

Why you should take advantage of
your empowerment to decide
how to protect yourself in retirement
via the PSERS Class T-F Election

Disclaimer

PSEA provides this information to new and potential new members for general education about the Class T-F election so that they may understand how significant the election may be to them.

The information contained in this presentation, either audio or visual, is not intended and should not be used for the purpose of making specific investment and/or retirement decisions.

PSEA and its staff believe the audio and visual information is correct but do not guarantee its accuracy.

The Critical Decision
YOU Must Make
within 45 days
after you are notified by PSEERS:

Whether or not to pay
2.8% more of your salary
in order to have
25% more money when you retire.

Another decision you must make within 1 year of first joining PSERS:

Whether or not to “buy-back” any
Non-Qualifying Part-Time (NQPT) Service?
(i.e. – previous uncredited part-time per diem or hourly service)

This presentation does not address this issue, but more
information is available from:

PSERS (www.PSERS.state.pa.us)
and PSEA (www.PSEA.org/Pensions)

Pensions provide income security after income from working stops.

Three-layers of Retirement Savings: The Intended Structure



Your retirement depends on you.

“No matter how responsibly we live our lives, hard time or bad luck, crippling illness or a layoff, may strike any one of us.”

-- President Obama, April 13, 2011

We are responsible for taking care of our families as well as ourselves, not just now, but in the future.

45% of retirees left the work force earlier than planned, and while 2/3rds of those cited health problems or disability, only 6% cited *positive* reasons.



Average salary \times Multiplier \times Years of Service =

PENSION

Your Default Pension Equation (Class T-E)

Avg. Salary x Multiplier x Years of Service

Avg. Salary x 2.0% x 35 years

=

Average Salary x 70%

The complete benefit formula includes calculations for any applicable non-school service and for any applicable Early Retirement Factor.

Your Optional Pension Equation (Class T-F)

Avg. Salary x Multiplier x Years of Service

Avg. Salary x 2.5% x 35 years

=

Average Salary x 87.5%

The complete benefit formula includes calculations for any applicable non-school service and for any applicable Early Retirement Factor.

How will retirement income in 2046 differ from retirement income in 2011?

- Recent trends that may imply long-term decreases in income for retirees:
 - PSERS – no COLAs since 2002-03 and Act 120 states that future COLAs need to be funded over a shorter period
 - Individual retirement accounts (401(k), 403(b), IRA, etc.) – still recovering from 2008 losses
 - Social Security benefits – increased eligibility age possible, lower COLAs, etc.
 - Investment Returns on Homes – projected to be less than historic averages

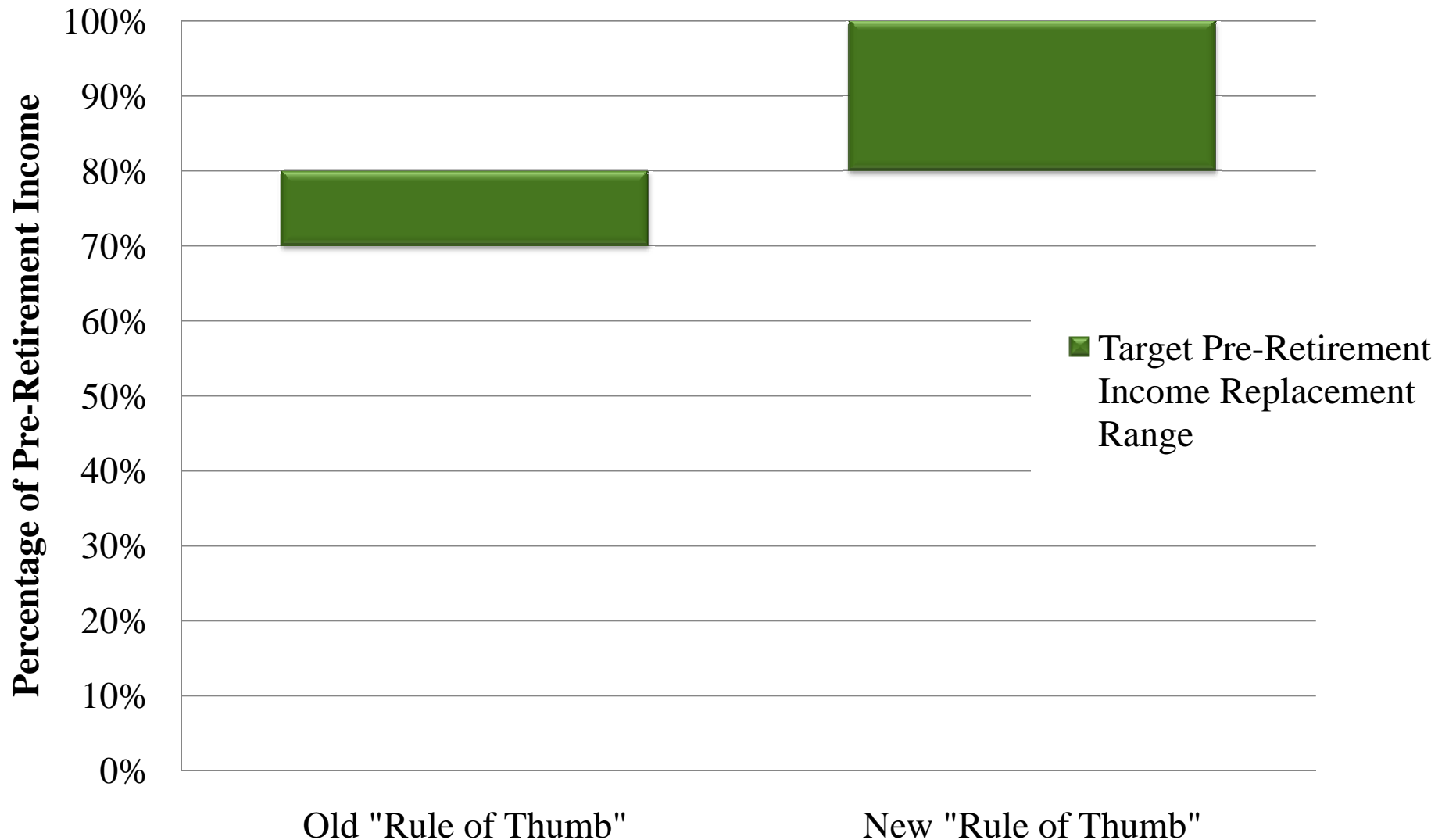
How will costs in retirement in 2046 differ from retirement costs in 2011?

- Recent trends that may imply long-term increases in costs for retirees :
 - Health Care Costs – **8.9% increase in 2011**
 - Medicare benefits – **reduced or voucherized?**
 - Long-Term Care Costs – **3.5% increase in 2011**
 - Inflation – **low, but projections of stagflation**
 - Property taxes – **likely to rise**
 - College costs (for you and your children) – **rising**

Investment Advisors are increasing the “Replacement Income” Target

- In the past, the “rule of thumb” was that you needed to save enough money that you could replace 70% to 80% of pre-retirement income every year until you died.
 - This is NOT the total amount you need to save, but the amount that your savings needs to generate every year.
- Consensus seems to be growing for a new Replacement Income Target Range of between 80% and 100%.
- And you need to save enough additional money to provide for inflation to keep within the 80% to 100% range.

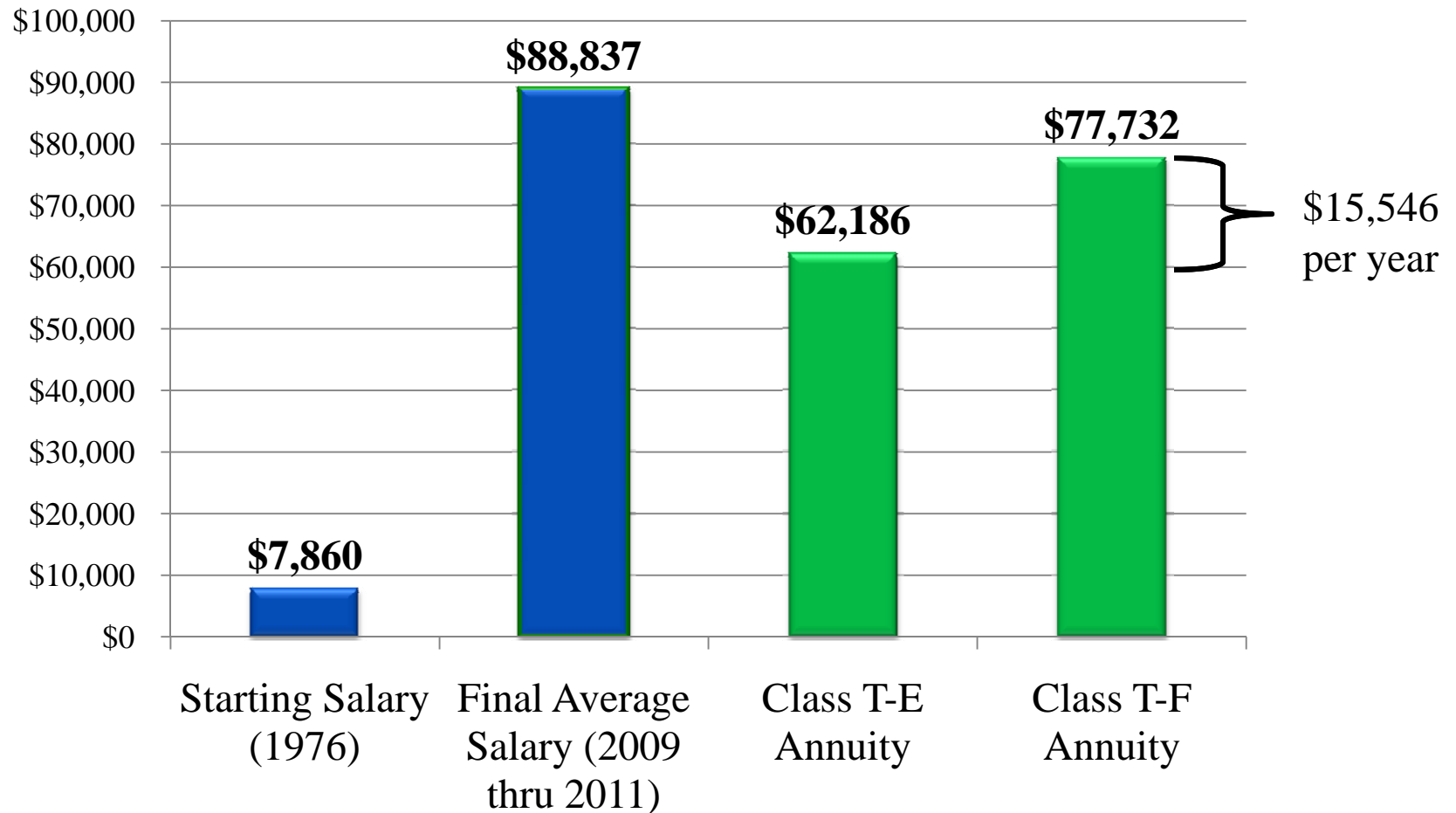
Investment Advisors are increasing their recommendations for the percentage of pre-retirement income that retirees should plan to replace every year in retirement.



Why should you bother making this decision?

Lots of money.

If the choice between Class T-E and Class T-F had existed in 1976, what would Mary, a West Chester Area elementary teacher, have chosen?



How much is \$15,546?

Almost the average price of a used car:

In 2010, the average used auto loan for people aged 20 to 25 was \$14,000.

You are likely to agonize over whether or not you can afford the additional \$1,000 for the car you like better than the car you think you can afford. Six cars from now, you may be working someplace and wishing you had spent a little more time thinking about whether 2.8% of salary was worth a 25% increase in the value of EVERYTHING you could buy.

Almost 2/5ths of your 1st year salary:

38% of the average \$40,000 starting teacher salary.

More than you make-up for as a Walmart “Greeter” or similar low-wage position:

The annual earnings of someone who works 40 hours a week, 52 weeks a year, at the 2011 PA Minimum wage, is only \$15,080.

Ask your Grandparents:

Could they use another \$15,546 in guaranteed annual income?

After 32.2 years in retirement, the additional money Mary would have earned due to the 2.5% multiplier is \$500,000 . . . more than 5-and-a-half times her **Final Average Salary**!



Is this free?

To your employer: yes

To you: no

The 25% increase in your annual retirement income is not free; you will need to pay 2.8% more of your salary (pre-tax).

Class T-E members contribute 7.5% of their salary for the 2.0% multiplier. Since the 2.8% increase for Class T-F is pre-tax dollars, the impact on your take-home pay is likely to be only 2.2%.

Why is the employee cost of Class T-F membership 2.8% higher?

The legislators asked PSERS to have their actuaries determine the difference in projected costs to the pension plan between the default 2.0% multiplier (Class T-E) and the optional 2.5% multiplier (Class T-F).

The difference was 2.8%.

Legislators deliberately increased the employee contribution rate for Class T-F so that there is no cost impact to employers from the 2.5% multiplier.

How much is 2.8% in real dollars?

\$34.46

per paycheck

This assumes that you have:

- a \$40,000 salary
- 26 paychecks (every other week)
- And some other general assumptions regarding taxes, etc.
 - Pension contributions are pre-tax, so the impact is less after taxes, etc. are deducted. (Otherwise it would be \$43.08 per paycheck.)
 - In this example, the 2.8% of gross pay only lowers the net pay by 2.2%.

The estimated impact on your paycheck with a \$40,000 salary is \$34.46.

Annual Salary of \$40,000 - Paid over 26 pays

	<u>7.5% Retirement</u>	<u>10.3% Retirement</u>	<u>Difference</u>
Gross Salary	\$ 1,538.46	\$ 1,538.46	
Pre-Tax Deductions			
PSERS Retirement	\$ 115.38	\$ 158.46	\$ 43.08
Taxable Income	\$ 1,423.08	\$ 1,380.00	
Deductions			
Social Security (7.65% of Gross))	\$ 117.69	\$ 117.69	
Federal Income Tax (20% of Taxable)	\$ 284.62	\$ 276.00	
State Income Tax (3.07% of Gross)	\$ 47.23	\$ 47.23	
State Unemployment (.08% of Gross)	\$ 1.23	\$ 1.23	
Local Income Tax (1% of Gross)	\$ 15.38	\$ 15.38	
Union Dues	\$ 25.00	\$ 25.00	
Total Deductions	\$ 491.15	\$ 482.54	
Net Pay	\$ 931.92	\$ 897.46	\$ 34.46

Why should you bother making this decision?

More money than you are likely to earn for yourself in other investments.

Could you invest the 2.8% of income on your own and earn more for retirement?

(For example via a 401(k) or 403(b) plan?)

If you:

- save it all,
- get great investment returns,
- purchase a private annuity,
- then . . . maybe.

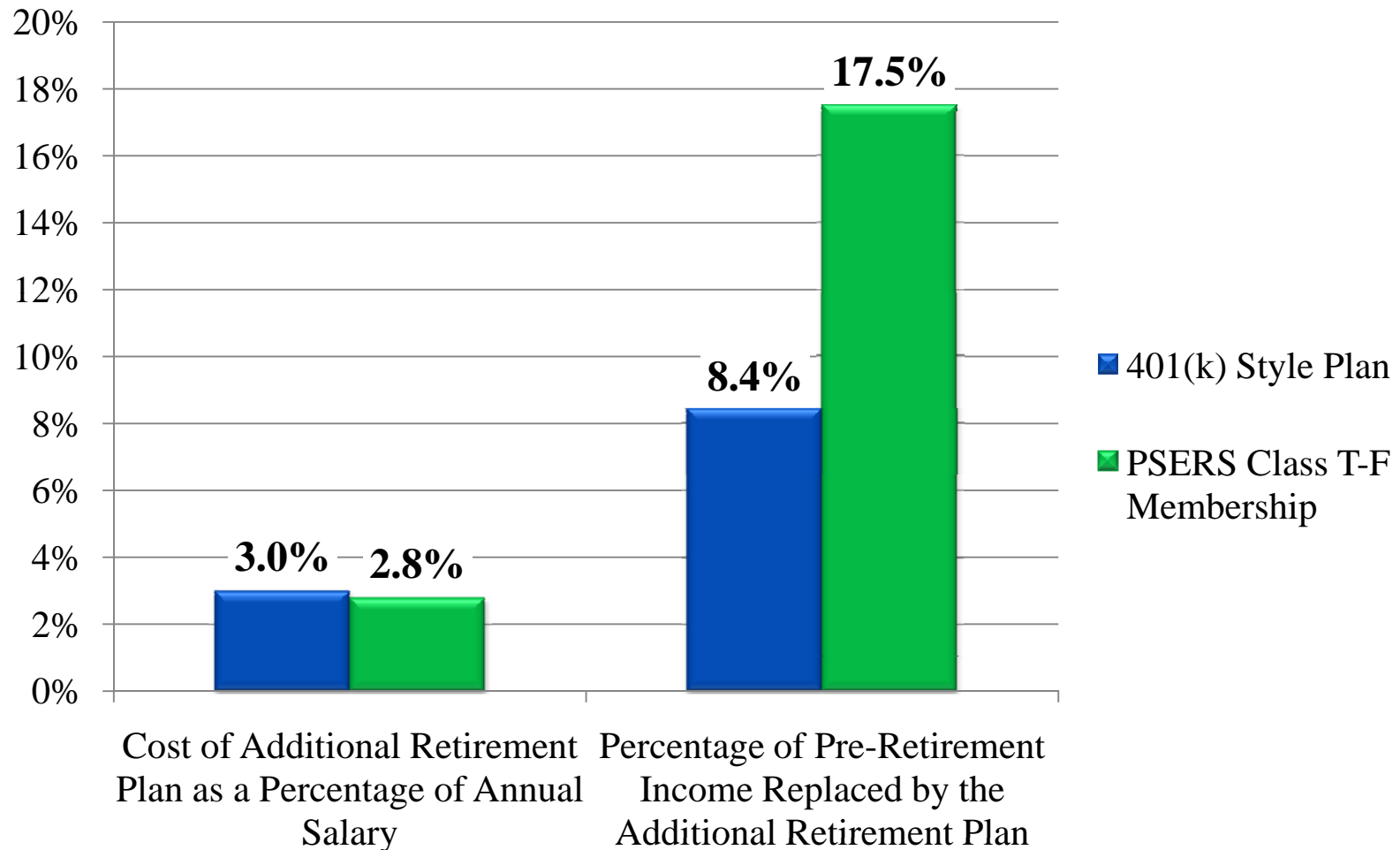
Could you invest the 2.8% of income on your own and earn more for retirement?

However, financial and psychological research indicates:

- you are NOT likely save it all,
- you are NOT likely to get great investment returns,
and
- you are NOT likely to purchase an annuity at retirement.

So, no, not likely..... And certainly NOT guaranteed.

The additional life-time annuity generated from “Class T-**F**” is more than double what is projected to result from a similar investment in a 401(k)-type plan over a 35 year career.



Note: estimates of replacement income under 401(k) style plan derived from results provided by T. Rowe Price’s award winning “Retirement Income Calculator.” Assumptions are saving 3% from age 25 to age 60, savings lasting until age 90, and investing in a 100% stocks mutual fund. Age based mutual funds investments had lower results.

Why is the return so much greater than is projected with a 401(k)-type investment?

Defined benefit plans, in general, produce twice the “bang for the buck” that 401(k)-type systems do.

1. DB pension plans pool “longevity risks.”
2. DB Pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age.
3. DB pension plans achieve better investment returns because of professional asset management and lower fees.

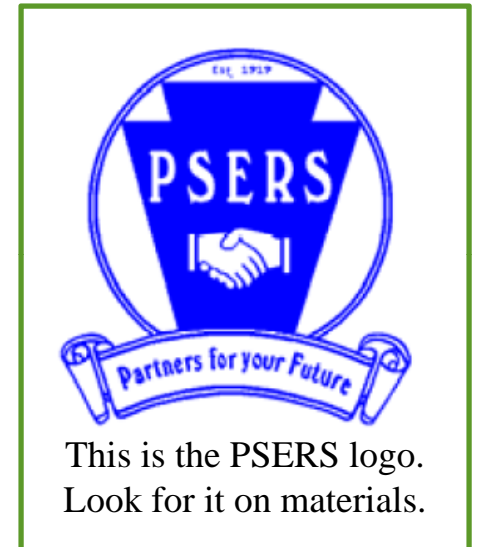
PSEERS, fortunately for us, is among the best defined benefit pension plans in the country.

What is to be done?

1) Look in your mailbox for two (2) items from

PSERS

- 1) A “welcome” kit.
- 2) A “**T-F Membership Class Election**” kit.



2) Make a call!

- Class T-F membership is not free and may not be the best investment for you personally.
- Seek information and advice.
- Consciously and actively decide.

The Class T-F Election form will look something like this:



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540

Web Address: www.psers.state.pa.us

Building Location
5 North 5th Street
Harrisburg PA

Read Before Signing Below

By returning this form, I understand that:

- I am electing to change my membership class from Class T-E to Class T-F.
- I have carefully read the enclosed cover letter and the *Choosing Your Membership Class* handout.
- My employee contributions are subject to change every three years but will not be less than 10.3 percent nor more than 12.3 percent of my salary, based on the investment performance of the Retirement Fund.
- By paying these additional contributions I am increasing my retirement benefit multiplier from 2.0% to 2.5% of my final average salary for each year of credited PSERS service.
- This decision is final and binding.

Signature of Member

Date

T-F Membership Class Election

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You **MUST** return the form personally addressed to you.

The form that is mailed to you has been coded with information specific to you that PSERS requires.

If you lose (or have lost) your form, contact PSERS (www.PSERS.state.pa.us).

Special Concerns for Part-time Per Diem and Hourly Employees

Part-time per diem and hourly employees may hit the threshold benchmarks for PSERS Membership at anytime during the year.

- For day-to-day subs and other non-full time per diem employees:

80 days

- For part-time employees paid on an hourly basis:

500 hours

- You may want to keep a count of your hours/days, especially if you work for more than one local education agency.

“Money Back” Guarantee if you are not satisfied with your career within 10 years.

The title is meant to be humorous, but seriously, if you leave with less than 10 years of service you may request a refund of your contributions *with interest*.

Consciously and actively decide!

You will only have until **45 days** from the date of notice to return your form.

PSEA believes that the worst thing you could do for your retirement is to put this decision off until it is too late for you to exercise your right to decide.