

# Financial *focus*

FINANCIAL SECURITY FOR YOUR GOLDEN YEARS



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## Top 3 Retirement Myths

Retirement planning is challenging. Common misconceptions about retirement can make for unpleasant surprises. Find out the truth behind these three common misconceptions and you'll be better prepared for your retirement.



### Myth No. 1: Medicare will pay all my medical bills.

**Reality:** Medicare pays 80% of your medical bills, which means you pay 20%. Medicare also doesn't cover any dental work you may need, or ongoing long-term care expenses. El Paso County provides supplemental health care coverage called PPO 65+ (Medicare Eligible) Plan. Well before you retire, talk to your human resources counselor and find out what coverage you have and when it takes effect. In addition, visit [www.medicare.gov](http://www.medicare.gov) to learn more about what Medicare does and doesn't cover, as well as your coverage options. This will let you get a better idea of what your health care expenses may be in retirement.

### Myth No. 2: Retirement income is tax-free.

**Reality:** Money you get from tax-deferred retirement accounts, such as EPCRP, 457s or 401(k)s, is considered taxable income when you start taking it out. "Tax deferred" means you don't pay taxes on the money when it goes into savings, but you do pay taxes on the money when it comes out. How much you owe in income taxes depends on your tax bracket. Taking money out in lump sums could dramatically increase your income — and your taxes — for that year. Considering your tax burden is an important step in retirement financial planning.

### Myth No. 3: I can always work in retirement if my income falls short.

**Reality:** According to a 2014 Employee Benefits Research Institute survey found that 65% of current workers expect to work for pay in retirement, but only 27% of current retirees actually do so. Almost half of current retirees left the workforce unexpectedly, with health issues (61%), and company downsizing or closure (18%) as the top reasons. A better plan is to save more now, so you can work because you want to, not because you have to, in retirement.

Sources: MSN Money, Wall Street Journal, Charles Schwab

[www.epretirement.org](http://www.epretirement.org)



## 4 Advantages of a Roth IRA

contribute money from a tax-deferred account into a Roth IRA, look into how it will affect your taxes that year.

### **No. 2: You can withdraw your contributions without penalty.**

With a Roth IRA you can withdraw your contributions at any time without any tax penalty. This doesn't apply to the interest your contributions have earned, however. The interest in a Roth IRA cannot be withdrawn without penalty before age 59½ except in certain circumstances. Those include withdrawals for first-time home purchases, disability and medical expenses (within limits).

### **No. 3: You can contribute after age 70½, if you're still working.**

With traditional IRAs and other tax-deferred accounts, Uncle Sam gives you a break up front, allowing you to deduct your retirement account contributions from your taxable income right now. But that tax advantage runs out when you hit age 70½. After that, you are required

to start taking distributions from your tax-deferred accounts — and paying taxes on those distributions. That's not the case with Roth IRAs. You've already paid taxes on the money, so you have more flexibility about when you start taking distributions and how long you can contribute money to the account. You could choose to never take a distribution from the account, which brings us to ...

### **No. 4: A Roth IRA can be left to your heirs after you pass away.**

Roth IRAs can provide a tax-free stream of income to your children or grandchildren. Your heirs will have to start taking distributions from your Roth IRA after your death. However, they could choose to take the minimum required distribution based on their life expectancy. So while your heirs are taking some money out, the rest of your account is earning interest tax-free. In that way, a Roth IRA can be a helpful estate-planning tool.

*Sources: Bankrate.com, Forbes, AARP, CNN Money*

A Roth IRA gives you some distinct advantages when it comes to retirement savings, and some of them extend far beyond your retirement.

### **No. 1: All withdrawals from a Roth IRA are tax-free after age 59½.**

Unlike many other retirement accounts, such as traditional IRAs, 457s or even your EPCRP deposits, the money you put into a Roth IRA isn't tax-deferred. It doesn't lower your current income for tax purposes. However, because money is put in a Roth IRA after taxes, it's not taxed if you withdraw it after age 59½ (with some conditions). That includes not just your contributions, but any interest those contributions earn. In that way, a Roth IRA can provide you with tax-free income after you retire. The Roth IRA's after-tax status also affects any rollovers you put into it. Before you

**Life Doesn't  
Stop When You  
Retire**

**Call EPCRP at (719) 520-7490** and let us know if you have any changes to your beneficiaries or marital status. This helps ensure that any benefits payable when you pass away are processed efficiently and according to your wishes.

Plus, keep EPCRP contact information with your important papers. This makes it easier for your loved ones to contact us.

## Retirement Board

**Richard Bengtsson**  
BOARD MEMBER  
Member Elected

**Robert C. Balink**  
TREASURER  
Current El Paso County  
Treasurer

**Rebecca Ellis**  
VICE-CHAIR  
BOCC Appointed

**David Guest**  
ASSOCIATE BOARD  
MEMBER

*Board meetings are held on the fourth Monday of every month, except for June and December.*

**Nicola Sapp**  
CHAIRWOMAN  
Member Elected

**Michael Pennica**  
SECRETARY  
BOCC Appointed

**Michael Varnet**  
ASSOCIATE BOARD  
MEMBER

*Contact the retirement office (719) 520-7490 for the location.*

[www.epretirement.org](http://www.epretirement.org)

# Estimate Your Future Retirement Benefit Online

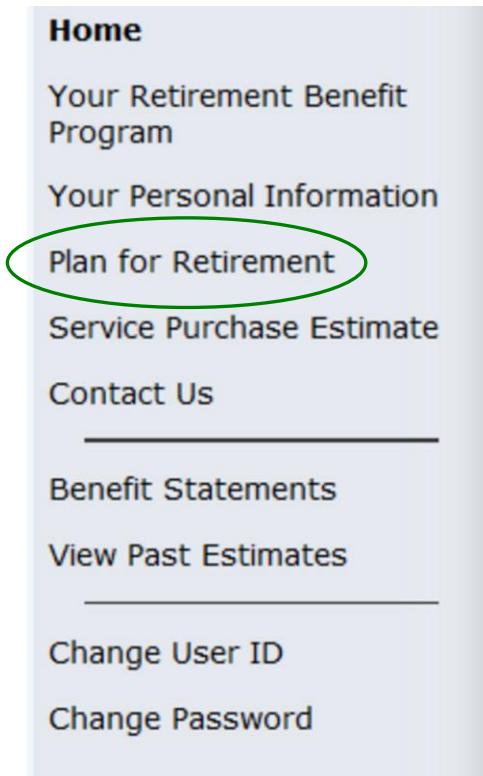
Knowing what income you can expect from your various savings accounts in retirement is an important part of creating the retirement you want. EPCRP makes estimating your retirement benefit easy with the new retirement modeling calculator, available when you sign in at [www.epcretirement.org](http://www.epcretirement.org).

The calculator is available when you click on “Plan For Retirement” in the left-hand menu. There, you can get an estimate of what your monthly benefit payment may be — as well as what your beneficiary would receive — under different payment plan options for the retirement date you choose.

The online projections also include an estimate of your Social Security benefit, as well as any 457(b) plan balance and personal savings, as well. The tool then gives you a projection of your total monthly income from all these sources, plus a replacement ratio (what percentage of your working income your retirement income will cover once it starts). This gives you a more complete view of what income you can expect at retirement.

## What Goes Into the Benefit Estimate Calculation

Three elements go into calculating your monthly benefit: your final average monthly pay (FAMP), your credited service and a benefit multiplier. The retirement modeling calculator at [www.epcretirement.org](http://www.epcretirement.org) makes all the required projections for you. All you have to do is enter the



date you’re considering starting your benefit.

- **Final average monthly pay (FAMP):** When calculating your actual benefit, we look at your last 10 years of employment and use the three year (36 consecutive months) portion in which you received the most pay to come up with your FAMP. For the purposes of estimating your benefit, this is assumed to be the last three years of your employment.
- **Credited service:** You earn one month of credited service for each month you are employed. Your

credited service determines when you are vested:

- Hired before 2013, you’re vested with five years of service.
- Hired 2013 and after, you’re vested with eight years of service.

After becoming vested, you are eligible for a full retirement benefit when your age and years of service qualify you for a benefit. Refer to the Retirement Plan Booklet for more details. The amount of credited service you have affects your retirement calculation up to a certain point. If you were hired before 2013, your monthly benefit amount cannot be more than 75% of your final average monthly compensation (not related to FAMP). If you were hired after 2013 and after, it cannot be more than 60%.

- **Benefit multiplier:** The multiplier used depends on when your credited service was earned. Any credited service you earned before 2013 uses a benefit multiplier of 2.22%. Any credited service earned in 2013 and after uses a benefit multiplier of 2.00%.

For more details on how your EPCRP benefit is calculated, see page 12 of the Retirement Plan Booklet, available in the Plan Description section at [www.epcretirement.org](http://www.epcretirement.org).

## El Paso County Retirement Plan



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# Figuring Out Your Retirement Numbers



How much will you need to live comfortably in retirement? The answer is different for everyone. Estimating what you might need and what you would like to do once you retire can help you come up with the right number for you.

## Start with what you have

Fortunately, between your EPCRP benefit and Social Security, you have a solid foundation for your income in retirement. Using the retirement modeling calculator available when you sign in at [www.epretirement.org](http://www.epretirement.org) can provide you with an estimate of your EPCRP and Social Security benefits. You can include your personal savings in the estimate, too. If you plan to work in retirement, include your estimated

pay in the grand total.

Next, think about where that money will go. Ask yourself:

- Will your mortgage be paid off by the time you retire?
- How will you pay for emergencies?
- What kind of taxes will you owe?
- How much might your health care cost?
- How much do you want to travel or participate in other fun activities?

Your expenses, as much as your income, can determine what you are able to do once you retire.

[www.epretirement.org](http://www.epretirement.org)

## Beyond income and expense

Figuring out an income replacement ratio can give you a goal for your savings. A replacement ratio is the amount of pre-retirement income you'll need to maintain your current lifestyle in retirement. Many experts suggest saving enough to replace 80% of your pre-retirement income. The Morningstar.com video "Calibrating Income Replacement in Retirement" tells you where that recommendation comes from, and why it's just starting point for your individual retirement planning.

Sources: *Forbes, Morningstar.com*



## El Paso County Retirement Plan

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