Are You Ready for Retirement?

By Greg Beck, MPERS Assistant Executive Director

I was reading the Jefferson City News Tribune Sunday paper when I ran across a headline that read, “Nearly half of young adults lack retirement savings, pension.” Being in the pension business, I naturally read the article to see what the author had to say on the subject. What I read, made me want to pass along some highlights and my own commentary – things that our members might find enlightening or interesting.

The article stated that (based on a survey) 48% of all Americans aged 18 to 30 have no retirement savings and no access to a traditional pension, such as the defined benefit plan administered by MPERS. So let’s just round that up and call that HALF of all young Americans have no retirement savings. That is troubling to say the least.

The article went on to say that the young Americans are part of a generation that will be very much dependent upon personal savings for retirement, if they have any retirement savings account at all. This is due to the fact that traditional pensions are becoming exceedingly rare. Only 7% of those taking the survey (a survey of 1,851 adults age 18 to 30) stated that they had access to a traditional pension plan (a plan that pays a set amount each month for the retiree’s lifetime). To give some context, MPERS has 1,045 active members under the age of 31 which represents 14%of our active membership.

One of the individuals the author interviewed stated that she took a finance class in college which was the only reason she started saving for retirement. The instructor for her class suggested that everyone in the class start saving in their early 20s. That was great advice as there is nothing more powerful than the time value of money (*i.e.*, compounding interest, or in other words, interest on your interest). It is my hope that MPERS members reading this article will also take steps toward saving for retirement if they have not already done so. This means something beyond your MPERS benefit (like a 401(k), contributing to the Missouri deferred compensation plan or some other personal savings account).

Finally, the article stated that financial advisors suggest saving enough so your nest egg at retirement is 25 times the annual expenses you will need in retirement. Members of a defined benefit plan do not have a readily available tool to come up with a “nest egg” calculation for the expected payments from the defined benefit plan. Conversely, anyone with a 401(k) or similar plan can readily see the balance in their plan with just a few clicks of a mouse. To give a very broad example of what an MPERS retiree could expect in retirement but brought back (discounted) to today’s dollars (*i.e.,* a nest egg calculation), I offer the following analysis:

Joe Average is a male, with 20.8 years of service at the Missouri Department of Transportation, has a final average salary of $3,757 a month, is 59.2 years of age at retirement, and chooses the Closed Plan for determining his benefit. Joe will live to be 80 years old before he passes away and will therefore spend 21 years in retirement. (By the way, Joe's 20.8 years of service and his final average salary of $3,757 are the averages at MPERS for our retiring members.) We will also assume a 2% cost of living adjustment (COLA) each year (even though Closed Plan members receive a guaranteed 4% COLA for several years) for the purpose of calculating Joe's "nest egg" from MPERS.

Assuming all of those facts, the total amount of benefits Joe will receive from MPERS over his expected lifetime (including COLAs at 2% annually) is $394,589. Joe's MPERS benefit is equal to $255,235 as calculated in today's dollars. In other words, if Joe wanted to know what he has saved for retirement on the day he retires, he could reasonably estimate a nest egg of $255,235. That nest egg combined with benefits paid from the Social Security Administration and personal savings are what MPERS calls the "three-legged stool" of retirement.

I would be remiss if I did not guide our members to the Missouri Deferred Compensation Plan (MDCP) website where participants of that plan can access a tool called "RetiremenTrack." Participants of the MDCP can find that tool at the following website: http://modeferredcomp.org/retirementrack.html. I strongly encourage our members to use that tool as it is very powerful at displaying ALL of your anticipated benefit payments in retirement. And if you are not currently contributing to the deferred compensation program, I encourage you to do so.

Another way to judge if a person is ready for retirement is to add up what is expected to be received annually in retirement from all sources (MPERS, Social Security and personal savings) and see how that amount compares to a person's current annual income. Generally speaking most retirement planning consultants suggest that retirees should plan to live on approximately 80 to 90% of pre-retirement annual income.

I hope this article sheds some light on the value of your (future) retirement benefit. We strongly encourage you to save for retirement by participating in the MDCP, because the concept of compound interest only works if you have money set aside ready to invest.

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