RETIREMENT PERSpectives

Third Quarter 2012 Public Employee Retirement System of Idaho

REQUIRED MINIMUM DISTRIBUTIONS
-- the taxman cometh--

After years of deferring taxes on contributions to your supplemental retirement accounts, the tax man cometh. The IRS generally requires participants to start taking out minimum amounts from their accounts once they reach age 70½ or have retired, whichever is later. The RMD rules apply to all employer-sponsored retirement plans, including profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans, and also to traditional IRAs. (Does not apply to Roth IRAs while the owner is alive.) More about RMDs on the IRS website at http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions.

Although an RMD must be taken for the year in which the account holder turns age 70½, the first payment can be delayed until April 1st of the year following the year in which the he/she turns 70½. Those who defer their first RMD until the following year, will receive two distributions in the same year because the second distribution will be due December 31st. (Be aware that taking two withdrawals in the same year may increase your income taxes.) After your first RMD, each subsequent year you must withdraw an RMD by December 31st. *If you miss an RMD, you could face an IRS penalty tax equal to 50% of the amount you should have withdrawn, but didn't.*

The exact distribution amount changes annually. As the plan record keeper, Xerox HR Solutions calculates the RMD for the Choice 401(k) Plan. The formula uses the prior year-end balance divided by the factor in the IRS life expectancy table, less any payments received that calendar year.

A letter, calculation, and tax form will go to affected Choice Plan participants in November. Those who want to make a withholding change would complete and return the tax form to Xerox HR Solutions. A brochure addressing RMDs for the Choice Plan is available on the PERSI website at http://www.persi.idaho.gov/documents/distributionsFlyer.pdf.

If you have questions about a Choice Plan RMD, call Xerox HR Solutions at 1-866-437-3774 or PERSI at 1-800-451-8228 or 334-3365 from the Boise area.

ADVANCED CARE DIRECTIVE...DON'T PUT IT OFF

An advance care directive (ACD) allows people to state care preferences while they can; if there ever comes a time when they are unable to make their wishes known, the document serves as their voice. An ACD allows individuals to choose whom they would like to act on their behalf for medical decisions if they become incapacitated.

- **Make your ACD a durable one**. If your ACD is not durable, it can potentially be affected by subsequent incapacity.

- **Don't be overly specific.** Find someone you trust and talk about your preferences. Intervention utilizing mechanical means to sustain or supplant a vital function temporarily isn't the same as being placed on permanent life support...so make sure your wishes are known. If you've been very specific, your decision-maker may have little leeway to proceed as you would like.

- **Don't put off the conversation.** Discuss your wishes and then make it legal. Most hospitals now offer ACD forms online to make the process easier for patients and non-patients alike.

Inside this issue:

Insights

LIFE AFTER RETIREMENT IS DIFFERENT FOR EVERYONE

"What's next" is a common question asked by both those nearing retirement and those who've recently retired. A lot of people are unsure about what to do with their time once they are no longer obligated to a job. Others are excited about trying new things or living a different life in retirement. Most people look forward to retirement and are excited about having more free time. But the reality of retirement can be vastly different from person to person.

Thinking about retirement brings to mind financial concerns, but psychological preparation should also be a consideration. Dr. Nancy K. Schlossberg found there are many transitions to retirement. Her findings showed coping with these transitions depends on family, timing, work satisfaction, retirement planning, health, and financial security. Based on her study with retirees, Schlossberg identified the following ways in which people approach retirement:

CONTINUERS

These individuals continue using their existing skills, interests, and knowledge, but modify them to fit retirement.

ADVENTURERS

These individuals view retirement as an opportunity to begin new and exciting endeavors. They acquire new skills, undertake new endeavors such as going back to school or moving to a new climate. It's all about reinventing themselves into something entirely new.

SEARCHERS

These individuals want to explore new options through trial and error. They seem fearless. They'll spend some time experimenting with new options. They'll create a Plan A, and if that doesn't work out they go to Plan B.

EASY GLIDERS

These individuals enjoy unscheduled time. They prefer to let each day unfold. They're happy to just "go with the flow" — enjoy the day as it comes, be with family and friends...or not. The fewer the commitments, the better.

INVOLVED SPECTATOR

These individuals care deeply about the world, but don't necessarily engage in an active way. For example, a former high school football coach may still follow the sport but have no desire for further involvement.

RETREATERS

These individuals prefer taking a clean break away from past activities, and may withdraw if things don't go as planned. They want to take time to quietly think about life and what their future holds. These people need space to regroup; but then may need a helping hand to get reconnected with meaningful engagements.

Not surprisingly, more than one of these approaches can apply at the same time. Many people find they move from one category to another over the course of their retirement.

Adult children can be both a helpful and a complicating factor during your retirement transition. If you have plans to move away, your kids may feel abandoned. If you have thoughts of remarrying, you may face resistance from some or all of your children. It may require great courage to forge your new path in the face of protest or resistance from your kids. Just remember, it's your time to enjoy life in whatever way makes you happy and fulfilled.

Source: Dr. Nancy K. Schlossberg, a psychologist who is retired from the faculty of the University of Maryland and who authored a book titled "Retire Smart, Retire Happy: Finding Your True Path in Life."

THINK IT'S IMPOSSIBLE TO BOOST YOUR SOCIAL SECURITY CHECK -- THINK AGAIN

Believe it or not, the Social Security Administration (SSA) offers strategies to increase your retirement benefit. One little-known strategy is called "file and suspend." This strategy is for married couples only, and can result in a much higher benefit in many cases.

A husband or wife can file for their Social Security benefits based on their own earnings or the earning of their spouse. SSA rules state a husband or wife who is eligible to file for benefits based on his/her spouse's record cannot do so until the spouse begins receiving his/her benefits. ***The exception is file and suspend***.

How It Works

The Senior Citizens' Freedom to Work Act of 2000, allows you to earn delayed retirement credits (DRC) if you file for benefits, but immediately request a delay in actually receiving the benefits. By delaying your benefit, you establish a "base" amount that will come into play when your spouse draws a spousal benefit based on your record. (More on that below.)

Benefits generally increase by 8% per year for each year you delay collecting your benefits beyond your full retirement age (FRA) up to age 70. That could mean a 32% increase in your overall Social Security benefit. In addition to the increased benefit and the impact on spousal benefits, this tactic can also increase the amount of survivor benefits for your spouse.

When or How is This Used?

File and Suspend is most commonly used when one spouse has lower lifetime earnings than the other. This strategy allows the lower wage earner to receive a retirement benefit based on his/her spouse's earnings record because of SSA's spousal benefit provision. With a spousal benefit, a husband or wife may collect as much as 50% of what the other spouse is entitled to at full retirement age. This approach not only allows the eligible spouse with lower earnings to immediately claim a spousal retirement benefit, but also increases the amount of available survivor protection.

AARP Example: A husband and wife both age 66.

- Husband entitled to $2500 a month in benefits
- Wife entitled to $1500 a month in benefits

The husband files for his Social Security benefits and immediately suspends the payments because he wants to delay his claim until age 70. (Doesn't matter whether he continues working or not.) During the four year "suspension," he will receive delayed retirement credits (DRC) of 8% per year. At age 70 when he begins receiving benefits, his base has grown to $3300 per month (32%).

Since the husband made his initial claim, his wife -- who is at full retirement age -- can file a "restricted" application to claim spousal benefits based on her husband's record, not her own "earned" benefit. She receives $1250 per month (half of his base). Meanwhile, her earned benefit now also grows by 8% per year until she reaches age 70. At age 70, she switches to collect her earned benefit, which has grown close to $2000 per month (nearly 32%) thanks to the DRC.

In this hypothetical example, the couple collects nearly $60,000 extra by delaying their benefits and taking advantage of the spousal benefits while they wait.

Higher Survivor Benefit: Upon the death of the husband in the example, the wife would be entitled to receive 100% of what her husband was receiving or was entitled to receive at the time of his death.

Who Can File and Suspend?

You must be full retirement age to use this plan and either spouse can file and suspend, but not both. *Both spouses do not have to be FRA to use this strategy, only the one who's filing and suspending*. The non-suspending person is the only one eligible for the spousal benefit. **If a <u>non-full retirement age</u> spouse begins receiving spousal benefits, he/she will no longer be eligible for the DRC and the amount of spousal benefits and earned benefits will be permanently reduced.**

This strategy may not be advantageous if one spouse is in poor health or if the income is needed immediately. Before deciding whether the file and suspend strategy is right for you, consult with a financial or tax advisor or call the SSA at 1-800-772-1213.

This article is presented for informational purposes only. PERSI is not recommending members use the strategy.

Sources: SSA, Forbes, AARP, Market Watch.

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PERSI INVESTMENT NEWS

for Base Plan as of September 13, 2012

Value of the Fund:
$12,421,841,995

Fiscal Year Change in Market Value:
$487,846,049

Fiscal Year-to-Date Returns:
4.3%

Month-to-Date Returns:
2.2%

*Posted monthly on PERSI website: www.persi.idaho.gov
Fiscal Year 7/1/2012 - 6/30/2013

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