

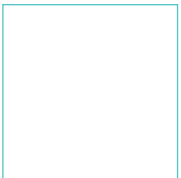


# 10-Question Retiree Guide

**MissionSquare**  
RETIREMENT



## A New Chapter With New Opportunities



### Question 1

## What does retirement mean to me?

Retirement marks the beginning of a new chapter in your life and includes important financial responsibilities, such as:

- Establishing a retirement spending plan.
- Paying for health care costs and planning for potential long-term care needs.
- Prudently managing your investments.
- Managing retirement account distributions and taxes.
- Ensuring that your income lasts through your lifetime and that of your spouse or partner (if applicable).

Retirement also brings opportunities, such as:

- Spending more time with family and friends.
- Enjoying personal hobbies and traveling.
- Participating in community activities.
- Dedicating time to mentoring or helping others.

Studies indicate that those in good health and who orient themselves toward friendships and social activities tend to be happier in retirement.

- Maintaining your health:  
[www.health.gov](https://www.health.gov).
- Volunteering opportunities:  
[www.volunteermatch.org](https://www.volunteermatch.org).

**Question****2****How much will I spend in retirement?**

Just as you had a plan for saving during your working years, you should have a spending plan for your retirement years.

To help you visualize what you need, start with a rule of thumb – you'll typically spend about 80% of your final year's salary each year during retirement. You may spend more or less depending on your circumstances.

Next, build a customized spending plan based on your actual expenses, both current and future.

A potentially significant expense in retirement is taxes, including taxes on pension income, Social Security benefits, retirement account withdrawals, and investments in taxable accounts, as well as state income, property, and sales taxes.

Your expenses may change as you grow older, particularly as your circumstances change. Certain discretionary spending, such as for travel and hobbies, may decline in your later retirement years, but this may be offset by other expenses, such as increased health care costs. Updating your spending plan will help you visualize and account for these changes.

Finally, take into account inflation. Price increases will add up over time. For example, even at an inflation rate of 3%, prices will double in about 24 years.

**Question****3****How will I pay for health care?**

Health care costs may be significant, depending on your health, life span, access to affordable supplemental coverage, health insurance premiums, and out-of-pocket expenses.

Many public sector employers provide health care coverage for retirees. Contact your benefits office to determine what coverage may be available to you and your spouse or partner, its cost, and how it's coordinated with Medicare.

If your employer doesn't provide retiree health coverage, consider purchasing individual, private insurance to cover the period between when you retire and Medicare eligibility, which is age 65 for most individuals. In addition, since Medicare only covers about half of a typical retiree's health care costs, supplemental insurance will likely be needed.

For detailed information about Medicare, visit:  
[www.medicare.gov](http://www.medicare.gov)

Some MissionSquare participants also have access to a Retirement Health Savings Plan, which can help pay for medical expenses:  
[www.missionsq.org/rhs](http://www.missionsq.org/rhs)

Take a moment to estimate your health care costs at and through retirement at:  
[www.missionsq.org/health](http://www.missionsq.org/health)

**Question****4****What about long-term care coverage?**

If you or your spouse become chronically ill or disabled and need help with daily life activities, you may need long-term care. Most long-term care services aren't covered by employer-sponsored health care or Medicare.

There's a 70% chance an individual over age 65 will need long-term care at some point in their life, including a 48% chance of requiring care in a nursing home.\*

Since costs for long-term care and nursing home coverage can be significant, retirees may want to consider purchasing long-term care insurance.

**For general information on long-term care, visit:**

**[www.longtermcare.gov](http://www.longtermcare.gov)**  
**[www.eldercare.gov](http://www.eldercare.gov)**

\* ASPE - Office of the Assistant Secretary for Planning and Evaluation

**Question****5****What do I need to know about pension income?**

For most public sector employees, the principal source of retirement income is a defined benefit pension plan.

To understand your pension benefit, including when you can begin receiving benefits and how much you'll receive, contact your benefits office. Pensions can typically be structured to pay out over your life only, or at a reduced amount over the life of you and your spouse. Select your payout option carefully, as it's typically irrevocable.

In setting up your spending plan, also consider whether your pension benefit includes a cost-of-living adjustment that allows your payments to better keep up with inflation.

**You may be eligible to increase your pension amount through the purchase of "service credits." Learn more:**

**[www.missionsq.org/servicecredits](http://www.missionsq.org/servicecredits)**

**Question****6****What do I need to know about Social Security?**

Another important source of retirement income for most public sector employees is Social Security.

When you begin benefits is significant because of the potential to limit or increase your lifetime income. Although you're eligible to begin receiving reduced benefits at age 62, it may be advantageous to delay your benefits until your full retirement age (66 or 67 based on your year of birth) or until you reach age 70 in order to receive higher amounts.

A spouse, ex-spouse, or surviving spouse can receive benefits based on your work record, and vice versa, so if you are married, there are various strategies to consider that can help maximize the potential benefits you both receive over your lifetimes.

If you're a public sector employee who doesn't pay into Social Security, the amount you otherwise would receive may be reduced. Your potential spouse or survivor benefit may also be impacted. To learn more, visit [www.ssa.gov/gpo-wep](http://www.ssa.gov/gpo-wep).

Up to 85% of your Social Security benefits may be subject to taxes, depending on your income.

For more detailed information about Social Security, visit [www.ssa.gov](http://www.ssa.gov).

To estimate your benefits, visit:

[www.ssa.gov/myaccount](http://www.ssa.gov/myaccount)

To customize projected estimates, visit:

[www.ssa.gov/estimator](http://www.ssa.gov/estimator)

**Question****7****Will my savings be enough?**

Once you've calculated your pension and/or Social Security benefits, compare them to your expected or actual spending in retirement. If there's a gap between this income and your estimated expenses, your 457 deferred compensation plan and other savings can fill the gap.

In evaluating the gap, consider:

- How long you may live. Half of individuals will live longer than their life expectancy.
- Inflation will increase your living expenses over time.
- Rates of return on your investments will vary year to year and may be subpar for a sustained period of time.

**If your retirement savings is unlikely to be enough, consider delaying retirement, seeking part-time employment, or reducing your planned spending in retirement. Homeowners may have other potential sources of income based on the equity in their homes.**

To learn more, visit [www.consumer.ftc.gov](http://www.consumer.ftc.gov) and search for reverse mortgages.

## How should I manage retirement account withdrawals and taxes?

A smart withdrawal strategy takes into account how different retirement accounts you may own will be taxed:

- Withdrawals from tax-deferred 457 plans and traditional IRAs are generally taxed as ordinary income.
- Qualifying withdrawals from a Roth IRA, or Roth assets from a 401(k) or 457 employer retirement plan, are generally tax-free.
- Withdrawals from taxable, non-retirement accounts may be taxed at lower capital gains rates.

Consider tax rules that may apply depending on your age and circumstances:

- Withdrawals from retirement accounts prior to age 59 ½ may be subject to a 10% penalty tax. To learn more, visit [www.irs.gov](http://www.irs.gov).
- When you reach age 73\* or separate from service, whichever is later, you'll be required to withdraw at least a minimum amount from your account each year, per IRS rules.
- If you're inheriting a retirement account, additional tax rules apply. Learn more at [www.missionsq.org/inherit](http://www.missionsq.org/inherit).

\* Age 70 ½ (if you were born before July 1, 1949), age 72 (if you were born after June 30, 1949, and before Jan. 1, 1951), or age 73 (if you were born after Dec. 31, 1950).

Each year, manage your tax bill by comparing the tax treatment of your different accounts with your specific circumstances, including:

- Changes in tax rates that affect you.
- Unusually higher or lower current and expected future income.
- Whether it makes sense to buy or sell based on your investment objectives.

It may make sense to delay distributions from tax-deferred accounts as long as possible to minimize upfront taxes. Delaying distributions of Roth assets may be wise to maximize potential tax-free growth.

Alternatively, consider taking withdrawals each year from multiple types of accounts, with an eye toward staying in as low a tax bracket as possible. Different strategies may make sense during years in which you're in an unusually high or low tax bracket. For detailed guidance, consult a qualified tax professional.

To learn more about tax planning for your retirement assets and income, visit:

[www.missionsq.org/taxplanning](http://www.missionsq.org/taxplanning)

[www.missionsq.org/rmd](http://www.missionsq.org/rmd)

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## How should I manage my investments in retirement?

Many experts recommend that you keep enough cash to cover up to three years of living expenses as an emergency fund that is easy for you to access at any time.

Consider a diversified mix of stock and bond funds for the remainder of your investments. You can select the specific funds on your own from your available investment menu, or select a single, diversified target-date or target-risk fund that automatically readjusts its risk level based on its objective.

Another option is a lifetime income fund with guarantees and a diversified, rebalanced investment mix to help your assets generate income no matter how long you live. The guarantees are subject to an additional fee, the insurer's claims-paying ability, and restrictions due to excess withdrawals. However, these funds can help provide financial security and control for you as well as your spouse and loved ones.



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## What estate planning steps do I need to consider?

Estate planning isn't just for the wealthy. It ultimately involves ensuring decisions made about your assets, medical issues, and dependent children are carried out per your wishes rather than the courts' wishes and state law.

A proper estate plan can help minimize the following after your death:

- The emotional and financial burden on your loved ones.
- The potential costs and delays of probate.
- The potential impact of federal and state estate and inheritance taxes.

In addition, an estate plan can help direct decisions if you become incapacitated.

Consider meeting with a qualified estate planning attorney to review existing documents or to create new ones, including:

- **Beneficiary designations** for your retirement accounts, annuity contracts, and life insurance policies in order to direct distribution of assets.
- **A will and a trust** to direct distribution of other assets (through a will, you can also designate who will care for minor children and other dependents).
- **A living will, medical power of attorney, and financial/durable power of attorney** to direct medical and financial decisions if you become incapacitated.

Also consider whether you would benefit from charitable giving and other gifting strategies.

# Critical Ages for Retirement Planning

## Age 50

Beginning in the year you reach age 50, you can make additional catch-up contributions to eligible employer retirement plans and IRAs. In 2024, participants age 50 or older can contribute up to an additional:

- \$7,500 over the regular \$23,000 contribution limit to both a 457 Deferred Compensation Plan and a 401(k) plan, for a total of \$30,500 to each plan.
- \$1,000 over the regular \$7,000 limit to an IRA, for a total of \$8,000.

If you're a qualifying public safety employee, you can take withdrawals from a governmental defined benefit plan or 401(a) defined contribution plan without being subject to a 10% early withdrawal penalty tax. Separation from service must occur in or after the year you turn age 50.

\* Starting in 2024, certain participants must make plan age-based catch-ups as Roth.

## Age 55

If eligible, you can begin withdrawing from retirement plans sponsored by the employer you left without being subject to a 10% penalty tax (the penalty tax does not apply to 457 deferred compensation plans).<sup>1</sup>

Separation from service must occur in or after the year you turn age 55.

## Age 59½

You can begin withdrawing from employer retirement plans, if eligible under plan rules, or from an IRA without incurring the 10% penalty tax (the penalty tax does not apply to 457 deferred compensation plans).<sup>\*\*</sup>

<sup>\*\*</sup> Non-457 assets rolled into a 457 account maintain the same account characteristics and are subject to the 10% penalty if withdrawn before 59 ½.

## Age 62

You can begin receiving your Social Security benefits; however, the amount will be reduced by 25% to 30%, depending on the date of your birth.



<sup>1</sup> The 10% penalty tax never applies to withdrawals of original 457 plan contributions and associated earnings. But a penalty may apply to non-457 plan assets rolled into a 457 plan and subsequently withdrawn prior to age 59 ½.

Age  
**65**

You can enroll in Medicare, if eligible, and purchase Medigap insurance at standard rates. If you sign up for Medicare after three months have passed since the month of your 65th birthday, you may face higher premiums.

Your Medigap open enrollment period lasts for six months starting on the first day of the month in which you are 1) at least age 65 and 2) enrolled in Medicare Part B. During this period, an insurance company cannot deny you a Medigap policy, make you wait for coverage, or charge you more for a Medigap policy because of your health.



Age  
**66-67**

Depending on your date of birth, you can begin receiving unreduced Social Security benefits during this age range and earn any amount related to employment without impacting this benefit.

Age  
**70**

You can begin receiving maximum Social Security benefits, if your starting date was delayed to this age.

Age  
**73\***

Required Minimum Distributions (RMDs) from employer retirement plans and traditional IRAs begin when you reach age 73.\*

You can generally delay RMDs from plans sponsored by an employer for which you're still working until you retire.

\* Age 70 ½ (if you were born before July 1, 1949), age 72 (if you were born after June 30, 1949, and before Jan. 1, 1951), or age 73 (if you were born after Dec. 31, 1950).



## Next Steps

Ensuring a comfortable retirement involves learning about a variety of topics, including spending, investing, asset distributions, insurance, real estate, taxes, and estate planning. Each is potentially complex and all are interconnected, so decisions you make in one area can impact others.

Consider getting help from qualified financial, tax, insurance, and/or legal professionals to help guide your decisions. Be sure to understand the services they provide, how much they charge, and how they get paid.

**Contact your MissionSquare representative at (800) 326-7272.**

## Additional Resources

- Visit MissionSquare's Financial Wellness Center – right from your account – for 100+ interactive and fun short videos, charts, calculators, articles, and tutorials. Get answers to your questions about debt, emergency savings, college tuition planning, investing, retirement planning, and much more.
- A MissionSquare financial plan provides step-by-step guidance.  
[www.missionsq.org/financialplans](http://www.missionsq.org/financialplans)
- Learn more about what you should consider as you near and go through retirement.  
[www.missionsq.org/retiree](http://www.missionsq.org/retiree)
- Contact your MissionSquare representative at (800) 326-7272.



Founded in 1972, **MissionSquare Retirement** has helped more than 3 million people in public service retire well. MissionSquare is a mission-based financial services company that focuses on delivering results-oriented retirement plans, education, investments, and advice for those working in the public sector.

For more information, visit [www.missionsq.org](http://www.missionsq.org).

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