360,000 \]

\[ \text{($72,000 additional income)} \]

This example may not be interpreted as a personal calculation.
DB Plan
Unused Sick Leave Service Purchase Example

**Calculation:**
1,450 hours / 173.3 = 8.37 months (~ 9 months)
FAS x 9 x 15.26% = purchase cost ($4,120.20)

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**No Purchase**

- $3,000 FAS
- X 2.00% Multiplier
- X 20 Years of Service

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= $1,200 Monthly (Single Life)

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**Purchase - 9 months**

- $3,000 FAS
- X 2.00% Multiplier
- X 20.75 Years of Service

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= $1,245 Monthly (Single Life)
Should I purchase service now or later?
Service Purchases

- Submitting a Purchase Request
  - Request for Purchase Information - SFN 53718
  - Online through Member Self Service

- Payment Methods
  - Direct Rollover/Transfer of Pre-Tax Dollars
  - Payroll Deductions* (pre- or post-tax)
    - Depends on employer
  - Periodic Payments*

*Interest applies
Are you on track?
FEW consider personal savings
457 Deferred Compensation

- Voluntary supplemental retirement plan
- Investing **Pre-tax** dollars to lower your taxable income
  - Taxed at the time of distribution
- You select how your money is invested
- Increase, decrease, suspend contributions at **any time**
- May be used to purchase service credit
### 457 Deferred Compensation Example

<table>
<thead>
<tr>
<th>Pre-tax Savings Cost Less</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 4,000 Monthly Income</td>
</tr>
<tr>
<td>$ - 200 Savings (pre-tax) (5%)</td>
</tr>
<tr>
<td>$ - 760 FICA/Medicare, Federal/State Taxes (20%)</td>
</tr>
<tr>
<td>$ 3,040 Take-Home Pay</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$ 4,000 Monthly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - 800 FICA, Medicare, Federal, State Taxes (20%)</td>
</tr>
<tr>
<td>$ - 200 Savings (after-tax) (5%)</td>
</tr>
<tr>
<td>$ 3,000 Take-Home Pay</td>
</tr>
</tbody>
</table>

This increases savings of $40 each month = $480/year!
Annual Deferral Limits

Minimum
$25 per month

Maximum
The lesser of:
- 2017 Annual IRS Limit $18,000/year
- 100% of Taxable Compensation
Eligible Contributions

- **Lump Sum Payments**
  - Accrued annual leave
  - Unused sick leave
  - Back pay

- **Catch-Up Contributions**
  - Age 50+ Annual Catch-up: $24,000 (SFN 3803)
  - Regular 3-year Catch-up: $36,000 (SFN 51501 & 3803)
    - 3 consecutive calendar years (prior to year of “normal” retirement)
    - One time only – NDPERS approved

- Cannot exceed annual IRS limits
Eligible Distributions

- **Separation from Employment**
  - Must be off payroll for 31 days
  - No 10% penalty before 59½ years of age

- **Unforeseeable Emergency Distribution**
  - Sudden unexpected event beyond control of participant
  - Contact NDPERS for application and approval process

- **Small Account Balance**
  - Account is less than $5,000
  - No deferrals for previous 24 months
  - No previous distributions
Enrollment Options

- Regular Enrollment
  - Choice of providers
  - Complete SFN 3803
  - PERSLink Member Self Service (MSS)

- Quick Enrollment
  - Complete SFN 54362 or select “Quick Enrollment” online (MSS)
  - Administered by Companion Plan provider (TIAA)
  - Automatic $25/month

- Political Subdivisions – “Other” 457/403b Plan
  - Contact Human Resources/Payroll
Are you on track?

FEW consider the importance of saving early!
457 Deferred Compensation Plan
Compounding Long-Term Effects

Investor A

Begin Saving at Age 30
$1,000 per year
For 10 years
Value at Age 65
$62,385

Investor B

Begin Saving at Age 45
$1,000 per year
For 20 years
Value at Age 65
$38,993

How you handle finances today determines what you can do tomorrow!

Source: www.handsonbanking.org
Defined Benefit
Portability Enhancement Provision (PEP)

- DB Plan and 457 Plan work together
- Redistribution of funds
- Faster growth of member account balance
- More “portability”
## Contribution Allocation with PEP

### Years of Service vs. Investment in Deferred Comp

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Your Investment in Deferred Comp</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12 months</td>
<td>1% of gross pay or minimum of $25</td>
</tr>
<tr>
<td>13-24 months</td>
<td>2% or minimum of $25</td>
</tr>
<tr>
<td>25-36 months</td>
<td>3% or minimum of $25</td>
</tr>
<tr>
<td>37+ months</td>
<td>4% or minimum of $25</td>
</tr>
</tbody>
</table>

**15.26% of your gross earnings (does not include overtime)**

NDPERS distributes into these accounts:

- **11%** Employee Account
- **3.12%** Employer Account
- **1.14%** Retiree Health Insurance Credit (RHIC)
Retiree Health Insurance Credit (RHIC)
Retiree Health Insurance Credit (RHIC)

- Reimbursement
  - Health insurance premium
  - NDPERS-offered dental, vision or long-term care premiums
- Multiplier
  - $5.00
  - Reduced for early retirement
- Years of Service Credit (YOS)
  One month of service for each contribution

**Calculation:**

\[ \text{Calculation: } \quad \$5.00 \times \text{YOS} = \text{RHIC (at normal retirement)} \]
Are you on track?
FEW find ways to save before taxes!
Flexible Spending

Redirect a portion of your salary pre-tax for Medical Expenses

- $2,550 limit per year
- Spouse can do separate medical flex through his/her employer (if offered)

Dependent Care Expenses

- $5,000 maximum (for a married couple filing a joint tax return or a single parent)
- $2,500 maximum (for a married couple filing separate tax returns)

Use it or Lose it!
### Flexible Spending Savings Example

**Member:** Married with 2 Dependents

- $2,000 Health Care Expenses
- $5,000 Dependent Care Expenses

<table>
<thead>
<tr>
<th>With Flex System</th>
<th>Without Flex System</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 35,000 Annual Income</td>
<td>$ 35,000 Annual Income</td>
</tr>
<tr>
<td>$ - 7,000 FlexComp</td>
<td>$ - 0 FlexComp</td>
</tr>
<tr>
<td>$ 28,000 Taxable Income</td>
<td>$ 35,000 Taxable Income</td>
</tr>
<tr>
<td>$ - 3,355 Federal Tax</td>
<td>$ - 4,425 Federal Tax</td>
</tr>
<tr>
<td>$ - 840 State Tax</td>
<td>$ - 1,050 State Tax</td>
</tr>
<tr>
<td>$ - 2,142 Social Security / Medicare</td>
<td>$ - 2,677 Social Security / Medicare</td>
</tr>
<tr>
<td>$ - 0 After Tax Expenses</td>
<td>$ - 7,000 After Tax Expenses</td>
</tr>
<tr>
<td>$ 21,663 Net Income</td>
<td>$ 19,848 Net Income</td>
</tr>
</tbody>
</table>

*Annual take home savings are higher!*
Plan NOW!
Prepare EARLY!
Stay “ON TRACK”!
PERSLink Member Self Service

Online Portal

Member Self Service (MSS)

Mobile App

- View/update benefit plans & personal profile
- Retirement benefit estimates
- Service purchase estimates
Login

Already Registered - Not Sure?
North Dakota Login: 
Forgot Login

Password: 
Forgot Password

Login

New to North Dakota Online Services?

Register Now!

Benefits of North Dakota Login
- One North Dakota Login and password to access multiple ND Online Services
- Register once for secure access to State services

Need help? Read through the FAQ.
Estimate your Retirement Benefit

Step 1

- Personal Profile
  - View or Edit Your Personal Profile

- Benefit Estimates
  - Perform, Request or View Benefit Estimates

- NDPERS Plans
  - Enroll, Update or View Plans

- Service Credit Purchase
  - Perform, Request or View Service Purchase

Step 2
Your Benefit Estimate

What would you like to do? Use the benefit estimate calculator & calculate a benefit estimate Go
Step 3: Enter Retirement Date

- Plan: Main Retirement
- Benefit Account Type: Retirement
- Last Date of Employment: 04/20/2034
- Retirement Date: May 2034

If you do not indicate a Termination Date and Retirement Date, the benefit estimate will project continued employment until you reach your Normal Retirement Date.

Would you like to factor annual salary increases into your Final Average Salary? If yes, please enter

- Monthly Salary Percent Increase: 3
- Month Salary Increase Effective: July

Enter the typical salary percent increase you receive annually. Example: If you receive 4%, enter a 4.

Step 4: Add Service Purchases

- Plan: Main Retirement
- Termination Date: 04/20/2034
- Benefit Account Type: Retirement
- Retirement Date: 05/01/2034
- Monthly Salary Percent Increase: 3
- Month Salary Increase Effective: July
- Spouse Date of Birth:
- Service Credit Change: UNUSED SICK LEAVE PURCHASE
- Additional Service Months

Member Details:
Step 5: Benefit Estimate Results

Benefit Calculation ID: 46137
Plan: Main Retirement
Employment Termination Date: 04/20/2034
Spouse Date of Birth:
Benefit Type: Retirement
Retirement Date: 05/01/2034
Normal Retirement Date: 05/01/2034

Service Credit Details
- Credited Service on File: 100.000000
- Unused Sick Leave Conversion Cost: $0.00
- Service Months Purchased:
- Estimated Credited Service (months): 335.0000
- Estimated Credited Service (years): 27 Years 11.0000 Months
- Age at Retirement: + 57 Years 2 Months
- Service Age: 85 Years 1.0004 Months
- Unused Sick Leave Converted (Months): 0.00
- Service Months Purchase Cost: $0.00

Benefit Calculation and Options

<table>
<thead>
<tr>
<th>Final Average Salary</th>
<th>Benefit Multiplier %</th>
<th>Years of Service Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,666.02</td>
<td>2.0000</td>
<td>27.9167</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payee</th>
<th>Benefit Option</th>
<th>Gross Benefit Amount</th>
<th>Monthly Non Taxable Amount</th>
<th>Monthly Taxable Amount</th>
<th>Benefit Amount After Deductions</th>
<th>Total Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member</td>
<td>Single Life</td>
<td>$3,163.53</td>
<td>$0.00</td>
<td>$3,163.53</td>
<td>$3,163.53</td>
<td>$0.00</td>
</tr>
<tr>
<td>Member</td>
<td>20 Year Term Certain</td>
<td>$2,969.61</td>
<td>$0.00</td>
<td>$2,969.61</td>
<td>$2,969.61</td>
<td>$0.00</td>
</tr>
<tr>
<td>Member</td>
<td>10 Year Term Certain</td>
<td>$3,106.27</td>
<td>$0.00</td>
<td>$3,106.27</td>
<td>$3,106.27</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Retiree Health Insurance Credit

<table>
<thead>
<tr>
<th>RHIC Option</th>
<th>Member RHIC Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Health Credit</td>
<td>$139.58</td>
</tr>
</tbody>
</table>
Purchase Service Credit

Step 1

Step 2

Step 3 Enter number of months
Step 4: Results

Service Months Purchased: 60
Service Months Purchase Cost: $40,230.12

*Cost varies for each individual based upon actuarial components:
Date of Birth, Final Average Salary, Age eligible for unreduced retirement benefits, Number months purchased

Step 5: Submit to NDPERS

Service Purchase Payment Schedule

Your purchase payment election amount must be higher to complete your purchase within 180 Months, please enter in a higher amount.

Please read the Provisions for the Purchase of Service Credit & Conversion of Unused Sick Leave.

If you would like to request an official service credit purchase estimate from NDPERS, submit your Request for a Service Purchase Estimate

Step 6: Notification

- You will receive a letter verifying request, along with required forms
- Specified amount eligible for rollover
- Partial amount must be paid after-tax
- Estimate valid for 90 days
NDPERS Contact Information

Telephone: (800) 803-7377 or (701) 328-3900

Website: [https://ndpers.nd.gov/](https://ndpers.nd.gov/)

Email: ndpers-info@nd.gov

Facebook: [https://www.facebook.com/NDPERS/](https://www.facebook.com/NDPERS/)

Member Self Service: [https://ndpers.nd.gov/login](https://ndpers.nd.gov/login)

Publications: [https://ndpers.nd.gov/sign-up-for-ndpers-publications/](https://ndpers.nd.gov/sign-up-for-ndpers-publications/)

Address: 400 E Broadway | Suite 505 | Bismarck ND 58501
        PO Box 1657 | Bismarck ND 58502-1657

Fax: (701) 328-3920