OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Financial Fundamentals

Don’t Be Puzzled By Retirement

Table of Contents – Financial Fundamentals

Oklahoma Public Employees Retirement System (OPERS)
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Additional resources available online
www.opers.ok.gov/financial-fundamentals

Your Retirement Plan

The Oklahoma Public Employees Retirement System (OPERS) administers retirement benefits to more than 80,000 active, vested and retired members. As a member of OPERS, you participate in one of two mandatory plans. The plan you participate in depends on your employer and when you were first hired.

OPERS Defined Benefit Plan

The *OPERS defined benefit plan* refers to the employer-sponsored pension plan for state and local government employees, state and county elected officials, and hazardous duty employees. Under the defined benefit plan, members and employers are required to contribute a specific percentage of the member's salary, and continue working and contributing until reaching retirement eligibility, which is based on a combination of age and service. Retired members receive a guaranteed, lifetime benefit based on salary, years of service, and a computation factor. This plan was closed to new state employees beginning participation on or after November 1, 2015. Those new employees begin participation in the *Pathfinder Plan*, which is described below. County and local government employees first hired on or after November 1, 2015 will continue to participate in the defined benefit plan.

State employees may also participate in a voluntary defined contribution plan called *SoonerSave*. This plan is not available to state employees participating in the mandatory Pathfinder plan or county and local government employees.

Pathfinder Defined Contribution Plan

The *Pathfinder* plan is the mandatory defined contribution plan for eligible state employees who first join OPERS on or after November 1, 2015. Under this plan, members will choose a contribution rate which will be matched by their employer up to 7%, and members have the freedom to select and change their investments. However, a defined contribution plan like Pathfinder does not provide a guaranteed, lifetime source of income like the OPERS defined benefit plan mentioned above. The amount of resources you have at retirement under a defined contribution plan is dependent upon how much you saved over your career, how well those investments performed, and how quickly you take distributions in retirement.

For more information about each of these plans, please visit the following websites:

www.opers.ok.gov **www.soonersave.com** **www.okpathfinder.com**

What are the Financial Fundamentals?

Whether you are first starting out with your financial plan or have been on the right track for years, the financial fundamentals in this book are a great way to ensure you are moving in the right direction.

We at OPERS strive to provide the information and tools you need today to put yourself on a positive financial path.

In the *Financial Fundamentals* class and workbook, the following topics will be addressed:

1. Financial planning checklist
2. Net worth scorecard
3. Setting financial goals
4. Reducing debt
5. Budget basics
6. Retirement 101
7. Estate planning

For additional information, review the Resources provided on page 34.

We have also provided additional resources for several of the exercises on the OPERS website at www.opers.ok.gov/financial-fundamentals.

Windfall Challenge

Have you ever dreamed about winning the lottery? While far-fetched, and not a place to put your hopes, it is a popular fantasy. What would you actually do if you suddenly had a $10,000 windfall?

The purpose of this exercise was to see where you would really put that windfall.

One way to divvy up a financial windfall would be to put 90% of the money toward your financial goals (see Setting Financial Goals on page 8), and the remaining 10% toward a splurge.

FF #1: Financial Planning Checklist

This checklist is a general guide to the different elements needed in a financial plan. As you read through the information below, mark each item "yes", "no", or "not sure" as it applies to each element. For those items where you are not covered or are unsure, please see the resources provided on page 34 for additional information to aid your research.

Do you have:	Covered?			
Emergency Savings Easily accessible and liquid funds to serve as a safety net. These funds should be able to cover at least three months of living expenses.	**Yes**	**No**	**Not Sure**	
Group Short-Term Disability Coverage For state employees and participating county employees, benefits are paid for a maximum of 150 days (after a 30-day elimination period) and up to 60% of the employee's base salary.	**Yes**	**No**	**Not Sure**	**N/A**
Group Long-Term Disability Coverage For state employees and participating county employees, benefits begin after the 180 days of short-term disability ends and pays up to 60% of an employee's base salary.	**Yes**	**No**	**Not Sure**	**N/A**
Personal Disability Coverage Something to consider if your employer does not provide adequate disability coverage.	**Yes**	**No**	**Not Sure**	**N/A**
Life Insurance Coverage Provides a measure of financial security for dependents or survivors. When purchasing life insurance, you should consider factors such as standard of living, debts, and medical/funeral costs.	**Yes**	**No**	**Not Sure**	**N/A**
Health Insurance Coverage Active state employees are required to carry group health insurance. Evaluate whether your current elections are meeting your needs. Also, consider other insurable areas such as dental and vision.	**Yes**	**No**	**Not Sure**	**N/A**
Auto Insurance The state of Oklahoma requires a minimum of $25,000 liability coverage, $50,000 total injury coverage, and $25,000 coverage for total property damage (i.e., 25/50/25). However, you may want more than the bare minimum to protect yourself.	**Yes**	**No**	**Not Sure**	**N/A**
Personal Liability Coverage/Umbrella Policy Offers protection from occurrences not covered by your home or auto insurance. Examples include personal injury on your property, being sued after a car accident, or protection from slander or libel.	**Yes**	**No**	**Not Sure**	**N/A**

Do you have:	Covered?			
Homeowner's or Tenant's Insurance Protects an individual's home against damages to the house itself, as well as the possessions in the home. Fairly standard policies known as HO-1 through HO-8 offer different coverages. Extra policies may be necessary to protect against scenarios such as earthquakes or floods. Replacement and inflation endorsement options are also available.	**Yes**	**No**	**Not Sure**	**N/A**
Property Inventory If you lost everything tomorrow in a fire or tornado and had to list all of your possessions, could you remember it all? A written record of all personal property would make the exercise easier to manage. This may include receipts, pictures, and/or videos. This inventory should be periodically updated and kept in a safe, off-site place, such as a bank deposit box or online.	**Yes**	**No**	**Not Sure**	**N/A**
Updated Beneficiaries Periodically update all retirement, insurance, bank, or brokerage accounts to avoid confusion or a time-consuming probate process. Marriage, divorce, birth, or death should prompt beneficiary updates.	**Yes**	**No**	**Not Sure**	**N/A**
A Will A legal declaration in which one or more persons are named to manage your estate and distribute your property upon your death. Wills should be updated every three years.	**Yes**	**No**	**Not Sure**	**N/A**
Advance Directives These may include a living will, healthcare power of attorney, do not resuscitate order (DNR), and/or donor registry enrollment form. Make sure these documents are easily accessible when needed.	**Yes**	**No**	**Not Sure**	**N/A**

What are your next steps, and what areas will you need to do additional homework?

FF #2: Net Worth Scorecard

Your net worth is the amount by which your assets exceed your liabilities. In simple terms, net worth is the difference between what you own and what you owe. If your assets exceed your liabilities, you have a positive net worth. Conversely, if your liabilities are greater than your assets, you have a negative net worth.

Assets include cash and investments, your home and other real estate, cars, or anything else of value you own.

Liabilities are what you owe on those assets including credit cards, car loans, mortgage, and student loan debt.

Net worth provides a snapshot of your financial situation at this point in time and is a measure of your financial health because it basically says what you would have left over if you sold all of your assets to pay all of your liabilities. Every financial move you make should be aimed at increasing your net worth. This means either increasing assets or decreasing liabilities.

Use the tables below to calculate your net worth. Remember the numbers you enter reflect today's value.

Assets	
Cash or Cash Equivalent	**Today's Value**
Checking account	
Savings account	
Certificates of deposit	
Money market account	
Other	
Personal Items	
Home	
Vehicles	
Jewelry	
Artwork	
Furniture	
Electronics	
Antiques	
Other	
Investments	
Retirement account (457, 401A, IRA)	
College Savings	
Bonds	
Mutual funds	
Individual stock shares	
Real estate other than home	
Other	
Assets Total	$

Liabilities	
Short-term debt (less than 5 years)	**Today's Value**
Credit card debt	
Medical debt	
Car loans	
Student loans	
Other debt	
Long-term debt (more than 5 years)	
Mortgage loan	
Home equity loan	
Real estate loans	
Other loans	
Liabilities Total	$

Assets	$
- Liabilities	$
= Net Worth	=

Great! Now you know "where you are" today, but you're not done.

The net worth score is a way to measure our financial health over time, so you need to keep measuring your net worth regularly to see your progress.

Use this net worth scorecard to keep track of your information over time.

Date	Assets	Liabilities	Net Worth	$ Change	% Change

See Resource on page 34 for online calculators for comparison within your income and/or age group.

FF #3: Setting Financial Goals

"Would you tell me, please, which way I ought to go from here?"
"That depends a good deal on where you want to get to."
"I don't much care where –"
"Then it doesn't matter which way you go."
— Lewis Carroll, Alice in Wonderland

If you don't know where you're going, any road will take you there. Everyone has a goal, but not everyone has taken the time to write these goals down and determine how to achieve them.

In the last exercise, you established "where you are" by calculating your net worth. In this exercise, you are going to figure out "where you want to go" by identifying your goals and putting together a plan.

Why set goals?

- Take control of your life.
- Focus on the important things.
- Make good decisions.

Why don't more people set goals?

- Fear of failure.
- A pessimistic attitude.
- A fear of rejection.
- A lack of ambition.
- Procrastination.
- Low self-esteem.
- Ignorance of the importance of goals.
- A lack of knowledge about goal-setting.

Why do goals fail?

- The goal was not written down.
- Rewards for achieving the goals were not given.
- The goal was unrealistic or not specific enough.
- The goal is not really believable or little commitment exits.
- The goal keeps changing.
- The person who set the goal has not told anyone else for added accountability, help and support.
- The goal was not incorporated into a realistic plan which includes measurements, timelines and resources.

Most people have a vague idea of what they want to accomplish, but most times these goals are very elusive and unachieved. Instead, get S.M.A.R.T. about setting financial goals.

S	M	A	R	T
Specific	*Measurable*	*Attainable*	*Relevant*	*Timely*
Exactly what do you want to achieve? Be crystal clear and well defined.	How will you know when you've achieved your goal? These will contain numbers or dates to keep you on track and provide a way to measure your success.	Realistic yet challenging goals. Will you be able to attain this goal?	Link the goal to something important to you, something that inspires you. Align with the direction you want your life to take.	When will you have achieved your goal? You set a deadline for your goals, so there is a sense of urgency and you know when you can celebrate success.

Step 1: Identify your top six goals. Feel free to add anything not listed below. Next, classify each goal as essential, important, or nice. Finally, rank your goals with number one being the most urgent and starting with the essential column.

Goal	Essential		Important		Nice	
	✓	#	✓	#	✓	#
Be able to live on less than you earn						
Buy a car						
Buy a house						
College education fund						
Establish an emergency fund						
Estate planning						
Get out of debt						
Increase charitable contributions						
Save for retirement						
Take a vacation						

Step 2: Are these goals S.M.A.R.T.?

Instead of having a vague goal that may be difficult to define and achieve, identify each part of the goal and enter the information into the tables on the following pages to make each goal S.M.A.R.T.

Goal: Example	Get out of debt
Specific	Pay off my $2,000 Visa credit card balance.
Measurable	Pay $400 each month toward the $2,000 balance. I can measure my progress.
Attainable	Is this something I can accomplish? Yes! $2,000 in one month is not.
Relevant	Getting rid of this debt will allow me to put my money toward something else important to me (e.g. retirement savings).
Timely	I want to eliminate this debt in five months.

Go through this exercise for each of your goals.

Goal #1	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Goal #2	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Goal #3	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Goal #4	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Goal #5	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Goal #6	
Specific	
Measurable	
Attainable	
Relevant	
Timely	

Step 3: Put together your plan by entering the information about your S.M.A.R.T. goals in the table below. Add together each of the last three columns to determine how much you need per month, the amount you are already allocating toward these goals, and finally, the additional amount needed per month.

	Goal In order of priority	Total amount need	Timeframe (in months)	Total amount needed per month	Amount already allocated	Additional amount needed per month
	Pay off Visa credit card	*$2,000*	*5*	*$400*	*$250*	*$150*
1						
2						
3						
4						
5						
6						
	TOTALS =					

Don't get discouraged if the number looks out of reach when you determine the additional amount needed per month. You will need to adjust this plan to fit your expectations and reality. You could focus on one or two goals before moving on to the others.

Step 4: Find extra dollars to fund your goals. Everyone could use a few extra dollars, but where will they come from?

- Be strategic about windfalls.
- Give every dollar a job (budget).
- Turn hobbies into cash.
- Buy used.
- Brown bag your lunch.
- Evaluate a purchase by determining how many hours (or days) you would have to work.

What are some other suggestions for finding extra dollars to put toward your goals?

FF #4: Reducing Debt

"I'd gladly pay you Tuesday for a hamburger today." – Wimpy (Popeye)

American consumers owe nearly $13 trillion in debt; a combination of credit card, mortgage, and student loan debt. Nearly everyone would agree, we would be in a better financial place without debt. So many have getting out of debt as a goal, but so few have a plan to actually get there.

Quiz: do you have too much debt?

Take the following true/false self-assessment quiz, and then tally your score.[1]

True	False	I normally pay only the minimum amount due on my credit card bills.
True	False	My credit card balances increase each month.
True	False	There are arguments in my home about money.
True	False	I sometimes hide purchases from my spouse.
True	False	I frequently charge items that I used to pay for with cash.
True	False	I have thought about filing for bankruptcy.
True	False	I have begun using cash advances to meet my obligations.
True	False	Most of my credit cards are near the limit, so I've begun applying for new lines of credit.
True	False	I do not know the total amount I owe.
True	False	I skip paying my bills some months, or pay late.
True	False	I have depleted my savings.
True	False	I am consumed with thoughts of my debt.
True	False	My debt interferes with my job and/or home life.
True	False	Collectors have begun contacting me.
True	False	I have taken money from my retirement account to satisfy debt obligations.
True	False	If I were to lose my job, it would mean an immediate financial crisis in my life.
True	False	I use balance transfers.
True	False	I have no emergency savings account.
True	False	Next month's bills arrive before I've paid this month's.
True	False	I do not open my bills when they arrive, or soon thereafter.
		Total true vs false

If you answered "true" to any of these questions, you should take a hard look at your debt management strategy. While a single "true" is not a sign of impending doom, it may be an indication you need to make a change.

[1] Source: NY Daily News http://www.nydailynews.com/new-york/money-pros-quiz-debt-article-1.1269209

Debt reduction plan

You're ready to tackle your debt, but you need to have a plan to get anywhere. Here are the steps in your debt-reduction plan.

Step 1: Identify everything you owe by listing your debts in the table below.

Step 2: Make these three commitments:

1. Think about your debt as one debt.
2. Commit to making the same debt payment every month, even as small portions are paid off.
3. Don't add any new debt.

Step 3: Stick to the three commitments until you are completely debt-free.

Step 4: Don't go back into debt!

Debt! Where do I stand?

The first step in reducing debt is to determine where you are today by listing all of your debts in the table below. It is up to you to determine the order in which you tackle your debt. The two common approaches are listed below.

- *Snowball Method*: Pay off the account with the smallest balance first.
- *Avalanche Plan*: Pay off the credit card with the highest interest rate first.

Short-term debt (less than 5 years)	Current balance	Monthly payment	Interest rate
Credit card 1:			
Credit card 2:			
Credit card 3:			
Car loan 1:			
Car loan 2:			
Medical debt:			
Student loans:			
Other debt:			
Long-term debt (more than 5 years)			
Mortgage loan:			
Home equity loan:			
Real estate loans:			
Other loans:			
Total =	$	$	

How much is too much debt?

A low debt-to-income ratio demonstrates a good balance between debt and income. Lenders like the number to be low because a lower debt-to-income ratio usually means you are more likely to successfully manage monthly debt payments.

In the table below, divide everything you are paying toward your debt, including your mortgage payment, by your monthly gross income. Convert this number to a percentage by moving the decimal point two places to the right.

Debt to income ratio	
Debt payment (including mortgage)	
÷ Monthly gross income	
= Debt/Income ratio (percentage)	

A high debt-to-income ratio signals you may have too much debt for the amount of income you have, and this as a signal you would be unable to take on any additional debt. In most cases, 43% is the highest ratio a borrower can have and still get a qualified mortgage.[2]

A debt-to-income ratio smaller than 36%, however, is preferable, with no more than 28% going towards servicing your mortgage. In general, the lower the percentage, the better the chance you will get the loan or line of credit you want.

Debt-To-Income Ratio Examples

Gross Income	Maximum Housing-Only Expense 28% of Monthly	Maximum Allowable Debt-To-Income Ratio 36% of Monthly
$20,000	$467	$600
$40,000	$933	$1,200
$60,000	$1,400	$1,800
$80,000	$1,867	$2,400

SMART – "Timely"

Remember, eliminating debt is a goal, and if it is to be a S.M.A.R.T. goal, how long will it take to achieve? In the table below, divide the total debt owed today, excluding any mortgage debt, by the monthly debt payment. The result will be a rough estimate of how many months it will take to finish off this debt as long as you stick to the plan established in this section.

Debt (without mortgage)	
÷ Payment	
= Estimate of how long it will take to pay off debt	

[2] www.consumerfinance.gov

Tips and takeaways

You must have a plan and stick to it to actually achieve your goals. French writer and pioneering aviator Antoine de Saint-Exupéry said, "A goal without a plan is just a wish." Now you have the tools needed to make your wish of getting out of debt a reality.

Here are a few tips to consider.

- Don't spend more than you earn
- Make saving a priority
- Pay more than the minimum
- Stop creating more debt
- Use a budget to find extra dollars
- Build an emergency fund
- Stop expensive indulgences
- Make your used car last longer
- Wait for a sale
- Track your spending
- Ask for lower interest rates
- Review your credit report - www.annualcreditreport.com

How will you celebrate when you are debt-free?

FF #5: Budgeting Basics

Have you ever thought everything would be perfect if I just had a little more money? Hasn't everyone? But, truthfully, a little more money isn't going to solve our problems, and earning more generally leads to spending more because our wants become more expensive.

We need to be strategic about our money and where it goes. The best way to do it is by using a budget. Most people have the impression a budget is a tool we use to deprive ourselves of the things we want; like denying ourselves chocolate cake when on a diet. Instead, you could think about a budget as a tool of empowerment and a way to make conscious decisions up front. Direct those dollars to the things we truly value, like the S.M.A.R.T. financial goals we set on page 8.

Steps to Creating a Plan

1. Where is your money actually going?
2. Write it out and incorporate your goals.
3. Make adjustments.
4. Do it again!

Tracking Your Spending

You could throw a bunch of numbers in the following tables and make it all line up easily enough, but will it actually work and reflect reality? Probably not.

The first step in establishing your plan is figuring out where your money goes. You should spend at least one or two months tracking every dollar. Write down what you spend every day! You may not remember everything several days later. You can write everything down on paper, or you can save all of your receipts and enter into the worksheet.

This part of the exercise can be a real eye-opener. You may not realize how much your habits are really costing you. Some expenses are overlooked because they happen automatically. While others don't seem significant until you aggregate a month's worth of small transactions.

Use the Tracking Worksheet on the following page to see where it all goes.

Date	Payee	Total	Notes	Grocery	Household	Gas	Entertainment	Clothing	Medical	Hobbies

Where should it go? 50/20/30 Rule

Now you know where your money is going after tracking it for a couple of months, you can use this information to put realistic parameters into your budget.

One way to really take control of your money is by using the 50/20/30 Rule.

- *50% of Your Income on Essentials* - Half (or less) of your income should go toward paying for the absolute necessities of life. These essential expenses include: housing, food, transportation, and utilities. *Is it a need?* Ask these three questions:
    1. If you lost your job, would you keep spending money on this?
    2. Could you live without this purchase for six months?
    3. Could you live in safety and dignity without this expense?
- *20% of Your Income on Financial Obligations* - The next 20% should be directed to your financial obligations. This includes your debt reduction, saving for retirement and your emergency fund.
- *30% of Your Income on Personal Choices* – The last 30% of your budget is for voluntary obligations which enhance your lifestyle. These expenses are completely discretionary and could all be considered "wants". Examples would include: cable, travel, hobbies, entertainment, etc.

Monthly Income = $ ___________________________

Target Budget:		**Current Budget:**	
50% Needs (.5 x Income)	$ ________________________	50% Needs	$ __________________________________
20% Savings (.2 x Income)	$ ________________________	20% Savings	$ __________________________________
30% Wants (.3 x Income)	$ ________________________	30% Wants	$ __________________________________

50% Needs	$ _____________	**20% Savings**	$ _____________	**30% Wants**	$ ______________
Mortgage/Rent:	$ _____________	Emergency:	$ _____________	Dining Out:	$ ______________
Utilities:	$ _____________	Debt:	$ _____________	Vacation:	$ ______________
Healthcare:	$ _____________	Retirement:	$ _____________	Entertainment:	$ ______________
Transportation:	$ _____________	Other:	$ _____________	Cable:	$ ______________
Insurance:	$ _____________			Charity:	$ ______________
Groceries:	$ _____________			Hobbies:	$ ______________
Basic Clothing:	$ _____________			Other:	$ ______________

Here are a few ideas to help move your budget closer to the 50/20/30 ideal:

- Lower your insurance costs
- Get rid of insurance you don't need
- Consolidate student loans
- Refinance Mortgage
- Negotiate for a better deal
- Avoid long-term contracts
- Get a roommate
- Sell the stuff you don't need
- Get a second job
- Be a smart shopper and compare prices and quality

What's coming in, what's going out, and what's the difference?

Using the tables provided below, enter your projected monthly income, fixed and discretionary expenses, and finally compare what is coming in to what is going out to determine if you have a surplus or shortfall.

For additional resources and budget examples, visit www.opers.ok.gov/financial-fundamentals.

Monthly Income Sources	Projected	Actual	Difference
Person 1			
Person 2			
Bonuses/Commission			
Interest			
Total			

Monthly Fixed Expenses	Projected	Actual	Difference
Mortgage/Rent			
Home Owners/Renters Insurance			
Electricity			
Gas			
Water			
Taxes			
Groceries			
Car Loan			
Debt Repayment			
Goal 1			
Goal 2			
Total			

Monthly Discretionary Expenses	Projected	Actual	Difference
Dining Out			
Movies			
Books			
Clothes			
Total			

Your Budget	Projected	Actual	Difference
Income			
- Fixed Expenses			
- Discretionary Expense			
Total			

Do you have a surplus or shortfall?

What steps can you take to ensure your budget balances, or what will you do with your surplus?

How will you manage your budget?

How you set up and monitor your budget is completely up to you. It can be as simple as paper and a pencil to something more sophisticated. Here are a few examples, but for additional online resources, see page 34.

- Paper and pencil, make copies of the tables provided in this workbook.
- Excel spreadsheet, see examples provided at www.opers.ok.gov/financial-fundamentals.
- Mobile apps
- Online resources
- Software (ex. Quickbooks)

Tips & Takeaways

- Find a budgeting system that works for you.
- Start your new budget at a time when it will be easy to follow and stick with (e.g. the beginning of the year, as opposed to right before the holidays).
- Involve the entire family – agree on a budget up front and meet regularly to check your progress.
- Distinguish between expenses that are "wants" and those that are "needs".
- Stay disciplined – make budgeting a part of your normal monthly routine.
- Build rewards into your budget, but plan for them (e.g. eat out every other week).
- Avoid using credit cards to pay for everyday expenses. It may seem like you're spending less now, but you eventually have to pay the credit card bill.

FF #6: Retirement 101

Retirement is a long-term goal in every sense of the meaning. You may not be consciously thinking about retirement now, but you are working and moving toward this goal for most of your adult life. Being ready for retirement can be a daunting task, but as Chinese poet and philosopher Lao Tzu wrote: "the journey of a thousand miles begins with one step."

The information in this section is very important and will help as you are taking either your first steps to retirement or as a reminder for those getting close to the big day.

Compounding Interest

"One of the most powerful forces in the universe is compound interest." – Albert Einstein

Compounding interest is one of the most time-tested savings strategies for gaining some level of financial security and is available to anyone who wants to take advantage of it – regardless of their age or income.

A rough way to estimate compounding interest is by using the "Rule of 72". This rule is a quick way of determining how long it will take for a dollar to double earning a specific interest rate. For example, a rate of return of 6% means the savings will double in 12 years (72 ÷ 6 = 12).

As you can see in the table, each year the interest on an initial investment of $1,000 grows, and after 12 years the savings has doubled to just over $2,000.

Now let's take a look at another example of compounding interest and how it works over a longer period of time by comparing the retirement saving story of Jack and Jill.

Year	Interest Added	Balance
1	$60.00	$1,060.00
2	$63.60	$1,123.60
3	$67.42	$1,191.02
4	$71.46	$1,262.48
5	$75.75	$1,338.23
6	$80.29	$1,418.52
7	$85.11	$1,503.63
8	$90.22	$1,593.85
9	$95.63	$1,689.48
10	$101.37	$1,790.85
11	$107.45	$1,898.30
12	$113.90	$2,012.20

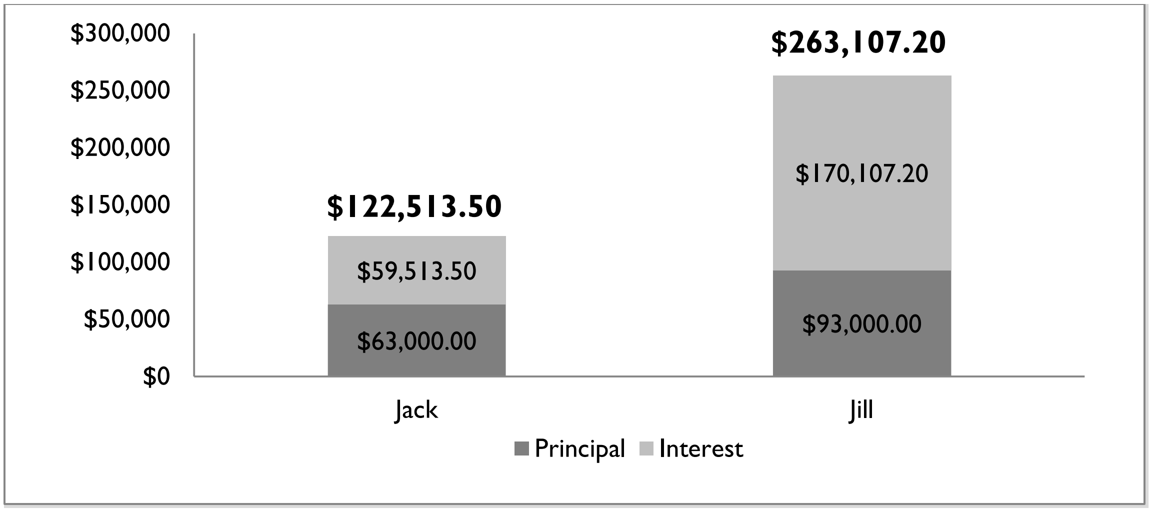
Jack saved $3,000 each year starting at age 40 until he retired at age 60. Jill started savings $3,000 each year starting at age 30 until she retired at age 60. Both Jack and Jill earned an average rate of return of 6%, but the ending balance for each is very different.

Jack

- $3,000/year
- 6% rate of return
- Starts at age 40
- Retires at age 60

Jill

- $3,000/year
- 6% rate of return
- Starts at age 30
- Retires at age 60



As you can see from the chart, Jill's balance is over $140,000 more than Jack's, yet she only contributed $30,000 more and it is all because she started 10 years earlier.

Starting to save early is often far more important than how much principal you contributed. The bottom line is time is your greatest ally when saving for retirement.

How much do you need to save for retirement?

Unfortunately, this is a very difficult question to answer, and so many variables go into determining how much you need to save. Here are just a few:

- Current age
- Age at retirement
- Longevity (how long are you going to live)
- Current salary
- Increases in salary (by how much)
- Inflation
- Current savings
- Amount of additional savings each year
- Rate of return leading up to and after retirement
- How much of your income will you need to replace after retirement
- What sources of income will you have in retirement

With all of these factors, it's no wonder many are overwhelmed. There are many online resources you could use to determine how much you need at retirement or how much you need to save today. One helpful calculator is the Ballpark E$timate® by the Employee Benefit Research Institute. This calculator allows you to incorporate many of the factors listed above, including your OPERS, Pathfinder, and/or SoonerSave plans to get the complete view of your retirement. Go to www.choosetosave.org/ballpark to use the interactive estimator and to determine how much you will need to save.

Asset allocation

Asset allocation refers to an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to your risk tolerance, goals and investment timeframe.

Assets can be divided into three types.

- Cash – reserves for stable value and interest income.
- Bonds – higher interest income than cash reserves, but with added risks.
- Stocks – highest long-term potential returns from capital gains and dividends, but with potential for substantial short-term risks and volatility.

What percentage should you have in each is a question you must answer after looking at how close you are to retirement, how much risk you can live with, and looking at your retirement goals. See the Resources on page 34 for an online asset allocation calculator.

"Four-Legged Chair"

Retirement is something you have to buy and, unlike other purchases, you can't take out a loan to pay for it. You have to know what you want in retirement and make a plan to get there.

Some financial planners estimate we will need at least 70-90% of our pre-retirement income in retirement. This percentage can be even higher as we age and medical expenses require a greater share of our income. For women, who have historically shouldered more of the burden of caring for young children and elderly parents, the percentage can be higher, as well, considering the time spent out of the workforce as a caregiver.

The "four-legged chair" is a good place to start in determining how much we need for retirement. The four legs of the chair represent the four sources of income we need to support us in our retirement years:

- Social Security;
- Employer-sponsored retirement plans (like OPERS or Pathfinder);
- Personal savings and investments; and
- Working in retirement.

Social Security is the first leg supporting the retirement chair, and your birth date determines when you may start receiving benefits. Social Security benefits are calculated based on how much you earned and paid into the Social Security system during your working career. Generally speaking, Social Security benefits were designed to replace a larger portion of pre-retirement income for lower wage earners and a smaller portion for higher wage earners. For more information about Social Security, visit their website at www.socialsecurity.gov.

The OPERS defined benefit plan and the Pathfinder defined contribution plan are examples of *employer-sponsored retirement plans* - the second leg of the chair. The plan you participate in depends on when you began employment in an eligible position. See page 2 for more details, then visit either www.opers.ok.gov or www.okpathfinder.com for more information on how your plan works.

The third leg of the retirement chair is *personal savings and investments*. This is probably the most important, and most overlooked, source of income for retirees. Most of us have very little control over the first two legs, but how we choose to save and invest outside of Social Security and other retirement plans is our responsibility.

The final leg of the retirement chair is *working in retirement*. The "four-legged chair" used to be referred to as the "three-legged stool". Why the extra leg? More and more people are either looking to transition into retirement by staying engaged through work, or simply have yet to achieve the financial security needed to retire.

Armed with this information, you can begin to look at your current financial condition, what you want your retirement to look like, and how you can get there by making an effective retirement plan.

Retirement Risks

Being prepared for retirement is more than just reaching a certain age or having a certain amount of money set aside. You also need to consider the unique risks involved and evaluate how prepared you and your retirement plan are in addressing those risks.

The Society of Actuaries (SOA) has explored the risks new retirees face today. The following is a quick overview of the risks outlined in *Managing Post-Retirement Risks: A Guide to Retirement Planning*. This should not be viewed as an exhaustive list of retirement risks, but a good place to begin. For more information, visit the SOA website at www.soa.org.

Longevity

Advances in medicine have improved our life expectancy from previous generations, and many of us underestimate how long we may live in retirement. The average life expectancy for a 65-year old is approximately 19 and 21 more years for men and women, respectively. However, average life expectancy is just that, an average. You should consider your health and family history to determine, individually, how long you should plan. Experts recommend planning to live 10 to 15 years past the average life expectancy. Will your retirement plan provide that kind of security for you?

Inflation

"Inflation is when you pay fifteen dollars for a ten-dollar haircut you used to get for five dollars back when you had hair." – Sam Ewing, author

Unfortunately, inflation is no laughing matter. When you live on a fixed income in retirement and consumer prices rise, you lose purchasing power. Your dollars do not go as far as they once did. It is like compound interest in reverse – the prices of things we consume increase at a faster rate when compared to our income.

Unexpected Health Care Needs and Costs

Declining health is a reality for us all as we age. As a result, health care takes a greater share of our retirement income later in life. Rising medical costs are increasing much faster than the rate of inflation which places a greater burden on retirement assets, especially for those who are not yet eligible for Medicare. We must also be aware of long-term care and the substantial costs late in retirement.

Stock Market and Interest Rate Risk

You may think of retirement as a destination or a finish line of sorts. However, given our longevity, inflation and rising health care costs, many of us remain exposed to market risk well into retirement. We are no longer in the accumulation phase of building wealth, but in the withdrawal phase of turning assets into cash. Market fluctuation can have a dramatic effect on our available resources. The timing of a downturn in the market has a greater bearing on us when retired than when we were working because we have less time to weather the impact.

Other risks we may need to incorporate into our retirement plan include:

- Death of a spouse or change in marital status;
- Unforeseen needs of family members;
- Loss of ability to live independently;
- Lack of available facilities or caregivers;
- Changes in housing needs;
- Changes in public policy (e.g. Social Security, tax changes, etc.);
- Employment risk (e.g. availability of work, physical ability, etc.); and,
- Bad advice, fraud or theft.

What risks may you face in retirement?

For example: inflation, cost of insurance premiums

What can you add to your retirement plan to overcome these risks?

For example: spending less in retirement, working longer

FF #7: Estate Planning

Many people mistakenly believe estate planning is just for the rich and famous, but that is not the case. Everyone has an estate, and upon your passing, it will need to be transferred to someone. By having an estate plan, you can make the process easier for the loved ones you leave behind.

Here are a few of the basic elements in an estate plan.

Make A Will – A will is a document that states your final wishes. Your will can outline who will inherit your property after you pass away, or who will be the guardian of your children. A will does not supersede beneficiary designations or make arrangements for money or property that would be distributed in another way (e.g. property in a trust or jointly owned)

Consider a Trust – Holding property in a living trust can shield your survivors from the time and expense of probate court. A trust may also make it easier to transfer assets to a minor.

Consider Your Health Care Directives – These are legal documents that allow you to spell out your decisions about end-of-life care ahead of time. They give you a way to tell your wishes to family, friends, and health-care professionals and to avoid confusion about what you do or do not want. A few examples include:

- Living will;
- Healthcare power of attorney;
- Do not resuscitate order (DNR); and,
- Donor registry enrollment form.

Name a Financial Power of Attorney – Gives a trusted person authority to handle your finances and property, should you become incapacitated.

File Beneficiary Forms – You have beneficiary designations in a number of different places and one form will not update them all. Review you beneficiary designations annually or at any time there is a change in your life. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one may require changes to your designations.

Look Into Life Insurance – Life insurance is a good idea for those who may leave dependents or significant financial obligations behind.

Plan Final Arrangements – Making final arrangements provides an opportunity to let your intentions be known regarding difficult topics such as organ donation, burial/cremation, and type of service/memorial. These arrangements can also lighten the burden of loved ones who are coping with your loss.

Safeguard Documents – Keep important documents, such as wills, trusts, insurance policies, copies of beneficiary forms and bank information, in a safe place where your executor (the person you choose to administer your estate) will be able to access them.

With each of these elements of your estate plan, you may need to reach out to an expert in estate planning. Online resources are listed in the back of this book on page 34.

Remember to keep a copy of all of these documents in a place where they can be found and retrieved easily.

Where to Find My Important Papers

A copy of this list should be given to the person who would handle your legal and financial matters should you become incapacitated. You should review and update this information periodically.

Name	OPERS Member ID	Social Security Number
Spouse/Partner name	OPERS Member ID	Social Security Number

My valuable papers are stored in these locations (address plus where to look)

A. Residence ______

B. Safe Deposit Box ______

C. Other ______

DOCUMENT	LOCATION	DOCUMENT	LOCATION
My will (original)	______	List of important friends/neighbors	______
Spouse's will (original)	______	Employment contracts	______
Power of attorney	______	Partnership agreements	______
Advance health directive/living will	______	Titles and deeds	______
Health care proxy	______	Notes (mortgages)	______
Trust agreements	______	List of stored & loaned items	______
Funeral arrangements	______	Auto ownership records	______
Life insurance policy(s)	______	Birth certificate	______
Health insurance policy(s)	______	Spouse's birth certificate	______
Long-term care insurance policy(s)	______	Marriage certificate	______
Homeowner/rental policy(s)	______	Divorce/separation records	______
Car insurance policy	______	Children's birth certificates	______
List of checking & savings accounts	______	Military/veteran's papers	______
List of credit cards	______	Safe combination	______
Brokerage account records	______	Safe deposit box key	______
OPERS retirement papers	______	Passwords (computer, cell phones)	______
SoonerSave, IRA, 401k papers	______	Other: ______	______
Copies of beneficiary forms	______	Other: ______	______

Important Names, Addresses and Phone Numbers

Doctor(s): ______

Clergy: ______

Attorney: ______

Accountant: ______

Other contacts: ______

Date Prepared: ______ Copies given to: ______

Note: Beneficiaries should notify OPERS upon your death to determine what benefits may be due.

FF (Bonus): Emergency Savings

Regardless of your stage in life, one of the fundamental building blocks of a solid financial plan is emergency savings. According to a 2014 Bankrate survey of 1,000 U.S. adults, 60 percent of Americans could not afford to pay for most unexpected expenses. Without an emergency fund, you may be just one unforeseen accident or event away from a serious financial setback.

What is an "emergency"? Intuitively, we know what constitutes an emergency in our lives, but it should be defined to avoid making ill-advised financial decisions. Emergencies are those bumps in the road that have the potential to derail our long-term financial goals.

Things like:

- Job loss
- Medical or dental emergency
- Unexpected home repairs
- Car troubles
- Health care for loved ones
- Necessary, but unplanned travel expenses

Who needs an emergency fund?

You! Me! Everyone! Whether you are starting your first job, have been retired for years, or somewhere in between, everyone needs to have emergency savings in place.

Why do I need an emergency fund?

It doesn't matter how much money we make or how well we plan, bad things happen from time to time. Whether it's the car breaking down, unexpected medical expenses, or a job loss, something will inevitably occur. An emergency fund will help ensure a short-term setback doesn't turn into a long-term financial disaster.

What is a good emergency fund target?

There are different opinions on how much money needs to be set aside in an emergency fund. Recommendations generally range from three to six months of your necessary monthly expenses. The bottom line is you need to set a target that feels reasonable to you by looking at your expenses. How much would you need to cover the basics of food, clothing, and shelter if you suddenly found yourself unemployed or unable to work?

This amount can seem daunting at first, but the idea is to put a small amount away each week or two and build up to that goal. You may also want to consider adjusting the amount based on your bill obligations, family needs, job stability, or other factors.

Where should I keep my emergency fund?

The purpose of an emergency fund is to have funds available during an emergency. Therefore, this money should be in an account where it can be retrieved without penalty or loss to the value. Just make sure it isn't so accessible that you could be tempted to dip into these funds to pay for non-emergencies (like vacations or new shoes).

When do you need to start an emergency fund?

How did you know I was going to say NOW? Even if you have debt, emergency savings should still be a top priority. If you have a financial emergency and no cash, you may have no choice but to turn to high interest credit cards and loans, foreclosing on your home, or even bankruptcy. As a result, having emergency savings of at least three months of your salary should remain a top priority. Which isn't to say you should pick one over the other; you can work towards emergency savings and debt reduction at the same time.

How do I save for an emergency fund?

We discussed another basic building block of a good financial plan, a budget, on page 18. The best way to be efficient with your money and grow your emergency fund is to be aware of your spending and assign every dollar a purpose. Taking the time to do so will ensure your money is working effectively for you.

The first step is figuring out where your money is going. If you don't have an emergency fund or think you don't have the money to save, take an honest look at where your money goes each month. Ask yourself: *If I lost my job, could I still afford this?* If the answer is no, it's a want, not a need. Cut back on those wants and put those dollars toward the emergency fund you need.

Saving money isn't always easy, but it's likely to be less painful than the alternatives. An emergency fund, regardless of the size, is an essential part of a well-rounded financial plan. Having a "safety net" of emergency savings will allow you to feel more secure and prepared when the unexpected happens.

Determine your emergency savings target amount in the table below.

Monthly expenses	
X Number of months (3-6)	
= Emergency savings target	

Financial Fundamentals – Highlights

The items below will help you build and maintain a solid financial foundation.

- ☐ **Revisit the Financial Planning Checklist** on page 4. Determine which items need action and set a specific goal to fill any gaps in your plan. For example, commit to researching wills and taking action within the next month.
- ☐ **Complete the Net Worth Scorecard** exercise beginning on page 6. Save the results. This will be your starting point. Review and recalculate throughout the year to track progress. Seeing your net worth move in a positive direction can be a huge motivating force.
- ☐ **Set Financial Goals**
    - Use S.M.A.R.T. goals to define what is important to you and to define a course of action.
    - Do not allow yourself to become overwhelmed by trying to take on everything at once. If need be, focus on one or two goals. The momentum of the first victory will propel you onto the next goal.
- ☐ **Reduce Debt**
    - Complete the self-assessment quiz on page 14.
    - Further explore your standing by listing all debts.
    - Try either the *Snowball* or the *Avalanche* plan to get started (page 15).
    - Work towards becoming debt-free. Living below your means without debt allows you to fund your future, not your past.
- ☐ **Budgeting Basics**
    - Compile all necessary information to complete a budget, using the charts and tables in this handbook (page 19) or other budgeting resources.
    - Review and update your budget on a regular basis. Monthly review is recommended, especially for those new to budgeting.
- ☐ **Retirement 101**
    - Take advantage of compounding interest and time as your ally. Starting to save early is often far more important than how much you save.
    - Maximize employer match offerings.
    - Make growing your retirement savings a priority, even if you don't yet know how much you may need.
- ☐ **Estate Planning**
    - Update and maintain beneficiary forms.
    - Create, review, or update your will.
    - Research your need for advanced directives and reach out to an expert when necessary.
- ☐ **Establish your emergency savings fund**

Even the best-laid plans will go awry from time to time. Remaining vigilant with your finances, goals, and plans is the best way to stay on track, even when you encounter those untimely bumps in the road.

Resources

Visit the OPERS website at www.opers.ok.gov/financial-fundamentals to download additional resources.

Retirement Resources

Oklahoma Public Employees Retirement System (OPERS)
www.opers.ok.gov
(405) 858-6737 | (800) 733-9008
P.O. Box 53007 | Oklahoma City, OK 73152-3007
5400 North Grand Boulevard, Suite 400 | Oklahoma City, OK 73112-5625

SoonerSave
www.soonersave.com
(405) 858-6737 | (800) 733-9008 | (877) 538-3457 KeyTalk®
P.O. Box 53007 | Oklahoma City, OK 73152-3007
5400 North Grand Boulevard, Suite 400 | Oklahoma City, OK 73112-5625

Pathfinder
www.okpathfinder.com
(405) 858-6737 | (800) 733-9008 | (844) 465-7284 KeyTalk®
P.O. Box 53007 | Oklahoma City, OK 73152-3007
5400 North Grand Boulevard, Suite 400 | Oklahoma City, OK 73112-5625

Bankrate Calculators | www.bankrate.com/retirement.aspx
Choose to Save – Ballpark Estimate® | www.choosetosave.org
Fidelity | www.fidelity.com/myplan
National Endowment for Financial Education | www.myretirementpaycheck.org
Social Security Administration | www.socialsecurity.gov | (800) 772-1213
Vanguard | www.vanguard.com/incomecalculator
Women's Institute for a Secure Retirement (WISER) | www.wiserwomen.org

Health Resources

Living to 100 - Longevity Calculator | www.livingto100.com
Society of Actuaries | www.longevityillustrator.org
Medicare | www.medicare.gov
OK Health | https://okhealth.ebd.ok.gov/
OMES: Employees Group Insurance Division (EGID) | www.ok.gov/sib | www.healthchoiceok.com
OMES: Employee Benefits Department | www.ebd.ok.gov

Financial Resources

360 Degrees of Financial Literacy | www.360financialliteracy.org
Annual Credit Reports | www.annualcreditreport.com
CNN Asset Allocation Wizard| http://money.cnn.com/tools/assetallocwizard/assetallocwizard.html
CNN Net Worth Comparison | money.cnn.com/tools/networth_ageincome/
CNN Retirement Tools | www.money.cnn.com/retirement/tools
Credit Score Information | www.myfico.com
Empower Retirement Planner | https://empower.wealthmsi.com/retirement_planner/
Internal Revenue Service | www.irs.gov
Intuit Mint (budgeting website) | www.mint.com

Money Chimp Calculator| http://www.moneychimp.com/calculator/
Women's Institute for Financial Education | www.wife.org
My Balanced Budget | www.mybalancebudget.org
My Money | www.mymoney.gov
National Endowment for Financial Education | www.smartaboutmoney.org
Non-Profit Credit Counseling | www.takechargeamerica.org
Oklahoma Securities Commission – Investor Education Program | www.investedok.org
Oklahoma Society of CPAs | www.oscpa.com
Required Minimum Distribution Calculator | https://tools.finra.org/rmd
Smart Asset Calculators | www.smartasset.com
The Motley Fool Calculators | http://www.fool.com/calcs/calculators.htm
U.S. Securities and Exchange Commission | www.investor.gov

Other Resources

American Bar Association| www.americanbar.org
Estate Planning Information | www.estateplanning.com
Financial Planning Association | www.plannersearch.org
Funeral Planning | www.funerals.org
Inflation Calculator | http://www.bls.gov/data/inflation_calculator.htm
Oklahoma Insurance Department | www.ok.gov/oid
Oklahoma Insurance Department Home Inventory | www.ok.gov/oid/home_inventory.html

Notes

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