6 RETIREMENT QUESTIONS STATE OF MAINE EMPLOYEES SHOULD BE ASKING

PREPARING FOR A MORE COMFORTABLE RETIREMENT

As financial professionals who specialize in helping state employees transition from work to retirement, we understand that you may have questions about when and how you can retire. This special report addresses some common questions and presents some strategies to help you prepare for a more comfortable retirement.

IIS FINANCIAL SERVICES

Insurance - Investments - Retirement Planning

In today's volatile markets and uncertain economic conditions, the retirement dream can seem elusive. Many Americans are worried about whether they can afford to retire and want to know how to ensure that their savings last. State employees have the added challenges of evaluating complex retirement benefits and making the most of their options when they retire. When taxes, healthcare, survivor benefits, and other options are taken into consideration, the right strategy could be worth hundreds of thousands of dollars over the course of a lifetime.

For those who have spent their careers in public service, retiring may involve a mix of emotions. You may be worried about the financial aspects of retirement, you may feel ambivalent about leaving a job you love and losing the camaraderie of your profession, and you may wonder about what you will do when you're no longer working.

These complex feelings are a normal part of the retirement process, but you shouldn't allow them to put off developing strategies for the future. You have very important decisions to make about retirement; the most prudent course is to start thinking now about your retirement needs so that you can evaluate your options and make the right decisions when the time comes.

We developed this special guide to help State employees understand their options and ask the right questions when developing their retirement strategies. We have also included a **Retirement Dreamcasting Worksheet** designed to help you think about the future and a **Retirement Budget Worksheet** to estimate retirement expenses. We strongly recommend that you sit down with your loved ones to read this guide and work through the questions we pose. When you're ready to discuss your thoughts about retirement, simply call us for a complimentary, no-obligation review.

1. WHEN CAN I AFFORD TO RETIRE?

If you're worried about being able to retire, you're not alone. Millions of Americans are concerned about whether their retirement savings will be enough to keep them comfortable. In fact, many Americans fear running out of money more than they fear death. [1]

Though Americans in public service have historically relied on comfortable pensions and retirement benefits, unfunded liabilities and major changes to the retirement landscape mean that State employees must carefully evaluate their financial options.

The decision to retire is a very personal one that depends on a number of important factors like your age, years of service, financial circumstances, health, and family situation. It's also important to understand the particulars of when you may be entitled to collect a retirement benefit from your pension or sponsored retirement plan. Each plan is different with respect to service requirements and retirement eligibility. IIS Financial Services can help you understand the conditions under the State of Maine retirement system.

If you're evaluating the decision to retire, there are a few important steps that you can take now to determine whether you are on-track financially. While IIS Financial Services can help you explore your personal situation in greater detail, you can get started by doing some simple calculations on your own.

Start by estimating your expenses in retirement. By adding up all of your basic living expenses and desired discretionary spending, you can develop a better idea of how much money you'll need each month. To make it easier for you to accurately estimate your expenses in retirement, we have developed a **Retirement Budget Worksheet** that uses your current household expenses as a guide. Another quick way to evaluate your retirement expenses is to take a flat percentage of your current spending. We recommend using 85-90 percent of your current pre-retirement monthly spending to arrive at a conservative projection.

The second step is to identify any sources of income from Social Security benefits, a pension, and other sources. Any gap between your income and your expenses will need to be covered by withdrawals from your retirement savings. Understanding how much can be safely withdrawn each year during retirement without running out later in life is a complicated process.

Unfortunately, there is no simple formula or approach that you can use to determine a safe withdrawal rate. The "4 percent" rule became popular in previous decades and meant that retirees could safely take out 4-4.5 percent of their portfolio each year. In an environment of historically low interest rates and volatile markets, this rule no longer applies. It's important that you take a personalized approach to your retirement income strategies. There are many online calculators that you can use to estimate how much you may be able to withdraw in retirement. A financial professional can help you understand how different factors affect your calculations and develop a strategy designed to balance your cash flow against the long-term preservation of your nest egg.

If you've run the numbers and think that you may have a retirement income shortfall, don't panic. There are several strategies that can help increase your potential retirement income or reduce your expenses:

- **Increasing your savings** rate can help you make up a savings shortfall. Contribute as much as you can to your tax-advantaged retirement plans and consider opening a Roth IRA. If you are 50 or over, use catch-up provisions to boost your retirement contributions.
- **Delaying retirement** by working and adding to your savings can help your nest egg grow larger, increase your Social Security benefits (if you are under age 70), and shorten the amount of time your savings must last.

Retiring With Debt?

Statistics from the Employee Benefit Retirement Institute (EBRI) show that many Americans in or nearing retirement are carrying high levels of debt.

If you have significant mortgage, student loan, or credit card debt, your retirement expenses may go up considerably. A financial professional can help you develop debt reduction strategies while still living a comfortable lifestyle.

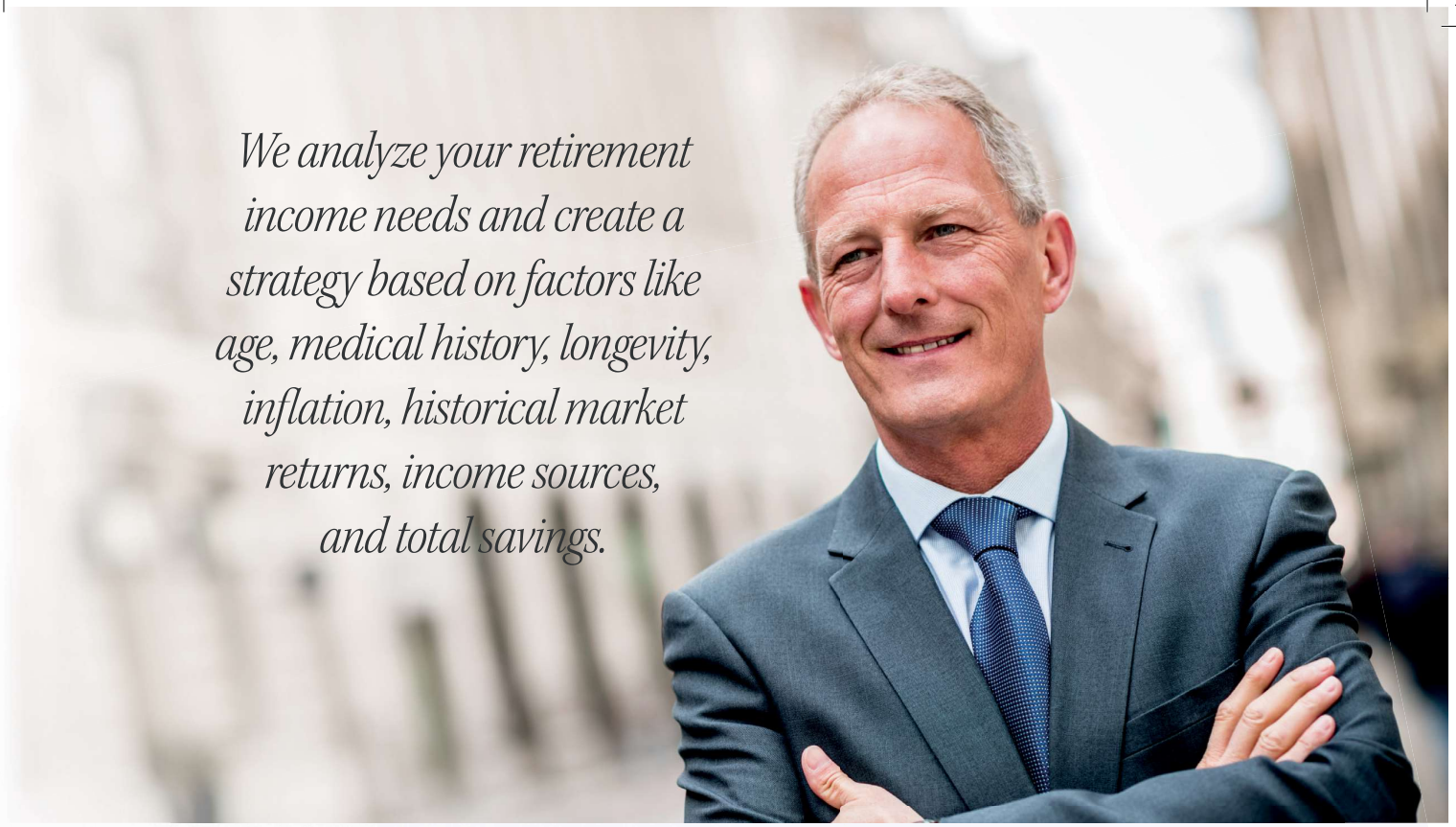
What are my projected retirement expenses?

- *Basic expenses like housing, utilities, food, debt service, & other living expenses*
- *Lifestyle expenses like travel, philanthropy, gifts, & entertainment*

What sources of income do I have?

- *State Defined Benefit Pension Plan*
- *Social Security benefits and affects by Windfall*
- *Income from other sources like rental properties, inherited IRAs, part-time work, deferred compensation, other investments and retirement plans*

How much do I need to cover through withdrawals from retirement savings?



- **Downsizing your home and living expenses** is another option. Many retirees are empty nesters who can reduce their expenses by moving into a smaller home. Putting off major expenses in the early part of retirement can help you avoid depleting your savings too soon.
- **Working during retirement** can create extra income while keeping you active and doing something you love. Many public employees retire when they are still young and active, making a second career or part-time work attractive. While some take the skills they have developed into follow-on careers, others pursue passions for teaching, speaking, or take part-time jobs. Keep in mind that working while collecting may impact your Social Security benefits if you are younger than your full retirement age.

IIS Financial Services specializes in helping you maximize your Pension and Social Security Benefit.

The States Defined Pension Benefit has over 8 income options that are determined by many factors and each one has its advantages and disadvantages.

We will walk you through the steps of how or if the Windfall Elimination Provision will affect you and then develop a financial plan that fits your goals and risk tolerance.

2. WHAT DOES MY DREAM RETIREMENT LOOK LIKE?

Take a moment to think about what an ideal retirement looks like. Does it mean spending more time with loved ones or enjoying your passions? Are you interested in a second career? Do you want to travel?

Everyone's retirement dream is different and an important part of developing a retirement strategy is thinking about how you want to spend your time. Today's retirees can expect to live long, active lives, making retirement more like the beginning of a new chapter of life rather than its sunset. Increasing numbers of energetic Americans are redefining retirement for themselves in new and interesting ways. Attached to this guide is a **Retirement Dreamcasting Worksheet** designed to get you thinking about how you want to spend your retirement years. We recommend sitting down with your spouse and loved ones and completing the worksheet together.

Healthcare costs have risen an average of 4.5% per year since 1965.

Source: Trends In Health Care Cost Growth, 2013

3. HOW WILL I PAY FOR HEALTHCARE IN RETIREMENT?

Healthcare expenses are a major concern for today's retirees and those who aren't thinking ahead may find themselves in trouble down the road. Life expectancy is rising, and many retirees can expect to live well into their 80s. Medical advances are expensive and healthcare costs can go up fast during a serious illness.

A 2014 AARP survey found that though the majority (62 percent) of Americans over 50 have set aside money for their out-of-pocket medical expenses, more than half are worried about their ability to afford healthcare. [2]

Median Out-of-Pocket Health Care Spending By Medicare Beneficiaries Age 65 and Older (2010)

Age	Out-of-Pocket Spending	Out-of-Pocket Spending As % of Income
65-69	$2,768	11.80%
70-74	$3,665	16.80%
75-79	$3,779	18.90%
80-84	$4,028	22.10%
85+	$4,317	24.80%

Source: AARP Public Policy Institute [7]

This is concerning because healthcare will very likely become a significant part of your expenditures when retired. Research shows that Medicare covers only about 60 percent of healthcare costs for those over 65. [3]

In terms of dollars and cents, estimates vary. One study found that a 65-year-old couple would need an average of $220,000 to cover total healthcare expenses in retirement. [4] Another report put that number as high as $360,000. [5] Those who retire earlier may spend even more on healthcare before they are eligible for Medicare; a couple retiring at 62 could be adding an additional $17,000 to their annual budget in insurance and other expenses. [6]

Everyone's healthcare needs are different, which is why it's important to consider how factors like your age, health, and family medical history affect your potential expenses.

Fortunately, there are strategies that you can use to help tame healthcare costs in retirement. Determine whether you are eligible for any State-sponsored healthcare benefits once you retire. Any assistance you receive could reduce your out-of-pocket costs and thus, the amount you need to save for medical expenses.

Retirement healthcare plan accounts like a Retiree Health Savings Plan may be available through your State and can help provide a tax-advantaged way to save for future healthcare expenses. IIS Financial Services can help you determine whether this option is available to you and show you how it may fit into your overall retirement strategies.

For most retirees, Medicare will form the backbone of their healthcare plan. Medicare has gone through some significant changes due to the Affordable Care Act (ACA) and there's no way to predict how it may change in the future. Talk to us about things like eligibility, coverage, deductibles, and benefits to make sure that you understand all of your options.

It's also important to think about how you will pay for services to help you remain independent if you need assistance with daily living later in life. An annual study of healthcare costs found that a part-time home health aide cost a median of $20/hour in 2014 while the median annual cost of a nursing home ranged from about $77,000 to over $87,000. [8] Generally, Medicare and State-sponsored insurance don't cover long-term care, which is why it's important to think ahead about how you will cover costs. IIS Financial Services can help you consider your current health, family medical history, and other factors and evaluate your options for funding your long-term care needs.

If you participate in a State Defined Benefit Pension Plan, you may be able to choose among different retirement payout options and schedules. As you near retirement, you will want to consider questions like the following:

- *How much income do you need in retirement? What other sources of income do you have?*
- *What Pension Benefit Payout options are available?*
- *If a Deferred Retirement Option Program (DROP) is available to you, is it worth continuing to work while your retirement benefits accumulate?*
- *Do you need survivor benefit options for your spouse or a child? For how long?*
- *Who is eligible to be named as your survivor?*
- *Do you expect to work after retiring?*
- *How great is the age difference between you and your spouse?*
- *What are your healthcare insurance options?*
- *Do you have life insurance?*

4. WHAT ARE MY RETIREMENT PLAN OPTIONS?

As a State employee, you may have multiple retirement plan types and distribution options available to you. While the best way for us to answer your specific questions is to meet with you personally, we've developed a list of common retirement plan types and discussed some special concerns you may want to think about.

State Defined Benefit (DB) Pension Plan[9] provide guaranteed retirement benefits to participants based on factors like age, years of employment, and salary. If you are enrolled in a DB plan, both you and the State make the contribution to the pension fund and your retirement benefits do not depend on investment performance.

Participants in DB plans have some special financial issues to consider. Federal statutes like the Windfall Elimination Provision (WEP) mean that your Social Security benefits may be affected by your pension income, depending on certain regulations. Because of budgetary issues, some States have sought to reduce or modify their responsibilities to pensioners. If you are concerned about possible reductions in your benefits, you should speak with us about strategies to help mitigate your risk. The amount of your Pension service retirement benefit is not affected by the amount of your Social Security retirement benefits.

If you are eligible to receive Social Security retirement benefits, either because you worked in a Social Security-covered job or because your deceased spouse did, the amount of your Social Security benefit may be affected by your receipt of the State's Pension Benefit.

For more information about the effect of receiving the States Pensions benefits and Social Security benefits, go to www.ssa.gov. You also can locate the SSA office nearest you.

One of the most common types of State-Sponsored retirement plans available to supplement the pension, is the **Deferred Compensation 457(b) plan.**

As an employee of the State you are eligible to participate and contribute right away. You would then decide how much to contribute from each pay check and allocate your money between the available investment choices. Your money grows tax deferred since contributions were made with pre-tax income. Once you retire you can retain control of the money again by taking a withdrawal or rolling the money over to another type of qualified retirement account.

457(b) plans have higher contribution limits then IRA's. Contribution limits, early withdrawal penalties and other details can vary a great deal by age, years of service, and how much money you contributed to the plan over the course of employment.

5 Questions You Should Ask Your State of Maine Defined Benefit Plan Sponsor:

- *What are the age and service requirements for full retirement?*
- *What are my distribution and payout options?*
- *Who can I name as a survivor or beneficiary?*
- *Do I have any healthcare benefits?*
- *Are your Social Security benefits affected by the Windfall Elimination Provision?*

It's always a good idea to review your options with us to help ensure that you are making the most of these valuable retirement resources.

Roth IRA Contributions are made with after-tax money and aren't tax-deductible. However the Benefits are:

1. Tax-free growth potential
2. Tax-free withdrawals
3. No Required Minimum Distributions
4. Tax-free money for heirs
5. Use your contributions at any time because Withdrawals of contributions are always tax-free and penalty-free.
6. Withdrawals of earnings are tax-free and penalty free if the first Roth contribution was made at least five years before and you, as the IRA owner, meet one of the following conditions:
   - You're age 59½ or older
   - You're disabled
   - You're purchasing a first home (up to $10,000 lifetime maximum)
7. When your young your income is likely going to rise.(may make sense to pay the taxes now rather than later)
8. Tax flexibility in retirement

No matter what your age, since a Roth IRA may improve your tax picture, it makes sense to take the time to see if you would benefit from one. The key is to discuss your situation with us to help you fully assess your situation.

5. WHAT DO I NEED TO DO BEFORE RETIRING?

As you prepare for retirement, there are a number of things that you need to consider. The following checklist will help you:

1. Sit down with your spouse or loved ones to think about the future. Use the Retirement Dreamcasting Worksheet to guide your thoughts.
2. Estimate your expenses in retirement using the included Retirement Budget Worksheet.
3. Review your income sources, including guaranteed benefits and Social Security. Evaluate your retirement savings and determine whether additional savings are necessary.
4. Review your healthcare coverage options and note important Medicare and insurance deadlines.
5. Review legal documents like wills, trusts, medical directives, beneficiaries, and powers of attorney.
6. Contact your plan sponsor to request information about your retirement requirements, distribution options, and necessary documents.
7. Speak to Carl Hanson or David Hanson at IIS Financial Services. They specialize in working with clients like you and can help you make the most of your options.

6. HOW CAN IIS FINANCIAL SERVICES HELP ME?

Regardless of what your dream retirement looks like, prudent financial preparation can help you achieve it by helping you build retirement strategies to maximize your income while managing risk. IIS Financial Services can help you understand your current financial circumstances and develop strategies to take you toward your future goals. We believe strongly in the value of experienced guidance and objective advice when navigating the transition to retirement.

Many Americans have complex financial situations and it's very common to have questions and concerns about meeting your obligations in retirement. As financial professionals, we have helped hundreds of clients follow their dreams into a more comfortable retirement.

NEXT STEPS

We hope you've found this retirement guide interesting, informative, and, most of all, reassuring. While retirement preparation is complex, we wanted to show you some simple steps you can take to begin answering important questions about your own retirement journey. Most of all, we want to encourage and support you as you prepare for retirement and think about the next stage of your life.

We are happy to answer any questions you may have about your personal financial situation or future goals, and we provide free reviews at any time. If you have any questions about the information presented in this report, please contact us at (207) 761-4733 or (207) 623-8421. We would be delighted to be of service.

Sincerely,

David Hanson and Carl Hanson
Managing Partners at IIS Financial Services

Footnotes, disclosures, and sources:

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[1] "Running Out of Money is Worse Than Death." AARP. http://www.aarp.org/work/retirement-planning/info-06-2010/running_out_of_money_worse_than_death.html [Accessed 24 November 2014]

[2] "Planning for Healthcare Costs in Retirement: A 2014 Survey of 50+ Workers." AARP. http://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2014/Planning-for-Health-Care-Costs-in-Retirement-A-2014-Survey-of-50-Plus-Workers-AARP-econ.pdf [Accessed 24 November 2014]

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