



Supplemental Retirement



Your choices to save!



State Retirement

- LASERS and Regular Teachers are “Defined Benefit” Plans
 - Members work for a certain period of time
 - Members contribute a set amount of their pay to the plan
 - Upon retirement members receive a defined benefit, or a pension for life



Note on ORP

- Teacher's Retirement System offers an Optional Retirement Plan (ORP).
- ORP is not a Defined Benefit plan
- Members of ORP can still elect to participate in Supplemental Retirement

Things to consider:

- How much income will you need?
 - Lifestyle
 - Expectations for the future
 - How many people your income will support
 - Tolerance for income variability
 - Your health
 - How much you want to leave to heirs
- Decide your target percentage





Simplified Example

- **LASERS member**
 - Works 30 years
 - Highest Average Comp is \$30,000
 - Chooses Maximum Benefit
 - Receives monthly check for life of \$1875.00 (75%)
- **Her target income**
 - 100%
 - \$2500 per month
- **Assuming \$0 Social Security, she needs a plan to fill in her retirement gap!**



Your choices to supplement your retirement

- As an employee of LSUS, you have two options:
 - 403(b) -- Tax Sheltered Annuity
 - 457 -- Deferred Comp



Similarities between 403(b) and 457

- Both are defined by the IRS as retirement savings accounts, designed to defer your income tax
- Your contributions are made Pre-Tax
 - Earnings and contributions are not taxed
 - Your current Adjusted Gross Income is reduced by the tax deferred amount
 - You pay taxes on the money when you make a distribution after retirement
- The assumption: your tax rate will be lower after you retire, thus saving you tax dollars.



Similarities between 403(b) and 457

- Money is withheld from your paycheck and automatically transferred to a designated Investment Vendor
- You decide how it is invested
- Money continues to grow on a tax deferred basis
- Only your contributions are added to your account (no matching)
- You may change your amount one time per year, but enroll/cancel at any time
- Both plans offer loan provisions



How does your money grow?

- **\$1,000 a year becomes:**

- 10 years: 15,347.14
- 20 years: 49,412.27
- 30 years: 125,024.60

- Assumes 8% return and compounded interest

- Source:

<http://www.bloomberg.com/analysis/calculators/401k.html>




Similarities between 403(b) and 457


- Allowable Contributions for 2006
 - Minimum contribution:
\$600 per year
 - Maximum contribution:
\$15,000 per year
 - Maximum contribution over 50:
\$20,000 per year



Tax Deferred Illustration



*	Gross Salary	Total Taxes	Take Home Pay	Savings Toward Retirement
Before	\$30,000	\$6,305	\$23,695	\$0
After	\$29,000	\$5,985	\$23,015	\$1,000
Difference in Take Home			-\$680.00	



*Assumes \$1,000 contribution, 28% marginal federal tax rate and 4% state and local taxes

*Taxes are paid on income when it is distributed



Differences between 403(b) and 457

403(b)	457
Offered only to members not-for-profit entities (i.e. educational institutions)	Offered only to government employees
Several investment vendors to choose from	One investment vendor available
Age limit on withdrawals (59 ½)	No age limits on withdrawals
Catch Up Contributions \$5,000 a year over 50 \$3,000 a year for 15 yrs service	May double contributions (\$15,000 additional) for three years prior to normal retirement

Unique to LSUS employees: You may elect the IRS maximum in both plans for up to \$28,000 retirement savings a year!



403(b) Tax Sheltered Annuities

- Vendors:
 - MetLife
 - TIAA-CREF
 - ING
 - AIG VALIC
- Three of these vendors will be here after the meeting in the lobby to answer any questions
- Each vendor has unique investment packages and options
- You decide which vendor to use



403(b), continued

- Cannot start taking withdrawals until age 59 ½, with some specific exceptions
- Withdrawals prior to that age incur 10% penalty
- Loans
 - Can borrow up to a specified amount from your 403(b)
 - Interest is paid to your account



457 (Deferred Compensation)

- Great-West is the only vendor in state of Louisiana
- Withdrawals can be made at any age (subject to income tax)
 - This is important if you plan to retire prior to 59 ½ and will need to supplement your retirement immediately.



Which one is better?

■ Answer: IT DEPENDS!

● Things to consider

■ Investment offerings

■ Current retirement accounts

■ Age upon retirement



Self-Directed Learning

- Investment Prospectus
- Vendor Websites
- Financial Websites
 - www.morningstar.com
 - www.motleyfool.com
 - www.choosetosave.org
- Continue Your Education
 - Retirement Classes
 - Personal Finance Classes
 - Continuing Ed offerings