KEYSTONE NEWS

WINTER 2017 NEWSLETTER

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RECENT CHANGE TO THE STABLE VALUE FUND

On January 2, 2018, a change took place with one of the investment options in the Pennsylvania State Employees' Retirement System's 457 Deferred Compensation Plan. Specifically, Invesco Advisors assumed oversight responsibility for the Stable Value Fund. The Board of the Deferred Compensation Plan made this change as part of its ongoing effort to provide participants with a diverse and competitive array of quality investment options.

The overall investment objectives and strategy of the Stable Value Fund are staying the same. Invesco is currently negotiating competitive fees with the fund's insurance providers and fixed income managers. If you invest in the Stable Value Fund, this change will not affect your account balance. Following the change, investors may see a different price per unit/share, with a corresponding change in the number of shares.

No action on your part is required. For more information about this change, refer to the letter included with your statement for additional details about the Stable Value Fund. You can also visit **www.sers457.com**. If you have questions, please call **866-SERS457** (866-737-7457).

PLAN MATERIALS GET NEW LOOK

You may have noticed that the communications you receive from the 457 plan feature an updated look and feel and a new tagline: **A new perspective on retirement.**

You may also have noticed that the new design is similar to the branding of SERS communications. That similarity is intentional. It's meant to highlight the message that the 457 plan is an important part of the Pennsylvania State Employees' Retirement System – and that the money you save through the 457 plan can supplement the pension benefits you may receive to help you reach your retirement income goals.

THE POWER OF 1%: HOW SAVING PENNIES CAN ADD UP TO MORE RETIREMENT INCOME

How much can a penny buy you these days? You may be able to find an old-fashioned gumball machine that will still take your penny in exchange for a small treat, but your options are limited. If you'd like to put your pocket change to good use, why not consider saving an extra penny from every dollar (a.k.a. 1%) for your retirement? By contributing an extra 1% of your salary each pay period to your retirement account, you could see a big impact on your future retirement income. That's something substantial to chew on!

How big of a difference can a 1% increase make? Consider this example: With an annual salary of $50,000, saving just 1% more from each paycheck could add up to an extra $41,967 after 30 years (assuming a 6% rate of return, compounded semi-monthly).*

How does this happen? It's all due to the power of tax-deferred compounded growth. With your 457 plan, any earnings that your contributions generate are reinvested in your chosen investment options – where they can generate additional growth of their own.

There's more good news. The more you increase your contributions, the greater the potential impact on your future retirement income. In other words, you aren't limited to a 1% increase. Imagine the power of adding an additional 2, 3 or 4% to your contribution.

There's real power in pennies. If you'd like to put your pocket change to work and increase the amount you contribute to your retirement account, log in to your 457 plan website today or contact your Retirement Plan Counselor at **866-SERS457** (866-737-7457).

*FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration is not intended as a projection or prediction of future investment results, nor is it intended as financial planning or investment advice. It assumes a 6% annual rate of return compounded semimonthly and reinvestment of earnings with no withdrawals. Rates of return may vary. The illustration does not reflect any associated charges, expenses or fees. The tax-deferred accumulation shown would be reduced if these fees were deducted.

FINANCIAL WELLNESS: HOW DO YOU COMPARE?

Part 3: Retirement saving

Are you one of the people who find it hard to save for a retirement that's years – even decades – away? You probably know that procrastinating on saving for retirement can hurt your long-term financial wellness, but the statistics show that many people struggle to make retirement saving a financial priority. Here's a quick look at some national retirement saving trends:

- **The typical retirement nest egg** – According to one estimate, the average retirement savings of all families is $95,776. However, the median for all U.S. families (in other words, those in the exact middle of all those surveyed) is just $5,000 – so the families that have saved a much higher amount each year have pushed up the overall average.[1]
- **Savings by age group –** Not surprisingly, the amount saved for retirement depends a lot on age. A recent study found that savers in their 20s had a median estimated retirement account balance of $16,000. People in their 30s had set aside $45,000. Those in their 50s had accumulated $117,000. For people ages 60 and older — in other words, those on the verge of retirement — the average was $172,000.[2]
- **Retirement plan contribution rates** – A recent study found that the average worker participating in an employer-sponsored retirement plan saved 6.8% of his earnings through his account. Only 20% of participants contributed more than 10%. Just 12% contribute the maximum amount.[3]

So, how much does a person need to save for retirement? The answer is different for everyone, but according to one widely used rule of thumb, we may need to replace at least 70% of our working income each year in retirement.[4] You may need more or less, depending on your circumstances.

Are you interested in boosting the amount you save for retirement? The Pennsylvania State Employees' Retirement System's 457 Deferred Compensation Plan can help you make your saving habit automatic. Contact a representative from your 457 plan at **(866) SERS457** (866-737-7457) to learn how you can translate your good intentions about retirement saving into practical action that can make a long-term difference in your financial wellness.

CONTRIBUTION LIMITS INCREASE IN 2018

The IRS recently announced that the annual contribution limits for 2018 will increase. Pennsylvania State Employees' Retirement System's 457 Deferred Compensation Plan 2018 contribution limits are $18,500 or 100% of your includible compensation (as defined by the 457 plan and the Internal Revenue Code), whichever is less.

The age 50+ catch-up contribution remains the same at $6,000 for the 457 plan in 2018. This would equal a maximum possible contribution of $24,500 if you are age 50 or older during the 2018 calendar year.

The special catch-up contribution amount increased for 2018, which means you can contribute up to a maximum of $37,000 to the 457 plan if you are within three years of normal retirement age. The additional amount you may be able to contribute under the special catch-up contribution will depend on the amount that you were able to contribute in previous years but did not.

Note: If you are eligible for both the age 50+ catch-up and special 457 catch-up, you may not take advantage of both in the same calendar year.

YEARLY FINANCIAL CHECKLIST

A new year can be an excellent time to consider how you're doing financially and set goals for 2018. Pursuing your goals may be easier when you focus on one specific priority each month. This calendar of ideas will stimulate your thinking about dollars-and-cents objectives.

January: Pay off any holiday season credit card bills as soon as the charges show up on your monthly statement. If spring and summer arrive and you're still paying interest on last year's gifts, then the cost of those items will continue to rise. Try to pay more than the minimum monthly payment if you cannot afford to pay the entire bill immediately.

February: Consider getting tax-related documents ready ahead of time to avoid a last-minute rush. Make sure that you have received all necessary paperwork from your employer and your financial institutions. Gather receipts that can document tax deductions.

March: Review your retirement plan, insurance policies and other financial accounts to make sure your beneficiary designations are correct. Make changes if necessary. Note that if you are married and participate in an employer-sponsored retirement plan, you are required to name your spouse as your beneficiary. If you desire to designate someone else, your spouse is required to consent in writing.

April: If you don't have a will, consider contacting an estate planning attorney to start the process of creating one. If you do have a will, determine whether any revisions are necessary.

May: Review memberships, premium cable channels and other discretionary items to determine whether they are being used on a regular basis. For those that are not being used, consider cancelling and allocating this money to more productive areas.

June: Warmer weather prompts many households to plan a vacation. Determine whether you could enjoy an affordable vacation near your home, a getaway during the off-season or a staycation where you plan something pleasant locally.

July: Make sure you have adequate emergency savings that you can access for medical bills, home repairs, a period of unemployment or another unexpected event. Many financial planners recommend keeping between three and six months' worth of income on hand.

August: Consider reducing transportation expenses by working at home periodically (if you can), carpooling with a coworker or taking public transit if it is available. When maintaining a vehicle, practices such as keeping your tires properly inflated, being mindful of sudden stops and starts, and driving within the speed limit on highways can result in better gas mileage.

September: If you live in a colder climate, a programmable thermostat, new windows or doors and other improvements may help reduce wasted energy. Certain improvements may qualify for utility company rebates, which reduce your out-of-pocket cost, or tax credits.

October: Set a budget for year-end holiday gifts. You can economize by buying on sale, purchasing fewer gifts or participating in group gifts with other family members.

November: Consider scheduling a year-end review with your financial advisor. As part of the discussion, determine whether your investments reflect your risk tolerance and time horizon. Ask your advisor how you can make changes, if necessary.

December: Determine whether you are on track to invest as much as you can afford for retirement. If you are not investing the maximum permitted by your employer-sponsored plan or your IRA, consider whether you can afford to increase your contribution for the following year. Consult your financial advisor about whether you are on track to invest as much as you will need for living expenses during your later years. If not, consider strategies that will help you save more.

1 http://www.cnbc.com/2016/09/12/heres-how-much-the-average-american-family-has-saved-for-retirement.html
2 http://www.investopedia.com/articles/personal-finance/010616/whats-average-401k-balance-age.asp
3 https://www.fool.com/retirement/2017/01/15/average-americans-401k-contributions-by-age-and-in.aspx
4 https://www.ssa.gov/policy/docs/ssb/v68n2/v68n2p1.html

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