CHARTING YOUR COURSE SERIES:

SAVING TOWARD YOUR RETIREMENT DREAMS

A Financial and Retirement Planning Guide

ICMA RC
Building Retirement Security

Charting Your Course Series: Saving Toward Your Retirement Dreams

A Financial and Retirement Planning Guide

Saving Toward Your Retirement Dreams is an *introduction to retirement planning* primarily geared toward public employees in the early to middle stage of their careers and financial levels. It includes several worksheets to help you develop a specific savings goal for retirement. Saving means controlling today's spending and setting money aside so you will have it for future use, such as retirement.

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Charting Your Course: Saving Toward Your Retirement Dreams

Saving: Where Your Retirement Plan Begins

Having enough money to be financially secure and independent for a long retirement life is a prerequisite to realizing your retirement dreams.

Starting to save as early as possible, saving enough, and prudently investing those savings will contribute significantly to your retirement security and independence, and make the difference between an acceptable retirement and the outstanding one you want!

This workbook will help you determine your retirement savings goal and develop your action plan for saving. As you use the guide, be sure to complete worksheets 1 through 5, starting on page 13 of this workbook, to assist you in the following steps:

1. Project your retirement income from Social Security, pensions, and investments, which will replace your employment salary.
2. Project your retirement expenses.
3. List your current net worth: your assets minus your liabilities.
4. Calculate how much you need to save in order to address any gaps between your projected income and your spending needs, upon reaching retirement.

Retirement success takes planning to understand how you can reach your savings goal and it takes action to achieve these goals. And now is the right time: It's never too early or too late to start saving toward the retirement of your dreams.

As you learn about strategies for saving, there are additional resources that can help:

- Visit ICMA-RC's website at www.icmarc.org, where you can access a wide range of financial planning and education resources.
- Contact ICMA-RC Investor Services at 800-669-7400 for general information or to find a retirement plans specialist who can discuss your savings goals with you.
- Our financial planning managers, all of whom hold the Certified Financial Planner (CFP®) designation,* offer in-depth and comprehensive seminars and consultations, and can facilitate delivery of customized financial plans, where appropriate.

**CFP® and Certified Financial Planner™ are certification marks owned by the Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successful complete the CFP Board's initial and ongoing certification requirements*

By starting to save as early as possible, and saving enough, you can have a powerful impact on your financial security in retirement.

Three Key Topics to Consider During Retirement Planning

1. **When will I retire?** Will you work part time during retirement? If you are married, will you and your spouse retire at the same time? Would you rather retire a bit earlier or work longer for added financial security?

2. **What is my life expectancy?** Today's retirees are living longer, are healthier and are leading more active lives than retirees of past years. Many will be retired for 30 years or more. In your planning, anticipate a long and active retirement.

3. **How will investment risk and inflation affect me?** Over the last 20 years, inflation has averaged about 3 percent. Even that modest rate has a big impact on the purchasing power of your money over time. Your plan must also reflect your best guess about probable investment earnings before and after you retire. These economic factors require you to make forecasts about the future and then monitor changes and make adjustments as needed.

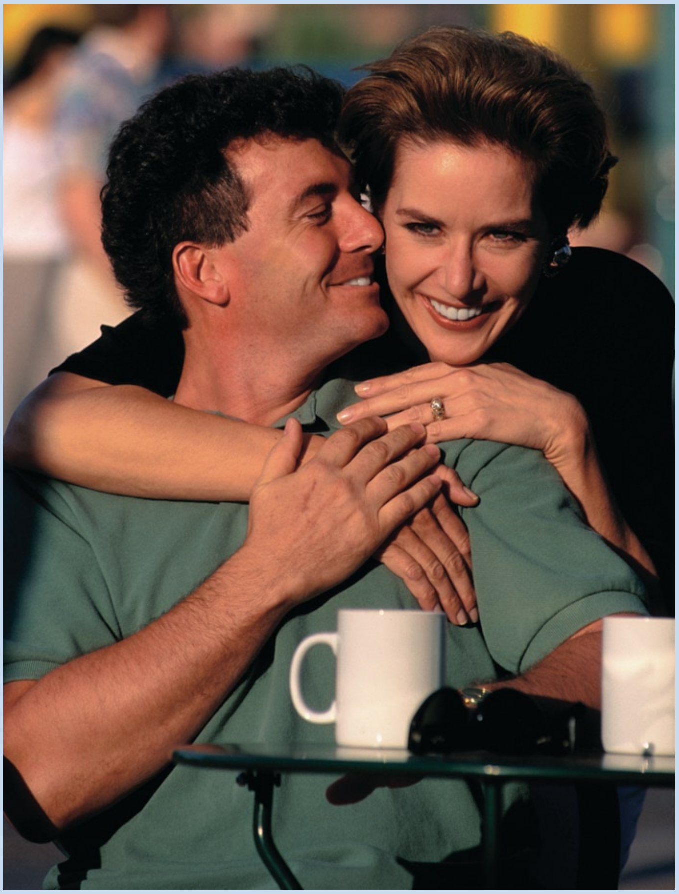
Meet George and Martha Smith, both age 44. After working as a building contractor for several years, George began working as a building inspector for the City of Midvale four years ago. Martha enjoys her part-time work as a teacher's aide but has no employer-provided pension. They worry that they have not started planning early enough for retirement. So, as a first step, George and Martha sit down and write out their retirement goals:*

- *retire in 18 years, at age 62, with income equal in purchasing power to their current income;*
- *move into a home that meets their retirement lifestyle; and*
- *travel at least twice a year.*

In good health, they anticipate being retired 25 years or more. They plan to contribute to their supplemental retirement plan until age 62.

Will George's pension and these savings, combined with any Social Security, be enough? Read on and find out.

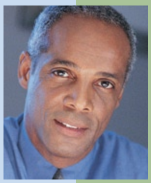
** Fictional individuals for illustrative purposes only.*



Why Not Wait Until Saving Gets Easier?

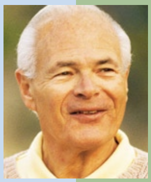
Let's say you're 25 years old and just beginning your career. Earnings are modest, and getting started in life can be awfully expensive. You may have rent, college loans, taxes, insurance and a car to pay for. There just doesn't seem to be any extra money. Retirement is so far off, anyway. There will be plenty of time to deal with it later on. You promise to pay attention to retirement saving in a few years, when you will surely be earning more and saving for retirement will be so much easier. However, it doesn't take much to get started.

At age 25, you would need to save $38 a month to accumulate **$100,000 by age 65** if you get a 7 percent investment return.



Now you're 45 and your pay is better, but your budget is stretched to meet family needs. You've started saving for retirement, but more serious retirement savings will just have to wait until after the house payment, vacation, new car, and kids' college fund. Soon enough, though, you promise yourself that you'll make a real commitment to retirement saving. When the children are grown, then you'll surely have the money to save. However, it's better to save a manageable amount now monthly towards your retirement.

At age 45, you would need to save $192 a month to accumulate **$100,000 by age 65** if you get a 7 percent investment return.

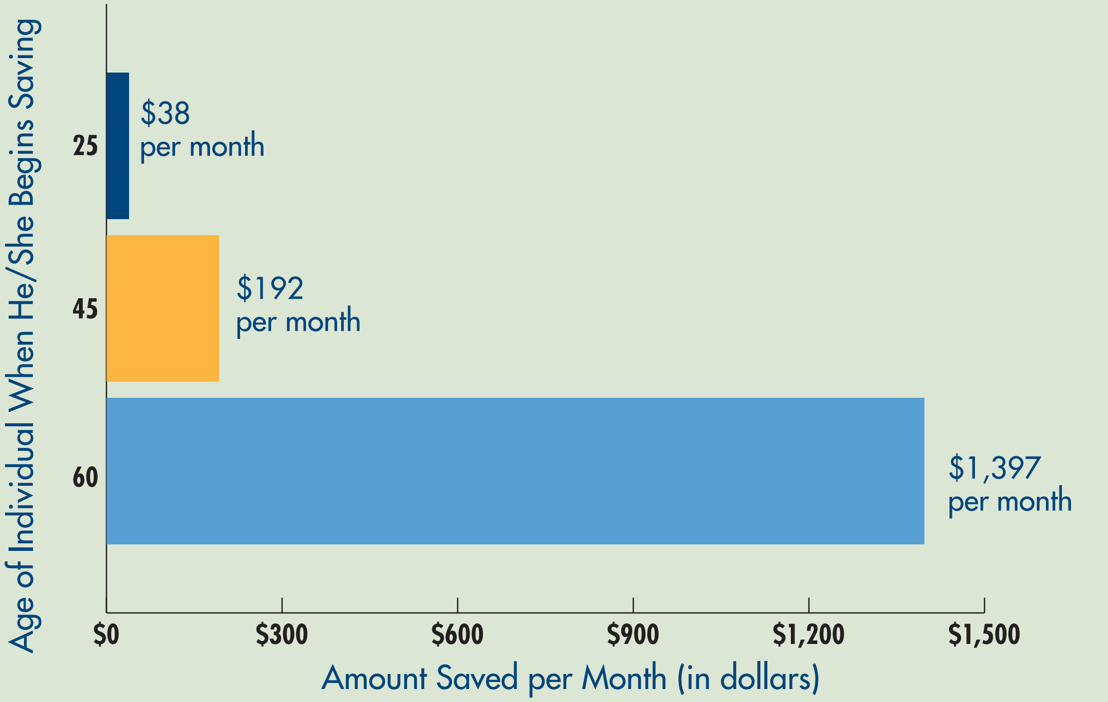


Suddenly, you're 60 years old and retirement is nearing. You can't put off serious retirement savings any longer. You've saved some but still don't have what you would need and figure that you need another $100,000 to retire with confidence in five years. Due to your late start, you'll need to save a much larger amount monthly to reach your goal.

At age 60, you would need to save $1,397 a month to accumulate **$100,000 by age 65** if you get a 7 percent investment return.

This example shows why you should not wait until saving gets easier. The sooner you begin, the less money you are likely to need to save on a regular basis.

Monthly Savings Required to Accumulate $100,000 by Age 65*



** For illustrative purposes only. Assumes a 7% rate of return. Actual results will be higher or lower, based on the performance of your underlying investments during the time periods you own them.*

Uncle Sam Wants to Be Your Savings Partner

If you start to take advantage of the tax-favored savings plans at work, you have a savings partner. Money that would otherwise be taxed immediately is invested, earning investment income that is taxed only when the money is withdrawn from the account. In fact, if you start saving early enough, the investment earnings on your savings could become more than the total amount that you saved. It's important to start saving now and invest in a way that works for you.

George Smith and his co-worker John hope to save $200 per month, or $2,400 per year of their gross income for retirement. Because John decides to invest it in a conventional, non-retirement account, only $1,800 is available after taxes. George, however, elects to defer it into a 457 plan. Because it is not subject to current year income taxes, the full $2,400 is available to be invested. The retiree who uses a 457 plan could have a higher living standard and better financial security than the person who uses only conventional investing methods.

Conventional Investment Account

Total to invest		Taxes taken out		Total invested
$2,400	–	$600	=	$1,800

Taxes taken out are based on the 25% tax bracket

Deferred Compensation Account

Total to invest		Taxes taken out		Total invested
$2,400	–	$0	=	$2,400

Assumes a 25% federal income tax bracket. For illustrative purposes only.

Where's the Money? Your Retirement Income Sources

It is likely that you will have retirement income from a variety of sources. Most government retirees can expect income from *their own investments, pension and Social Security.*

However, a significant number of public employees are not covered by Social Security, and not all will qualify for a pension.

1. Your Investments

The retirement income over which you'll have the most control will come from your invested savings, including tax-advantaged retirement accounts such as 457 deferred compensation accounts and individual retirement accounts (IRAs). These accounts provide you with more control over contributions, investments, and withdrawals than Social Security or your employer's pension plan(s).

Most public sector pensions are designed, together with Social Security, to provide an acceptable level of retirement income for those who have had long careers in the system. It's your retirement investments that can make the difference between an adequate retirement and the retirement of your dreams. *This is the money that can turn your retirement dreams into realities.* (See the *Investing for Retirement* booklet, also part of our *Charting Your Course* series, for more on investing.)

2. Your Pension

Pension plans have complicated rules for eligibility and benefits. Understanding how your pension works is a very important part of retirement planning. Some retirees may qualify for more than one pension if they had more than one employer. And, if your spouse has a pension, you should understand this too.

For many government retirees, the largest single source of retirement income is their employer-sponsored pension plan. Your pension plan may be either a defined benefit or a defined contribution plan.

- A *defined benefit plan* pays a specific retirement benefit, calculated using a predetermined formula.
- A *defined contribution plan* provides an individual account for each participant. Retirement benefits depend on the balance in this account, which results from contributions by the participant and/or the employer, plus investment return.

Don't Be a Retirement Dipper

Regardless of the type of retirement plan you participate in, you should reserve those invested assets exclusively for your retirement.

Although some types of plan assets may become available if you change jobs, don't dip into them. There may also be tax consequences depending on the type of retirement plan you participate in. You could regret the decision when the time comes to retire.

Some pension plans combine features of both types, perhaps allowing the employee to make choices about how benefits are received.

Your plan administrator can provide you with your plan's summary plan description. Most plans can help estimate the benefit you should expect at retirement, making assumptions for your final salary, investment earnings or other variables.

For *defined benefit plans,* understand how your benefit is calculated and how each of the numbers used is defined and determined. Most defined benefit plan formulas multiply three numbers to calculate a benefit. Note that the definitions of these numbers vary from plan to plan and may even differ for employees of the same organization, depending on the date of hire and the employee's age or job classification. Generally, your benefit is calculated by using the following factors:

- Number of years of service credit earned in the pension system.
- Salary, defined (for example) as the highest single year, the final year, the average of the highest one, three or five years' salary, etc.
- A percentage multiplier.

For example, if your final average salary is $50,000, you'll have 20 years of service credit at retirement and your plan uses a 2 percent multiplier, your first year's unadjusted pension would be $20,000 ($50,000 x 20 years x 2 percent = $20,000).

Pensions may be adjusted for the following reasons:

- If you are married, your pension will probably be adjusted to provide payments for two lifetimes. At retirement, you may be faced with several choices for payment, depending on the level and whether plan benefits are to be continued to a spouse after the death of the plan participant.
- Many government defined benefit pension plans adjust payments for inflation but often limit this cost-of-living adjustment (COLA), for example, to 60 percent of the consumer price index (CPI) or, perhaps, to a maximum of 2 percent. Although this COLA is an important benefit, if it is limited in this way it will not keep up the purchasing power of your pension over a long retirement.

Take Action

Complete Worksheet 1 — "My Pension Plan" on page 13.

With *defined contribution plans*, you have an account to which both you and your employer can contribute. The value of this individual account determines the amount of your benefits. Defined contribution plans typically allow you to direct investment of your own account among several options. These plans may have flexible payment options, allowing you more control over when and how payments are taken, within plan rules.

Take Action

Complete Worksheet 2 — "My Social Security Checklist" on page 15.

If you are married, your pension will probably be adjusted to provide payments for two lifetimes.

Will Social Security Be There for You?

There has been a lot of talk about the future of Social Security. The question lots of people, especially younger workers, are asking is whether they will get a Social Security benefit at all. Should they at least reduce the amount they plan to get, just to be on the safe side?

The *2010 Social Security Trustees' Report* estimates that, even with no changes in the law, there will be money to pay full benefits until 2037, and to pay 75 percent of full benefits through 2084.

Many proposals have been made to reform the system. There is no way to tell what the final resolution will be or when it will happen. As the policy debate continues, it may be wise — especially for those still many years from retirement age — to reduce the amount of their planned Social Security benefit. The further away you are from retirement age, the greater this discount percentage would be.

3. Social Security

Though not all public employees qualify for Social Security retirement benefits, any expected Social Security benefits should be included in your retirement plan. The Social Security Administration (SSA) estimates your retirement benefits on the Social Security statement you get each year approximately three months before your birthday. You may want to request your own statement to reflect expectations of your future salary at retirement age. To request your estimate, call the SSA at 800-772-1213 or go to www.ssa.gov.

Your Social Security benefits are determined by a complex formula based on the 35 years of highest earnings over your lifetime, when the earnings occurred, your birth date, and your age at the time payments begin. Normal retirement age is increasing in steps, from 65 to 67, depending on your year of birth.

Starting payments before your normal retirement age will reduce the payment amount of each Social Security check, but then you will get more of them. Waiting until after your normal retirement age may increase your check amount.

Identifying Your Retirement Income Gap

Now that you have an idea of your retirement income from pensions and Social Security, let's compare this amount to what you will need when you reach retirement. What is the difference between your expected pension and Social Security and the amount of retirement income you will need? What can you do to fill this retirement income gap?

Estimating Your Retirement Expenses

Your expense estimate is one of your most powerful retirement planning numbers, the one that determines how much income you will need. The consideration that goes into looking at your current spending and thinking about how it may change in retirement will help you make a better estimate than just using an arbitrary percentage.

Worksheet 3 helps you estimate your retirement expenses. After completing it, you can compare your living costs today with the expected costs at retirement. Here are some factors to consider:

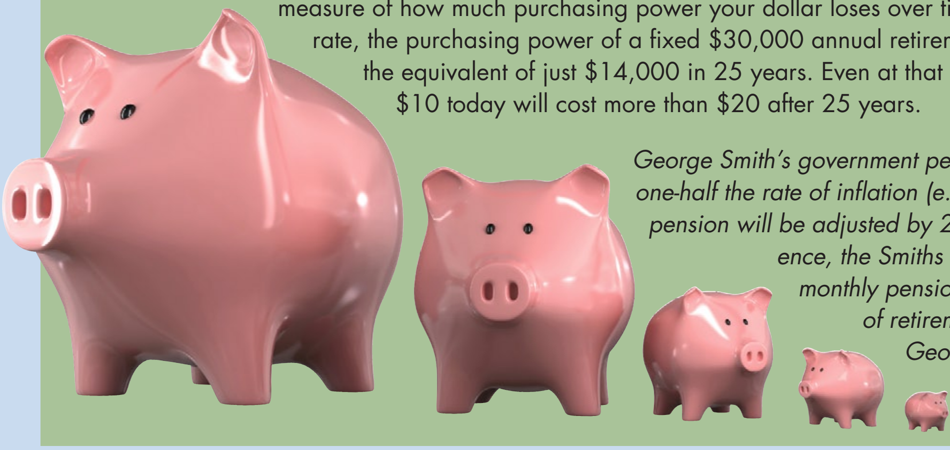
- Will you need to replace employer-provided benefits such as life or medical insurance?
- Will both you and your spouse be eligible for Medicare immediately upon retirement, or will you need to provide other coverage in case of a delay in eligibility? How would you pay for long-term care (such as a nursing home)?
- Will you have paid off your mortgage? In your area, have there been increases in the carrying costs of properties such as taxes, property insurance, utilities and maintenance?
- Will you have new expenses for retirement activities such as travel, sports or hobbies?
- Will you be financially responsible for dependents or elderly parents?
- Do you plan to make significant charitable or family gifts?
- Do you have funds to meet emergencies or to maintain the purchasing power of your income over time?

Take Action

Complete Worksheet 3 — "My Retirement Spending Estimate" on page 17.

Save for Inflation

One of the most serious financial issues for retirees is the impact, over time, of inflation. Inflation is a measure of how much purchasing power your dollar loses over time. At a modest 3 percent inflation rate, the purchasing power of a fixed $30,000 annual retirement income will gradually erode to the equivalent of just $14,000 in 25 years. Even at that low inflation rate, an item that costs $10 today will cost more than $20 after 25 years.



George Smith's government pension will be inflation-adjusted by one-half the rate of inflation (e.g., if inflation rises by 4 percent, his pension will be adjusted by 2 percent). To protect against the difference, the Smiths will save about 8 percent of George's monthly pension distribution during the first years of retirement. They'd have to save more if George's pension was not inflation-adjusted at all.

Preparing Your Personal Balance Sheet

You have estimated your retirement expenses and the income you can expect from pensions and Social Security. Now let's see what other funds you may have available to reserve for retirement and what your long-term debt looks like.

A balance sheet, or net worth statement, is a financial planning tool to compare what you own with what you owe — your assets versus your liabilities. Doing a balance sheet each year helps you keep track of your progress. A balance sheet for retirement planning might also help you find additional assets to invest for retirement.

Using Worksheet 4 on page 19, list the current market value of what you own and what you owe. After you subtract your liabilities (financial obligations or debts) from your assets (anything you own that has a financial value), you will know your net worth.

Take a look at your list of assets and ask yourself:

- Do I have an emergency fund equal to at least three to six months' worth of household expenses?
- Have I earmarked specific assets as retirement savings?
- Are my assets invested in a variety of ways (that is, are they diversified), or do I have too many of my investment "eggs" in one investment "basket"?
- Do these investments reflect my need for reasonable return? Or am I depending too much on low-interest savings accounts? Are my investments too risky for my comfort?

You can also use the retirement planning calculators on the ICMA-RC website at www.icmarc.org as another resource.

A balance sheet, or net worth statement, is a financial planning tool to compare what you own with what you owe — your assets versus your liabilities.

Now look at your liabilities and ask yourself:

- Am I comfortable with the amount of debt that I am carrying?
- What can I do to reduce my total debt?
- What can I do to pay off my debts (or reduce them substantially) by the time I retire?

Take Action

Complete Worksheet 4 — "My Balance Sheet" on page 19.

4

Putting It All Together

You have assembled the information you'll need for your plan. Let's put it together and see how close you are to meeting your retirement income goals. Worksheet 5 helps you do this. Remember to use the current value of the dollar. The effect of inflation is taken into account on this worksheet.

Take Action

Complete Worksheet 5 — "How Much Do I Need to Save?" on page 21.

5

Making an Inflation Assumption

Although history is an imperfect guide, it is all we have to suggest such matters as future investment return or inflation. These assumptions are part of the calculation you will do with Worksheet 5 to estimate how much you need to save to fill any retirement income gap.

According to the Bureau of Labor Statistics, inflation as measured by the consumer price index has averaged about 3.4 percent since 1913. In more recent decades it has averaged as follows:

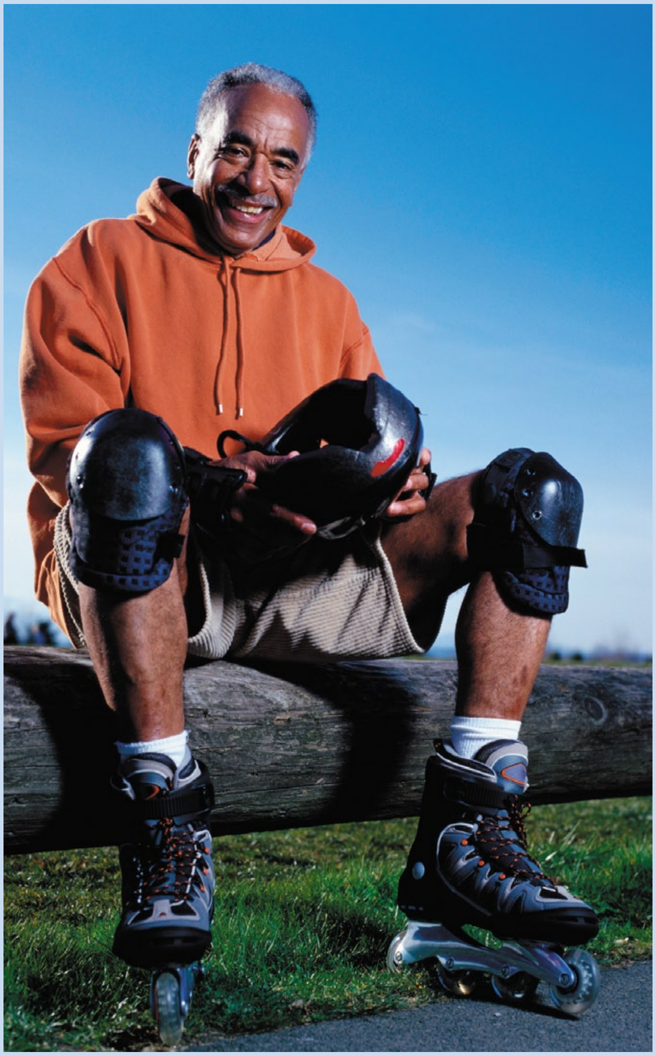
1950–59	2.1%
1960–69	2.4%
1970–79	7.1%
1980–89	5.6%
1990–99	3.0%
2000–09	2.6%

George Smith decided to use a 3 percent inflation assumption.

Making a Life Expectancy Assumption

We all know that our generation can expect to live longer — much longer — than our grandparents did. As recently as 1950, the average 65-year-old American man could expect to live to age 77 and a woman to 79. Fifty years later, the average 65-year-old man could expect to live to age 81 and the woman to 84. And these numbers keep going up.

Knowing that there is a 50 percent chance of outliving these averages, George Smith planned for payments lasting 25 years beyond his retirement at age 62.



Nine Steps to Refining Your Retirement Plan

Once you have considered your expected needs in retirement and developed a plan to meet those needs, reconsidering certain aspects of your plan may help you to find ways to increase your savings or reduce your expenses.

1. **Review your current spending.** Most of us can save more than we think, especially if we commit to a regular payroll investment plan.

2. **Look again at your balance sheet.** Are assets available that you can earmark for retirement savings now? Do you have other assets, such as part of the equity in your home (if you plan to rent or purchase a less expensive retirement home) or the cash value of a life insurance policy?

3. **Examine how your investment portfolio is allocated.** Could you invest some of your savings in ways that may improve your rate of return that are still consistent with your personal risk tolerance?

4. **Determine if you can adjust your retirement date.** Even one more year of working may help you boost your savings significantly. Your pension and Social Security benefits could grow, too.

5. **Review your retirement budget estimate.** Are any expenses you have noted over- or underestimated?

6. **Check your retirement income estimate.** Have you included both spouses' pensions and Social Security?

7. **Consider other tax-deferred investment vehicles** in addition to your employer retirement plan. Traditional IRA contributions may or may not be tax-deductible, but the earnings are tax-deferred. In the case of a Roth IRA, while contributions are never tax-deductible, earnings may be entirely tax-free.

8. **Consider part-time work during the first years of retirement.** The extra income will be helpful, and many retirees find that part-time work helps to ease the adjustment to a new retirement lifestyle. Be aware that income earned while drawing Social Security benefits before the Social Security full-retirement age can affect Social Security or other retirement income.

9. **Consider making catch-up contributions to your 457 deferred compensation plan.** If you are age 50 or over as of the end of the year, or are within three years of the year prior to your plan's normal retirement age, you may be eligible to contribute more than the normal limits.

Take Action to Realize Your Retirement Goals

By reading this guide and completing Worksheets 1 through 5, you've already gotten a head start in saving for your life's dream.

Here are three key ideas to remember as you save and plan for your retirement:

1. **Start as early as possible**. Although early planning can be tricky, it's important to get started. By setting financial goals and saving targets you are taking control of your retirement future.

2. **Consider all income sources and expenses.** As you save and plan for retirement, you will want to consider all of your possible sources of income. An equally important consideration is the expenses you may have, as this has a direct impact on how much income you will need.

3. **Revisit and adjust your plan, as needed.** Saving for retirement requires more than a one-time plan. It requires you to review your plan periodically to ensure you are on track to meet your retirement savings goals.

Just before you retire, and as you actually make the transition into retirement, you'll make many detailed decisions that are beyond the scope of this workbook. When more detailed planning is needed close to retirement, see ICMA-RC's retirement guidebook *Reaching Your Dreams*, which can be ordered from ICMA-RC toll-free at 800-669-7400.

An IRA Can Add to Your Retirement Income

An individual retirement account is a tax-deferred account that allows you to build assets for your retirement. Both you and your spouse may contribute to an IRA every year that either of you have earned income, regardless of your participation in pension or deferred compensation plans.

Depending on your income, eligibility to participate in a pension plan, and type of IRA, contributions may or may not be tax-deductible. Regardless, your investment earnings compound tax-deferred and, in the case of Roth IRAs, may be tax-free.

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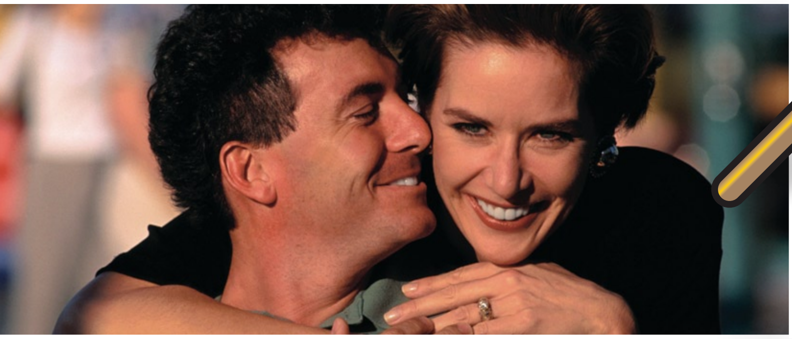
Worksheets



George and Martha Smith

- Both age 44
- Retire in 18 years, at age 62, with income equal in purchasing power to their current income
- Anticipate being retired 25 years or more

WORKSHEET 1: My Personal Pension Plan

It is vital that you know what to expect from every employer's retirement plan in which you have vested benefits. Take the time to find out the answers to these questions by reviewing your plan's summary plan description or by asking your employer's benefits office. This worksheet will help you collect this information and keep it for future reference.

1. Are you covered by a pension/retirement plan? . . . . . Yes ☐ No ☐
2. What type of plan(s) does your employer offer? Defined benefit ☐ Defined contribution ☐
3. Are you required to contribute to the plan? . . . . . Yes ☐ No ☐
4. What percentage of salary or dollar amount are the minimum and maximum contribution amounts? ____________
5. Do you have the option of making additional voluntary contributions to the plan? . . . . . Yes ☐ No ☐
6. What is the vesting schedule? ____________
7. Are you fully vested? . . . . . Yes ☐ No ☐
8. If not, when will you be fully vested? ____________
9. If you leave employment before retiring, what happens to your vested benefits? ____________
10. Can you roll benefits over to your new employer's plan or an IRA? . . . . . Yes ☐ No ☐
11. What are the age and service requirements to qualify for benefits? ____________
    ____
12. When will you qualify for full benefits? ____________
13. What is the plan's normal retirement age? ____________
14. Can you retire early, and if you do, will you qualify for full benefits? . . . . . Yes ☐ No ☐
15. Will working past retirement age increase your benefits? . . . . . Yes ☐ No ☐
16. Does the plan provide a survivor benefit option? . . . . . Yes ☐ No ☐
17. Is the cost of this provision reasonable in terms of the reduction in the normal benefit and your need for it? . . . . . Yes ☐ No ☐
18. What is your estimated annual defined benefit pension in today's dollars? (Exclude defined contribution benefit.) $ ____________

(Add this amount to Worksheet 5)

(over)

WORKSHEET 1: My Personal Pension Plan *(continued)*

ADDITIONAL QUESTIONS TO ASK FOR EACH PLAN TYPE

For Defined Contribution Plans

1. What are the investment options? ______________________________

2. What is the employer contribution? ______________________________

3. What payout options are available? ______________________________

4. Can you take a lump-sum benefit payment? . . . . Yes ☐ No ☐

5. Can you change the benefit payment schedule to meet retirement income needs as they change? . . . . Yes ☐ No ☐

For Defined Benefit Plans

1. What formula is used to calculate pension payments? If used in the formula, how is "final salary" defined? ______________________________

   ____

2. Will your pension be adjusted for the cost of living? . . . . Yes ☐ No ☐

   If so, what formula is used to calculate these adjustments? ______________________________

3. Does your plan have such features as a Deferred Retirement Option Plan (DROP)? . . . . Yes ☐ No ☐

   or allow purchase of service credits? . . . . Yes ☐ No ☐

WORKSHEET 2: My Social Security Checklist

The best way to get your Social Security benefit estimate is to look at the most recent copy of your Social Security statement and your spouse's. If these are not available, or if yours does not reflect your assumptions, for example, about future earnings, go to www.ssa.gov/planners/calculators.htm to do an online estimate or to request that a benefit estimate be mailed to you. This checklist helps you estimate your social security benefit.

1. Are you covered by Social Security in your current job? . . . . Yes ☐ No ☐
   If you are not sure, contact your employer.
2. Will you receive retirement benefits from a job in which you did not pay Social Security? . . . . Yes ☐ No ☐
   (If yes, go to www.ssa.gov/wep-chart or call Social Security at 800-772-1213 to estimate how these benefits will impact your Social Security payments.)
3. At what age do you expect to begin drawing benefits? ____________________
4. What is your expected retirement benefit at age 62? $ ____________________
5. What is your expected retirement benefit at full retirement age? $ ____________________
6. What is your expected retirement benefit at age 70? $ ____________________
7. What is your spouse's expected benefit at age 62? $ ____________________
8. What is your spouse's expected benefit at his/her full retirement age? $ ____________________
9. What is your spouse's expected benefit at age 70? $ ____________________
10. What is 50 percent of the higher of the two benefits at the age you or your spouse expect to begin drawing benefits? $ ____________________

    Is either your or your spouse's normal benefit, at the age you expect to begin drawing benefits, less than 50 percent of the higher of the two benefits? If so, use 50 percent of the higher spouse's benefit in place of the lower spouse's benefit amount. *For example, if George Smith's benefit is $1,000 and Martha's is $400, her benefit will be 50 percent of George's, or $500, in place of her own benefit.*
11. Total of your own and spouse's benefits $ ____________________
    (Add this amount to your pension for use on Worksheet 5.)

WORKSHEET 2

Social Security for Those Who Were Not Always Covered

Even if you are not covered by Social Security in your government job, you may be eligible for benefits as the spouse of a covered worker or from other covered work. If so, the benefits estimated from your Social Security statement will be wrong.

First, if you receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, your spouse's or widow's or widower's Social Security benefits may be reduced by $2 for each $3 in government pension you receive. See Government Pension Offset Social Security publication 05-10007 or go to www.ssa.gov/gpo.

Second, if you didn't pay Social Security taxes on your government earnings and you are eligible for Social Security benefits, the formula used to figure your benefit amount may be modified, giving you a lower benefit. See Social Security publication 05-10045, *A Pension from Work Not Covered by Social Security,* or go to www.ssa.gov/wep.

WORKSHEET 3: My Retirement Spending Estimate

Make all annual retirement expense estimates in terms of today's dollars. Later in this process, you will adjust estimates for inflation. You will use this estimate on Worksheet 5. Even if you decide to use a percentage estimate of your current income for your retirement income estimate, it will be useful to go through this process to help guide your estimate. This worksheet helps you estimate how much you will be spending in retirement.

	CURRENT		RETIREMENT	
	You	Smith Family Example	You	Smith Family Example
HOUSING				
Mortgage payment/rent	________	$10,200	________	$ 0
Real estate taxes	________	3,200	________	3,200
Home insurance	________	925	________	925
Utilities	________	2,500	________	2,750
Property maintenance	________	1,200	________	1,200
OTHER ESSENTIALS				
Food	________	4,160	________	6,000
Clothing	________	1,440	________	900
Savings	________	12,000	________	1,200
TRANSPORTATION				
Car payments	________	5,600	________	3,800
License/tax	________	750	________	750
Maintenance	________	700	________	900
Gas/oil	________	1,500	________	2,500
Auto insurance	________	1,080	________	1,120
Travel	________	2,800	________	8,600
HOBBIES AND ENTERTAINMENT				
Self	________	500	________	2,200
Spouse	________	500	________	2,200
TAXES				
Federal income tax	________	5,410	________	4,750
State income tax	________	1,200	________	875
FICA	________	2,825	________	0
Other	________	500	________	500
OTHER INSURANCE				
Life	________	840	________	0
Health	________	600	________	8,400
Long-term care	________	0	________	3,230
MISCELLANEOUS				
Gifts	________	2,400	________	2,400
Other	________	700	________	1,600
TOTAL SPENDING ESTIMATE *(Add Retirement Spending Estimate to Worksheet 5)*	________	$63,530	________	$60,000

WORKSHEET 3

WORKSHEET 4: My Balance Sheet

MY ASSETS AT CURRENT MARKET VALUE*	
PROPERTY ASSETS	
Home	$ ________
Other real estate	________
Automobiles	________
Collections, etc.	________
LIQUID ASSETS AND OTHER INVESTMENTS	
Cash and checking accounts	________
Savings accounts	________
Money market funds	________
Mutual funds and stocks	________
Bonds	________
Insurance cash value	________
Savings bonds	________
Vested pension**	________
Other	________
TAX-DEFERRED RETIREMENT ASSETS	
457 deferred compensation	________
IRAs	________
	________
Other	________
	________
TOTAL ASSETS	$ ________
LIABILITIES	
Short-Term Debt	
Outstanding bills	________
Credit card balances	________
Auto loans	________
Bank and installment loans	________
Other	________
Mortgages and Long-Term Debt	
Home mortgage balance	________
Other long-term debt	________
TOTAL LIABILITIES	$ ________
TOTAL ASSETS	________
Less TOTAL LIABILITIES	________
Equals NET WORTH	________

SMITHS' ASSETS AT CURRENT MARKET VALUE*	
PROPERTY ASSETS	
Home	$189,000
Other real estate	0
Automobiles	18,500
Collections, etc.	500
LIQUID ASSETS AND OTHER INVESTMENTS	
Cash and checking accounts	2,300
Savings accounts	4,123
Money market funds	0
Mutual funds and stocks	0
Bonds	0
Insurance cash value	200
Savings bonds	0
Vested pension**	22,000
Other	0
TAX-DEFERRED RETIREMENT ASSETS	
457 deferred compensation	24,500
IRAs	500
Other	0
TOTAL ASSETS	$261,623
LIABILITIES	
Short-Term Debt	
Outstanding bills	225
Credit card balances	1,765
Auto loans	9,855
Bank and installment loans	0
Other	0
Mortgages and Long-Term Debt	
Home mortgage balance	92,567
Other long-term debt	0
TOTAL LIABILITIES	$104,412
TOTAL ASSETS	261,623
Less TOTAL LIABILITIES	104,412
Equals NET WORTH	$157,211

* *Value in today's dollars.*
** *Vested pension is the lump-sum payment you would receive if you left work.*

WORKSHEET 5: How Much Do I Need to Save?

On this worksheet you will determine how much your current savings, pension and other assets will provide for your retirement. You will also calculate how much more, if any, you will need to save annually to meet your retirement goals. So far, all your estimates and calculations were done using the current value of the dollar. The value of today's dollar must be adjusted for inflation, because real purchasing power at retirement or later is what is important. This worksheet will incorporate the effects of inflation on your financial plans.

WORKSHEET GUIDELINES

How much income will I have in retirement?

- On line 1, put in the annual income you think you will need in your first year of retirement. Use the figure you calculated on Worksheet 3.
- On line 2, put in the annual amounts you expect from your defined benefit pension plan(s) plus Social Security. (Your defined contribution pension and deferred compensation balances will go on line 8.)

Do I have a gap in my retirement income?

- Line 3 (line 1 minus line 2) is your retirement income gap, the additional income you will need to meet your retirement income objectives.
- On line 4, put in the inflation factor from Table I (page 22). The left side of the table lists the number of years until you retire. Across the top are several possible rates of inflation. Determine where your years to retirement meets your expected rate of inflation. This is your inflation factor. Multiply line 3 by line 4 to get line 5. This is the value of your retirement income gap after inflation.
- Line 6 helps you determine the amount you'll need to save each year to close your retirement income gap. Use Table II (page 22) to find your payment factor. On the left side is the number of years you will be getting payments. (See page 10 for information on life expectancy assumptions.) On the top is the expected rate of earnings on your investments. You may want to assume a lower rate than in your working years to allow for more conservative investing in retirement. This table assumes a 3 percent annual increase in your payments to protect the purchasing power of your investments from inflation.
- Line 7 (line 6 multiplied by line 5) is the total amount of investments you will need when you retire to close the gap.
- On line 8, put in your current retirement savings including defined contribution plans and section 457 deferred compensation balances, IRAs and other assets available for retirement.
- On line 9, insert a savings compounding factor from Table I, based on the rate you expect your savings to earn. Line 10 (line 8 multiplied by line 9) estimates the value of your current investments at retirement.

How much more do I need to save now?

- Line 11 (line 7 minus line 10) is the amount of additional investments you'll need at retirement. Line 11 is your savings gap.
- Use line 12 and Table III (inside back cover) to help figure out what you will need to save today to meet your retirement savings goal. On the left side of the table is the number of years until you retire. Across the top is the expected rate of return on your tax-deferred savings account.
- On Line 13, multiply line 11 by line 12. With the assumptions you have made, this is the amount you must save annually to meet your retirement income goals.
- On line 14, put in the amount you currently save annually.
- Line 15 (line 13 minus line 14) is the additional amount you need to save annually now to meet your future retirement income goals.

If you have a retirement income gap, refer to page 10 for nine steps to refining your retirement plan.

Tables

Table I: Inflation Factors/Compounding Factors

This table does two things. First, it gives factors to adjust your retirement income needs for the effects of pre-retirement inflation. To maintain the same purchasing power with 18 years until retirement, assuming 3% inflation, the inflation factor used is 1.70 MULTIPLIED by the additional income needed in today's dollars.

Inflation Factor or Compounding Factor if Inflation Rate Is:

Years Until Retirement	3%	4%	5%	6%	7%	8%	9%	10%
2	1.06	1.08	1.10	1.12	1.14	1.17	1.19	1.22
3	1.09	1.12	1.16	1.19	1.23	1.26	1.30	1.33
4	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46
5	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61
6	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77
8	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14
10	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59
12	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14
14	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80
16	1.60	1.87	2.18	2.54	2.95	3.43	3.97	4.59
18	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56
20	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73
25	2.09	2.69	3.39	4.29	5.43	6.85	8.62	10.83
30	2.43	3.24	4.32	5.74	7.61	10.06	13.27	17.49

The table also shows the effect of compounded earnings on the retirement savings you may already have. In the example on Worksheet 5, $25,000 is already saved toward retirement. It is assumed that this money will earn 7% (tax deferred) prior to retirement in 18 years, so these savings are MULTIPLIED by the compounding factor 3.38. (When using this table to fill out Worksheet 5, use your inflation estimate from page 9.)

Table II: Payment Factors

This table gives you factors to calculate the lump-sum balance you will need at retirement so you can receive inflation-adjusted payments for a given number of years with a given rate of earnings assumption.

Note that the table builds in a 3% cost of living annual inflation adjustment, so the second and each subsequent year's payment will increase by 3%.

Rate of Earnings

Years of Payments	5%	6%	7%	8%	9%	10%
5	4.72	4.59	4.47	4.35	4.23	4.12
10	9.01	8.57	8.16	7.78	7.42	7.09
15	12.91	12.01	11.21	10.48	9.82	9.23
20	16.44	15.00	13.73	12.62	11.63	10.76
25	19.66	17.58	15.82	14.30	13.00	11.87
30	22.58	19.82	17.54	15.63	14.03	12.67
35	25.23	21.76	18.96	16.68	14.80	13.24

Table III: Savings Factors

This table shows how much you will need to save each year to reach your retirement goals. In the example on Worksheet 5, this factor is MULTIPLIED by the $363,790 needed at retirement to support the annual income goal.

Annual Interest Rate on Tax Deferred Investments

Years Until Retirement	6%	7%	8%	9%	10%
2	.485	.483	.481	.478	.476
3	.314	.312	.308	.305	.302
4	.229	.225	.222	.219	.216
5	.177	.174	.170	.167	.164
6	.143	.140	.136	.133	.130
7	.119	.116	.112	.109	.105
8	.101	.097	.094	.091	.087
9	.087	.083	.080	.077	.074
10	.076	.072	.069	.066	.063
12	.059	.056	.053	.050	.047
14	.048	.044	.041	.038	.036
16	.039	.036	.033	.030	.028
18	.032	.029	.027	.024	.022
20	.027	.024	.022	.020	.017
25	.018	.016	.014	.012	.010
30	.013	.011	.009	.007	.006

WORKSHEET 5: How Much Do I Need to Save? *(continued)*

	Your Numbers	Smith Family Example*
How much income will I have in retirement		
1. Desired first-year retirement income in today's dollars (See Retirement Spending Estimate on Worksheet 3) or 75 to 85 percent of your current gross income	$ ________	$60,000
2. Less: Total annual estimated defined benefit pension income plus Social Security in today's dollars *(See Pension and Social Security on pages 4 and 6 and Defined Benefit and Social Security Estimates from Worksheets 1 and 2.)*	$ ________	$45,000
Do I have a gap in my retirement income?		
3. Equals: Your retirement income gap *before* inflation	$ ________	$15,000
4. Inflation factor (Table I, page 22)	________	1.70
5. Line 4 multiplied by line 3: Your retirement income gap *after* inflation	$ ________	$25,500
6. Payment factor (Table II, page 22)	________	17.58
7. Line 6 multiplied by line 5: Funds needed at retirement to close the income gap	$ ________	$448,290
8. Retirement savings available now (including defined contributions and deferred compensation)	$ ________	$25,000
9. Compounding factor (Table I, page 22)	________	3.38
10. Line 8 multiplied by line 9: Future value of available savings	$ ________	$84,500
How much more do I need to save now?		
11. Line 7 minus line 10: Additional savings needed at retirement	$ ________	$363,790
12. Savings factor (Table III, page 22)	________	.029
13. Line 11 multiplied by line 12: Annual savings needed now to reach future retirement income goal	$ ________	$10,550
14. Less: Amount you are currently saving	$ ________	$5,000
15. Equals: Annual *additional* savings needed now**	$ ________	$5,550

* Figures for the Smith example are based on these assumptions:
- 18 years until retirement
- Savings earn 7 percent before retirement and 6 percent after retirement
- Payouts last 25 years
- 3 percent preretirement inflation (3 percent post-retirement inflation rate built into tables)

** It is recommended that you complete this worksheet on at least a yearly basis to adjust for changing circumstances. If your circumstances have not changed and you are following the annual additional savings guideline, you must adjust it for inflation yearly.

Other Relevant Resources — Where to Go for More Information

Your retirement plan should provide a basic road map for attaining your financial retirement goals. Here are some additional resources available to you — most of which you can obtain from ICMA-RC:

Personalized Services

- As an ICMA-RC retirement plan participant, you can obtain a "benefits illustration" that estimates retirement income based on various assumptions, such as contribution amounts, retirement and withdrawal ages, investment returns, and inflation. For more information, ask your local ICMA-RC retirement plans specialist or ICMA-RC Investor Services (800-669-7400) about a "benefits illustration."
- ICMA-RC's Personal Planning Solutions team offers financial plans that can help project your overall financial future, in addition to retirement planning. For more information, email premierplanning@icmarc.org, call your local ICMA-RC financial planning manager, or call Investor Services at 800-669-7400.

Publications

- **In addition, by calling 800-669-7400, you can obtain copies of the following brochures:**
    - *457 Plans: Investing for Retirement Goals* provides an overview of the benefits of participating in a 457 deferred compensation plan.
    - *401(a) Money Purchase Plans: Investing for Retirement Goals* provides a summary of the benefits and features of a 401(a) money purchase plan.
    - *Building Your Portfolio: A Guide to Asset Allocation* assists you in making decisions about allocating your investments.
    - *Charting Your Course Series: Investing for Retirement* discusses investment principles for long-term goals such as retirement.
    - *Reaching Your Dreams: A Retirement Planning Guide* is a comprehensive guide developed specifically for public employees who are near or in retirement.

Additional Resources

- ICMA-RC's Web site at www.icmarc.org has several investing and retirement resources to help you with your financial and retirement planning.
- For general information and to perform account transactions, please contact ICMA-RC's Investor Services team at 800-669-7400.
- For general information on Social Security and Medicare and to request your Social Security statement, call 800-772-1213 or visit www.ssa.gov.

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Some of the products, services, or funds detailed in this publication may not be available in your plan.

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