



# Developing a Savings Plan

*Participant Guide*

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## Introduction

Ask almost anyone if they feel it's important to save for retirement, and chances are they will give you a resounding yes. So why do some people seem to be more successful at setting aside additional funds for their future selves than others?

Sometimes it comes down to simply having a plan.

Whether you consider yourself to be a planner or not, this guide is designed to help you come up with personal reasons to save and obstacles to saving. Assisting you in creating a step-by-step path to help you reach your retirement goals. Many say that you're almost twice as likely to do something when you write it down, so let this help you! PERA's Developing a Savings Plan Workshop not only shows you useful tools and resources to get your plan on track but also provides you several scenarios to consider before coming up with your own personal path to help you reach your goals.



### What Are Some Reasons to Save With PERAPlus?

Brainstorm some reasons to save additional money for retirement. Use the space below to list the reasons to save that mean the most to you.

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**Andrea**

Andrea is 50 years old and started her career later in life. She currently has six years of PERA service credit and plans to retire at age 70 and receive 65% of her Highest Average Salary (HAS). Andrea realizes that her PERA benefit and her Social Security benefit won't cover all of her expenses in retirement. She plans to take withdrawals from her 401(k) plan to make up the difference between her PERA and Social Security income and her expenses.

**Andrea's key information:**

- » Andrea estimated her benefit amount as \$3,615 using the "PERA Monthly Retirement Benefit" calculator on PERA's website.
- » Andrea estimates her expenses in retirement, including health insurance, to be around \$4,500 per month.
- » Andrea estimates her monthly Social Security benefit will be around \$400.
- » The difference between her income and expenses is \$485.
- » Her current 401(k) balance is \$50,000, including the amount she rolled over to the 401(k) Plan from her previous employer.
- » Andrea currently contributes \$100 per month to her PERAPlus 401(k) account.
- » Andrea assumes a 5% return on her investment before retirement and 3% after retirement.

**Case Study Questions:**

1. Why is Andrea saving?

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2. How much money will Andrea have at age 70 if she maintains her current contribution? What calculator did you use to estimate this account balance?

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3. Will Andrea have enough money in her PERAPlus 401(k) account to draw an extra \$485 per month until she is 95? What calculator did you use to determine this amount?

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4. Will Andrea be able to draw more than \$485 per month if she estimates she will live until 95?

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Ted recently looked at his 401(k) balance and was surprised at the amount he had saved. He thought it would be higher since he has been contributing for 10 years.

### Ted's key information:

- » Ten years ago, Ted started contributing \$100 per month to his 401(k) account. He has not ever changed that amount.
- » Ted estimates that he will continue working for another 20 years.
- » Ted assumes the rate of return on his account will be 5%.

### Case Study Questions:

1. Why was Ted surprised when he checked his account balance?  

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2. What would you suggest Ted do to increase his 401(k) balance?  

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3. If Ted's current 401(k) balance is \$15,500 and he triples his 401(k) contribution to \$300 each month, how much would he have at retirement in 20 years?  

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**Ted**



**Dale**

### Additional Case Studies

You can use the calculators on PERA's website ([www.copera.org](http://www.copera.org)) to answer the questions for these case studies.

Dale just started working in his first PERA-covered job at age 52, after spending the last 35 years working in the private sector. During his new employee orientation, Dale learned that he will not have a reduction to his Social Security benefit because he has 30+ years of substantial earnings under Social Security. After getting a benefit estimate from Social Security, Dale realized that his income will not be enough to support his lifestyle in retirement. Dale is interested in purchasing PERA service credit to help supplement his Social Security income.

#### Dale's key information:

- » Dale will have to work in a PERA-covered job for five years before he is eligible to purchase PERA service credit.
- » He may purchase a maximum of five years.
- » Dale has a 401(k) account with his previous employer with a balance of \$40,000.
- » Dale currently makes \$36,000 per year and assumes that he will receive 2% raises each year. In five years, his HAS will be \$3,312 per month or \$39,747 per year.
- » His cost to purchase service credit in five years is \$62,696.

### Case Study Questions:

1. Why is Dale saving?

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2. How much would Dale need to save each month to cover the cost of his purchase if he assumes a 6% rate of return on his PERAPlus 401(k) account? A 5% rate of return?

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3. How much could Dale have in his 401(k) account if he assumed a 6% return and contributed \$200 per month?

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4. Why should Dale consider saving more than the minimum amount needed to pay for his service credit purchase?

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Veronica started working for her PERA-covered employer when she was in her early 20's. Recently, Veronica's parents started experiencing health problems and she is reevaluating her retirement plan after seeing her parents struggle. Veronica is an only child, single, and does not have children or plans to marry. She is concerned about taking care of her aging parents and saving for her own healthcare in the future.

Veronica looked into the cost of long-term care insurance policies and found a policy will cost her \$170 per month if she starts paying now. She read that the average person will end up spending around \$250,000 on long-term care if they don't have the LTC insurance.

Veronica hasn't saved any money in addition to her PERA benefit because she had planned to work until she would receive 95% of her HAS. Veronica is thinking about using money she saves in a 401(k) account to cover her long-term care costs rather than buying an insurance policy.

### Veronica's key information:

- » She is 50 years old.
- » She plans to work another 10 years.
- » Veronica plans to contribute \$500 per month to her 401(k) account.

### Case Study Questions:

1. How could saving in a 401(k) account help Veronica meet her needs?

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2. If Veronica starts saving \$500 per month now, how much would she have if she saves this way for 10 years (assume a 5% rate of return)?

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3. If Veronica starts saving \$500 per month now and decides to retire in five years at age 55 with 33 years of service credit to care for her aging parents, how much would she have saved for her own long-term care (assume a 5% rate of return)?

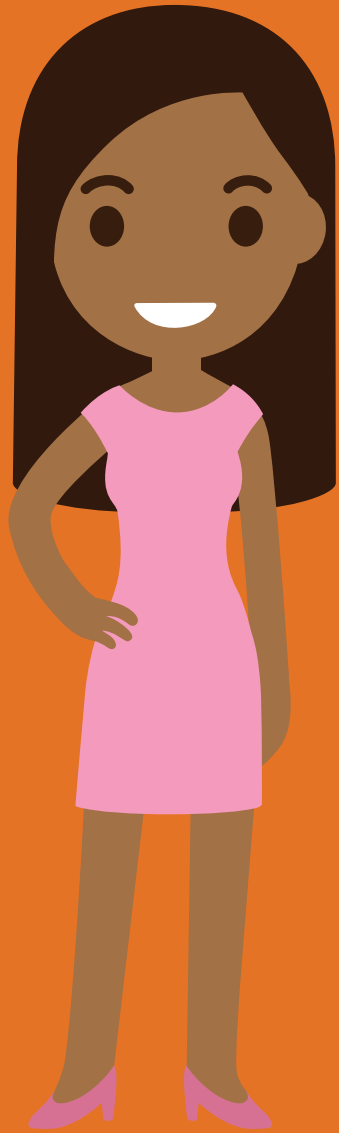
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4. Is either amount enough to cover the current average lifetime cost of long-term care?

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5. What can Veronica do to improve the prospects of covering her own long-term care needs?

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**Veronica**



**Cecilia**

Cecilia recently got a raise at her job. Her new income has pushed her into a higher tax bracket, which will increase her tax bill. Cecilia is in her 30's, and was contributing to her Roth 401(k) account while in her lower tax bracket. Cecilia likes her pay raise, but she also liked paying less in taxes, and is now considering moving to pre-tax contributions to lower her tax bracket. Cecilia estimates that for every \$100 she contributed on a Roth basis, she can now afford to contribute \$125 on a pre-tax basis.

**Cecilia's key information:**

- » She currently has a \$20,000 Roth balance.
- » Cecilia will stop contributing on a Roth basis.
- » She will begin contributing \$500 a month on a pre-tax basis to her 401(k) account.
- » Cecilia is assuming her rate of return on both her Roth and pre-tax 401(k) balances is 6%.

**Case Study Questions:**

1. Why was Cecilia contributing on a Roth basis?  
\_\_\_\_\_
2. What is the primary reason Cecilia has chosen to contribute to her account on a pre-tax basis?  
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3. How much will Cecilia's Roth balance be when she retires in 30 years? How much will she have saved on a pre-tax basis?  
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## What Is Your Biggest Obstacle?

Brainstorm some obstacles you may have to overcome. Use the space below to list them.

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## What is one thing you can do this week to overcome your biggest obstacle and better prepare yourself to save for retirement?

Brainstorm some obstacles you may have to overcome. Use the space below to list them.

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## Starting Your Savings Plan

In order to start working on your own savings plan, answer the following questions:

1. In how many years do you plan to retire? \_\_\_\_\_.
2. What is your current 401(k) and/or 457 account balance\* \$ \_\_\_\_\_.

(If you have your own device or know your User ID and password, you can log in to your PERA account and check your balance. Otherwise, an estimate will do.)

3. Use the "Future Value of an Investment" calculator on PERA's website to estimate your 401(k) or 457 account balance if you continue to contribute at your current level.

My estimated future balance is \$ \_\_\_\_\_.

Change your contribution amount in the "Future Value of an Investment" calculator and see how that changes your potential account balance.

If I change my contribution amount to \$ \_\_\_\_\_, then my balance could be \$ \_\_\_\_\_.

4. Determine how long the account balances you calculated above will last in retirement using the "How Long Can I Withdraw from My Account?" calculator.

My balance of \$ \_\_\_\_\_ will last \_\_\_\_\_ years.

OR

Determine the amount you can withdraw monthly from your account over the course of your retirement using the "How Much Can I Withdraw from My Account?" calculator.

I could withdraw \$ \_\_\_\_\_ for \_\_\_\_\_ years.

### Action Steps

1. Create a personal savings plan
2. Use the calculators on PERA's website
3. Enroll in the PERAPlus Plan(s)



# Case Study Answer Key



## Andrea

1. Andrea is saving to close an income gap.
2. Andrea will have \$173,245. Use the "Future Value of an Investment" calculator.
3. Yes, she will be able to withdraw \$485 for 72 years. Use the "How Long Can I Withdraw From My Account?" calculator.
4. Yes, she will be able to draw \$817.90 per month. Use the "How Much Can I Withdraw From My Account?" calculator.

## Ted

1. Ted is surprised that there is not more money in the account after 10 years.
2. Ted should increase his contributions. He should consider saving a percentage of salary rather than a flat dollar amount.
3. Ted will have \$162,867. (He will only have \$81,706 if he does nothing.) Use the "Future Value of an Investment" calculator.

## Dale

1. Dale is saving to purchase service credit.
2. He should save \$132 per month at a 6% return and \$172 per month at a 5% return. Use the "Future Value of an Investment" calculator.
3. Dale will have \$67,426 if he saves \$200 per month. Use the "Future Value of an Investment" calculator.
4. Dale should consider saving to cover emergencies, for inflation protection, to cover an income gap, and to have more disposable income in retirement.

## Veronica

1. Veronica's 401(k) account can help pay for health care and unexpected expenses.
2. Veronica will have \$77,181. Use the "Future Value of an Investment" calculator.
3. Veronica will have saved \$33,906. Use the "Future Value of an Investment" calculator.
4. No.
5. Veronica can save more. She could also consider securing a long-term care insurance policy and locking in a lower rate by starting at age 50 if she doesn't think she will be able to save enough.

## Cecilia

1. Cecilia assumed she would later be in a higher tax bracket and could theoretically afford the taxes now.
2. Cecilia would lower her tax liability for the current year.
3. Roth account balance: \$114,869. Her pre-tax savings is \$487,256. Use the "Future Value of an Investment" calculator.