retiring RIGHT
Oklahoma Public Employees Retirement System
OPERS OKLAHOMA
Retiree Edition **Summer 2013**

2013 Legislative Summary

The following is a description of new legislation affecting active and retired members of the Oklahoma Public Employees Retirement System (OPERS). The implementation of the legislation may initiate new policies, rules, and procedures in the coming months.

HB 1325 (Rep. Randy McDaniel and Sen. Rick Brinkley)

Effective April 26, 2013

"Final Average Salary" expanded from three to five years for new members
Changes the definition of "Final Average Salary" for members who join on or after July 1, 2013. This is the salary number used in the final retirement benefit calculation. New OPERS members will have their salary averaged over the highest five of the last ten years instead of three years in current law.

Administrative changes for data reporting, probate waivers and death benefit payments
The bill requires participating employers to provide salary and other information for retiring members no later than the fifteenth day of the month of retirement. This will help OPERS speed up the retirement process. The bill also increases the amount that OPERS can pay a deceased member's heirs without requiring that the estate be probated. It also allows OPERS to pay the final benefit of a deceased member to the named beneficiary before paying the estate of the member.

HB 1477 (Rep. Kim David and Sen. Jason Murphy)

Effective November 1, 2013

OPERS Board makeup
Legislation last year inadvertently removed the Director of Human Capital Management (HCM) of the Office of Management and Enterprise Services from the OPERS Board. This bill puts the Director of HCM back on the board, as well as allows the Corporation Commission member of the board to send a designee in his or her place.

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The Director's Corner

Retirement Security

Tom Spencer, Executive Director

I promise this will not be a "Pensions vs. Retirement Accounts" column. They both have their positive and negative qualities. Instead, I want to share the facts with you about retirement security, or the lack thereof, in the United States.

The National Institute on Retirement Security recently published a new report using data from the Federal Reserve's Survey of Consumer Finances and concluded 45%, or 38 million working-age households in the U.S., have no retirement account assets. As troubling, their research indicates four out of five working families have less than one times their annual income saved for retirement.

I've written before about the need to be realistic about our retirement dreams. As we enjoy longer lives, most of us will have to defer our retirements to later ages whether we have pensions, 401(k)s or IRAs. Yet, even deferring our retirements doesn't remove the need for fashioning retirement plans to provide enough income when we can no longer work.

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ALSO IN THIS ISSUE:

RETIREMENT 101

Spending Your Way to Retirement Security

Retirement is an elusive idea and means something different to everyone. When it comes to retirement planning, what is the word most associated with being prepared for retirement? Most people would say ***saving*** and, for the most part, they would be correct. During your working years, the mantra is save, save, save.

But what about ***spending*** – both in our working years and during retirement? How may spending be just as, or even more, important to saving in how prepared we are for retirement?

Accumulation Years

There are many varying opinions on how much needs to be saved for retirement. For example, one approach says you should save 10% of your salary in your 20s, or considerably more if you begin saving later in your career. The problem with these general rules is how they tend to be vague. There isn't an answer that will be a perfect fit for everyone, and simple observations need to be further explored to include both saving and spending.

Most people starting their careers just out of high school or college typically begin at a lower income that increases over time as they advance. For most, the increase in income also comes with an increase in lifestyle. The 10% that was saved during their 20s or 30s may not be enough to replace the increased lifestyle in the years leading up to retirement. This is why there also needs to be a focus on spending during your accumulation years.

As income increases, we need to be careful not to increase our lifestyle at the same pace. This isn't to say we should not enjoy the fruits of our labor, but if our saving fails to keep pace with our spending, then retirement security will continue to elude us.

Retirement Years

At retirement, we turn our attention from accumulating retirement savings to how we will spend that very precious nest egg. How long the savings will last has everything to do with how much and how quickly we take distributions from our various retirement income sources. Here are some of the major factors to consider:

- *Inflation (longevity)* The rising cost of goods and services over time will eat away at our purchasing power throughout retirement. Inflation will work against us much like compound interest works for us during the accumulation years. As we enjoy longer retirements (maybe 30-35 years), the compounding effects of inflation become of increasing concern.
- *Withdrawal Rates* What is an appropriate percentage to withdraw from our managed assets (e.g. SoonerSave, 457 plans, IRAs, etc.) each year? A common benchmark for retirement planning is to withdraw no more than 4.5 percent of savings every year, adjusted for inflation, for your nest egg to last about 30 years.

  This is a good starting point, but not a perfect fit for everyone. What happens if you live longer than 30 years in retirement, or your managed assets are not diversfied in such a way to keep up with inflation? The rule is based on an assumption that you continue to invest in a balanced portfolio and the investment returns will support a 4.5 percent withdrawal rate. If investment returns do not, then spending has to become more conservative.
- *Required Minimum Distributions* Another consideration is what is referred to as the Required Minimum Distribution (RMD). The minimum distribution is the minimum amount retirees must take out of tax-deferred retirement plans (e.g. SoonerSave, 457 plans, IRAs) starting the year they turn 70 ½, the age at which the IRS wants to begin taxing those deferred savings vehicles. For more information on RMDs, visit **www.irs.gov.**
- *Budgets* Spending plans are a good idea at any age, but particularly important at retirement, since our spending decisions influence how long our retirement income will last. It is crucial to have a spending plan in place before retirement to ensure you avoid any unmanageable gaps between your income and expenses in retirement. The sooner those gaps are identified before retirement, the better prepared you will be to overcome or adjust to those gaps.

How Does Spending Change in Retirement?

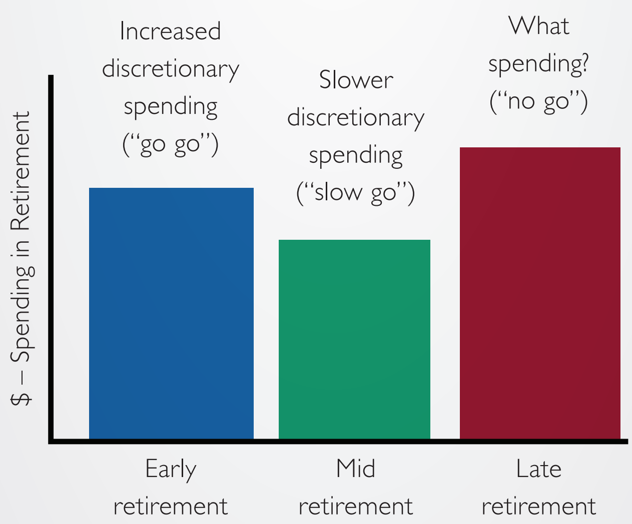
Many people assume spending will decrease when our working years come to an end. The house is paid off, the kids are out of the house, maybe you only need one car now that the commute is behind you. It makes some sense, right? However, while spending may go down in some areas, it will go up in others as we enter the latter part of retirement.

At OPERS, we like to talk about retirement in three distinct phases:

■ **EARLY RETIREMENT** – The "go-go" years of early retirement find retirees very active, and discretionary spending increases with the pursuit of things put off during our working years (hobbies, travel, etc.).

■ **MID RETIREMENT** – In the "slow-go" years of mid retirement, retirees are still very active, but discretionary spending starts to decrease as the big toys and vacations are out of the way.

■ **LATE RETIREMENT** – In the "no-go" years of late retirement, retirees are feeling the effects of age and declining health. The increase in healthcare spending often exceeds the decline in discretionary spending.



Healthful *hints*

Be a Superhero, Donate Blood

It is estimated that every two seconds someone needs blood. Yet, less than ten percent of those eligible to give blood make this valuable contribution to their community. Blood donors save the lives of family, friends, and strangers, alike. One pint of blood can save up to three lives!

There are several types of donations: whole blood, platelets, plasma, and double red cells are the most common types. Whole blood donation usually takes about an hour and eligible donors can donate every 56 days. Two other special donation types are autologous and directed donations. Autologous donations are for your own personal use – for example, before a surgery. Directed donation occurs when family or friends of a patient make a donation for an upcoming procedure.

According to the American Red Cross, there are no upper age limits for blood donation, as long as you are well, with no restrictions or limitations to your activities. It will be necessary to meet certain health eligibility standards for temperature, pulse, blood pressure, and hemoglobin levels. Each potential donor will receive a health screening prior to blood donation.

There are several ways to increase your chances of a successful donation. Maintain a healthy iron level in your diet by eating iron-rich foods, such as red meat, fish, poultry, beans, spinach, and raisins. Staying well-hydrated is an extremely important component of the blood donation process. Try to consume an abundance of non-alcoholic fluids in the weeks and days leading up to your donation and drink an extra 16 oz. of water just before donating. Eat a healthy meal before your donation, avoiding fatty foods.

Finding a cause for which you are truly passionate, like blood donation, may represent a fulfilling and happy part of your life. For more information, visit **www.redcrossblood.org.**

DONOR

RECIPIENT

TYPE	O-	O+	B-	B+	A-	A+	AB-	AB+
AB+	●	●	●	●	●	●	●	●
AB-	●		●		●		●	
A+	●	●			●	●		
A-	●				●			
B+	●	●	●	●				
B-	●		●					
O+	●	●						
O-	●							

Blood Facts and Statistics

4.5 million Americans need blood transfusion each year.

Someone needs blood every 2 seconds.

43,000 pints: amount of donated blood used each day in the U.S. and Canada.

About 1 in 7 people entering a hospital needs blood

1 pint = 3 lives

One pint of blood can save up to 3 lives.

Most of the donated red blood cells can be stored up to 42 days.

(Shortages of all blood types happen during the summer and winter holidays.)

Most donated platelets can be stored up to 5 days.

healthwatchcenter.com

Pension Advances Threaten Financial Security for Retirees

A recent article by Jessica Silver-Greenberg of the New York Times highlights a troubling new concern for cash-strapped retirees (*Loans Borrowed Against Pensions Squeeze Retirees* – April 27, 2013).

So-called "pension advances" are relatively new and target military veterans, teachers, public safety officers, and others entitled to future pension benefits with offers of converting those future benefits into cash today.

Sounds like a good deal until you factor in interest rates and various hidden fees that can often be many times more than credit cards. In a review by the National Consumer Law Center of more than two dozen pension-based loan contracts, the effective interest rates ranged from 27 percent to 106 percent when factoring in all costs.

In addition, state regulators are still catching up to the problem. Pension advance firms have resisted the efforts of state regulators by insisting these transactions are advances, not loans. Loan rates are typically capped by state usury laws. If viewed as advances, these contracts do not have the same obligations to disclose key elements of the agreement and can leave retirees vulnerable.

Legal aid offices in Arizona, California, Florida and New York have seen a recent increase in complaints from retirees regarding these transactions. While it does not yet appear to be a significant problem in Oklahoma, it is only a matter of time before we see this issue at our doorstep.

The Oklahoma Department of Consumer Credit (OKDOCC) is a state agency created to regulate consumer lending business in Oklahoma. However, most pension advance firms are based out of state and operate mainly as an online presence. Oklahoma residents should verify that loan companies are licensed with the OKDOCC before entering into loan transactions. The Department's toll free telephone number for consumers is 1-800-448-4904. The Department's Internet website is **www.ok.gov/okdocc.**

Pension advances are truly a buyer beware situation and we urge our members to be extremely cautious in any transaction involving your retirement benefits from OPERS.

The Director's Corner
Retirement Security

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The Employee Benefits Research Institute (EBRI) conducted its *Retirement Confidence Survey* this year. Nearly half of those surveyed are not confident at all they will have enough resources to enjoy a comfortable retirement. Just five years ago, only 27% of American workers were "very confident" they would have enough for a comfortable retirement, and now that number has plunged to 14%.

Recent articles and publications have highlighted the fact that Americans are the least prepared for retirement than at any time in the last several decades. We have a Social Security system, but it was never intended to be anyone's sole source of retirement income. According to the Social Security Administration, Social Security benefits accounted for 90% of family income for one-quarter of beneficiaries over the age of 65 in 2008. Fidelity Investments published 401(k) balance information at the end of March 2013. The overall average balance was $80,900. This was <u>after</u> a very nice run up in the market.

A secure retirement means having the confidence one has achieved some level of financial independence once your working years are behind you. To think that everyone can do this on their own without guidance or support is not dealing with reality. Most employees in defined contribution plans with private accounts will still need professional advice and adequate employer matches to have any hope of an adequate retirement. Those with pensions still need to save to ensure they possess liquid assets for emergencies and spending needs in their later years.

Whatever changes may come to retirement benefits in the future, perhaps we should do something first: Study whether the design of any proposed system will really deliver true retirement security or is simply leaving average working men and women with little hope of a secure retirement.

2013 Legislative Summary

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SB 847 (Sen. Clark Jolley & Rep. Scott Martin)

Effective August 30, 2013

Pension Stabilization Revolving Fund

Under this bill, surplus funds over and above those going to the State's "Rainy Day Fund" will go into a revolving fund. The Legislature may appropriate any such funds to pension systems with a funded ratio below 90%. Priority will be given to the lowest funded pension systems.

Other Legislative Proposals

There was much discussion of the idea of consolidating the administration of the state retirement systems, which included OPERS and plans for teachers, state law enforcement, and municipal police and firefighters. The discussion was about having a single governing board and a single, consolidated administrative staff for all state retirement plans. There was no discussion of literally combining the underlying funds. However, there was never a bill introduced or acted upon on this topic.

Another bill would have created an optional Defined Contribution plan for new OPERS members from and after July 1, 2014. The measure was HB 2077 that passed the House and Senate but was vetoed by Governor Fallin on May 13, 2013.

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This summary is for informational purposes only. Individual requirements and benefits may differ, depending on circumstances. Consult the plan provisions or OPERS for detailed information.

Mailed July 2013.