The Pension Trust

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Bolster Your Retirement with the DC Plan

Retirement planning is based on "The 3-Legged Stool" of **Pensions**, **Social Security**, and **personal savings**. Working for SLO County, two legs of your retirement income stool are in-place – your Defined Benefit Pension and your Social Security benefit. The traditional view of public sector employees was that they would work a full career and retire with a reasonable lifetime pension benefit plus social security. But this may not be true for all.

Social Security coverage: All SLO County employees participate in social security, but some other public sector employers opted-out of SS coverage. As a result, some of you who worked for other agencies SS benefit may be limited by The Windfall Elimination Provision or the Government Pension Offset SS rules. For those employees who may not receive their full SS benefit, you may want to add to your personal savings.

Shorter careers covered by pension system: Some employees may work for SLO County or in other public sector jobs covered by a pension system for only part of their career. You may retire with only 10 or so years of pension service credits instead of 20 or 30 years. Since your pension depends on years of service multiplied by your highest rate of pay multiplied by a retirement factor (e.g., 2.0%), a shorter career means a smaller pension.

Post-PEPRA defined benefit pension formulas: Employees who started prior to 2010 are covered under the **Tier 1** pension benefit for Miscellaneous employees - the 2.0% at 55 pension. Employees hired in 2010-2012 or who may have "Reciprocity" from another retirement system, are in the **Tier 2** pension benefit for Miscellaneous employees - the 2.0% at 60 pension. Tier 3 was required state-wide by the Public Employees Pension Reform Act (PEPRA) for new hires starting in 2013. The **Tier 3** pension benefit for Miscellaneous employees is the 2.0% at 62 pension. Tier 3 is still a solid pension benefit that will pay you a lifetime income no matter how long you live. However, those of you in Tier 3 may want to add to your personal savings to supplement that pension.

An example of saving to supplement your retirement: If an employee started saving \$200/paycheck in the DC Plan, increased it by 3% each year, and assuming a 4% investment return – they could have close to \$190,000 after 20 years. If they then retired and wanted to prudently draw down that $190,000 balance over 30 years (assuming a 3% investment return in retirement) they could supplement their pension by about $9,500 per year.

Deferred Compensation Plan: Personal savings - the third leg supporting your retirement income - can be enhanced by participating in the Deferred Compensation Plan. Your employer's DC Plan is a "457" plan for tax-deferred savings similar to a 401(k) or an IRA. If you don't save in the DC Plan out of worries over "locking up" money in the DC Plan while you are still working, the DC Plan does have a loan provision so you can access some of your savings if needed. Nationwide Retirement administers the DC Plan and you can call Loren Farfan at 818/642-8191.

A true statement…: As I have said repeatedly in the 40 years that I have worked with retirement systems and pensions – I have never yet met a person who regretted saving money.