

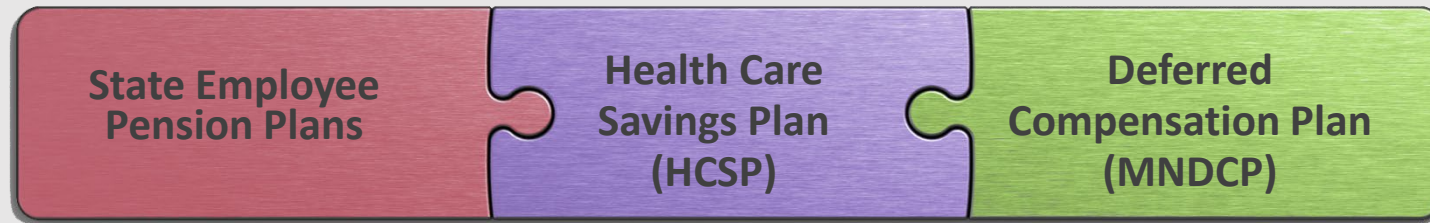


2024 Mid-Career Presentation

Who we are



Minnesota State Retirement System



State Employee
Pension Plans

Health Care
Savings Plan
(HCSP)

Deferred
Compensation Plan
(MNDCP)



Retirement Readiness

Be Prepared



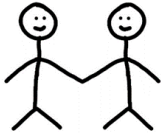


Consider the realities

- High cost of health care

High cost of health care

Amount needed to cover health care costs in retirement

	For a 50% chance of covering	For a 90% chance of covering
 65-year-old man	\$106,000	\$184,000
 65-year-old woman	\$128,000	\$217,000
 65-year-old couple	\$234,000	\$351,000

FOR ILLUSTRATIVE PURPOSES ONLY

Source: Employee Benefit Research Institute Press Release, Projected Savings Medicare Beneficiaries Need for Health Expenses Increased Again in 2023. Jan 29, 2024
Includes: Medicare (Part B & D) and Medigap premiums plus median prescription drug expenses. Excludes long-term care

Be Prepared



Consider the realities

- High cost of health care
- **We're living longer**

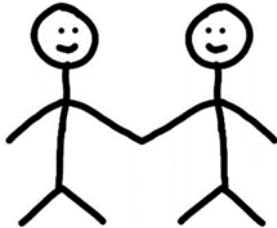
Life expectancy – we’re living longer



65-year-old man



65-year-old woman



65-year-old couple*

50% Chance	Age 86	Age 88	Age 92
25% Chance	Age 92	Age 94	Age 96

FOR ILLUSTRATIVE PURPOSES ONLY

Source: Society of Actuaries Mortality MP-2021 Scale and the 2019 Social Security Mortality Table

**At least one surviving individual.*

Be Prepared

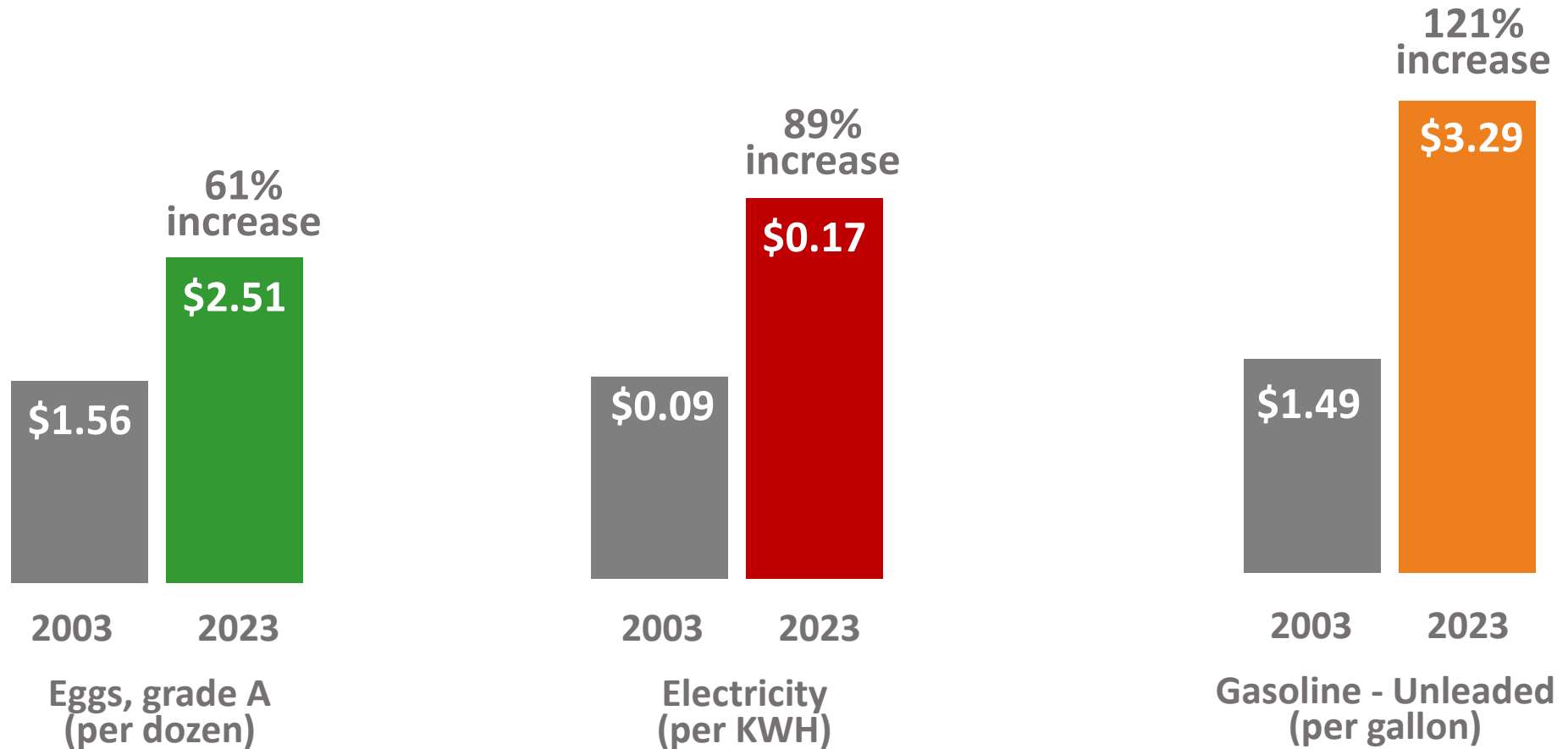


Consider the realities

- High cost of health care
- We're living longer
- **Inflation**

Inflation – what money will buy

The effect of inflation over 20 years



FOR ILLUSTRATIVE PURPOSES ONLY

Source: U.S. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average Price Data (12/2003 – 12/2023)

Be Prepared



Prepare your retirement budget

How much will you need to maintain your standard of living?

Review your financial situation to determine:

- all your sources of retirement income
- how your expenses will differ in retirement

Take action



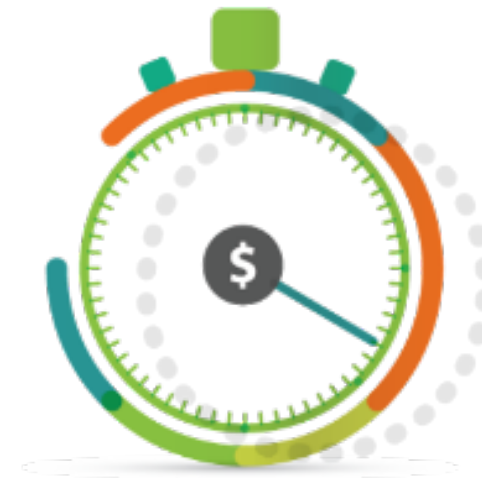
Consider how the following factors could affect your retirement savings

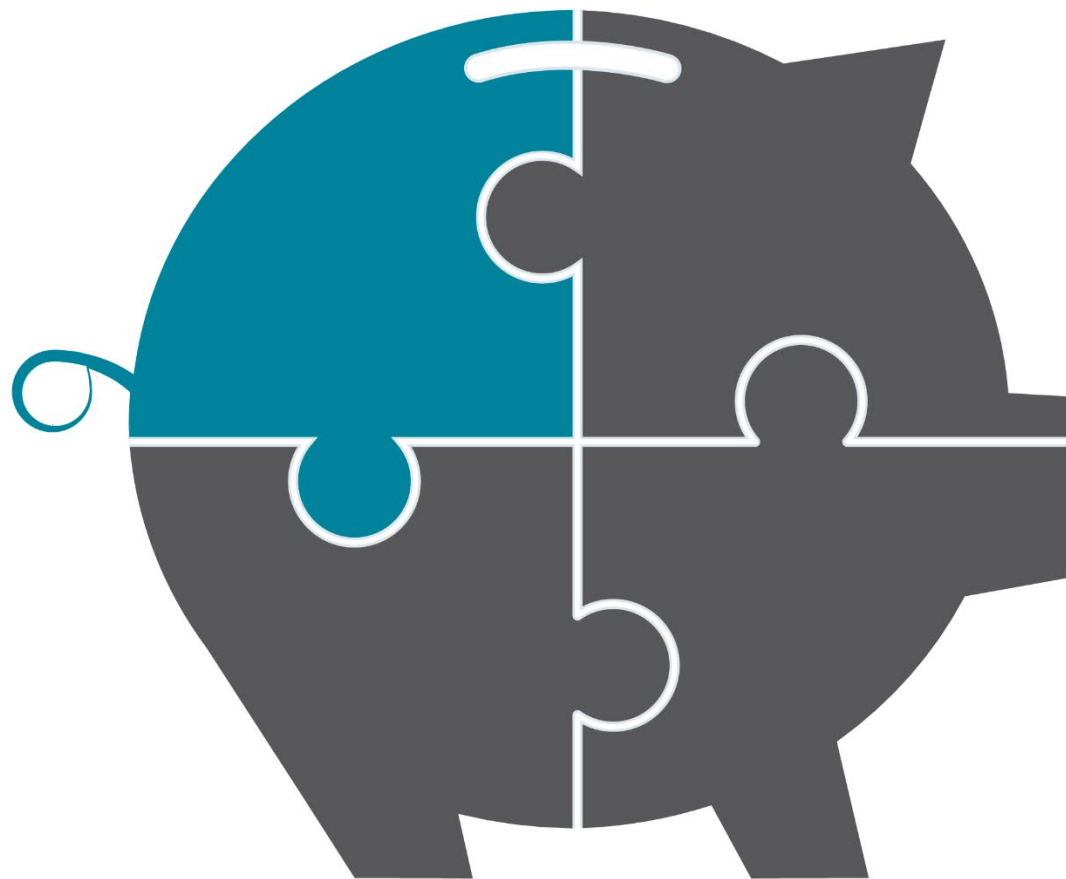
- Higher health care costs
- Increasing life expectancies
- Inflation



Prepare a retirement budget

Visit
www.msrs.state.mn.us/create-a-budget





Pensions

What is a pension benefit



Lifetime income paid
monthly once you retire

About MSRS pension plans



90% of state employees are members of the MSRS General Employees Retirement Plan



Membership is mandatory



Employee and employer contribute a % of employee's gross salary to fund their pension

Qualifying for a pension benefit

What is vesting?

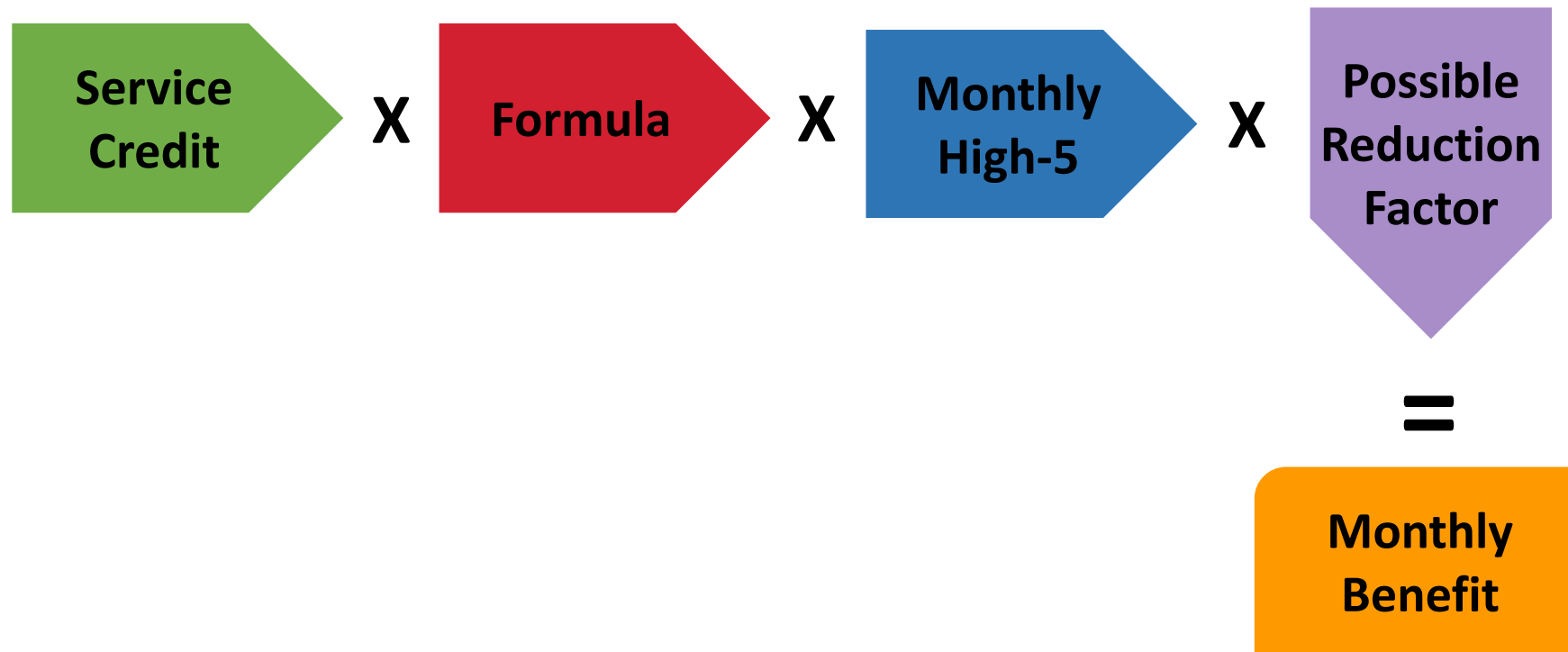
Refers to the time period you must work before you are eligible for a lifetime retirement benefit

General Plan vesting

Hired before July 1, 2010 **or** working after **June 30, 2023** 3 years service

Hired on/after July 1, 2010 5 years service

How your pension benefit is calculated



Retirement age determines reduction

Early Retirement Age

Full Retirement Age

- Age 55-65

Pension benefit subject
to reduction

- Age 66 & older

Meet Anita & Sarah

Each began employment at the same time
Each earn the same salary



Anita

- Plans to retire at age 66
- With 30 years at DNR



Sarah

- Plans to retire at age 62
- With 26 years at DOT

Benefit comparison



Anita retires age 66

$$30 \text{ years} \times 1.7\% \times \$5,000 \times \text{N/A} = \$2,550$$



Sarah retires age 62

$$26 \text{ years} \times 1.7\% \times \$4,619 \times 0.6924 = \$1,414$$

FOR ILLUSTRATIVE PURPOSES ONLY Your actual results will vary based on your retirement date.

Benefit deferral comparison



Sarah retires age 62

$$26 \text{ years} \times 1.7\% \times \$4,619 \times 0.6924 = \mathbf{\$1,414}$$



Sarah retires age 62 BUT DEFERS TO AGE 66

$$26 \text{ years} \times 1.7\% \times \$4,619 \times \text{N/A} = \mathbf{\$2,042}$$

FOR ILLUSTRATIVE PURPOSES ONLY Your actual results will vary based on your retirement date.

Combined service annuity

Service with another MN public pension plan
(e.g., TRA or PERA)



Requirements for a coordinated benefit:

- Minimum six months service with each plan
- Must terminate from all plans
- Must collect from all plans within one year

Additional Features

Survivor Options

Annual Benefit Increase

Benefit is Taxable

Take action



Review your estimated pension benefit

- Annual statement
- Online account
- Schedule an appointment with an MSRS Representative



Understand the impact of retiring before your full retirement age

Further you are from your full retirement age, greater the benefit reduction



**YOUR
VOICE
MATTERS**

**TAKE OUR
SURVEY**

surveymonkey.com/r/MSRS_webinar_survey



Income Gap

What is an income gap?

You might have an income gap if:



your savings does not meet your retirement income needs



you retire early and need more retirement savings

or

you fear you will outlive your savings

How much income will it take?

You may need

80% to 100%

of your current income to maintain
your lifestyle in retirement

\$60,000 annual salary



*FOR ILLUSTRATIVE PURPOSES ONLY
Figure represents 80% of \$60,000 salary*

Pension & Social Security may not be enough

Income your MN public pension replaces¹

- 10 years service = 17%
- 20 years service = 34%
- 30 years service = 51%

Income your Social Security replaces²

- Average MN public employee recipient = 32%



¹ Based on the years of service of MSRS pension recipients. Assumes full retirement age of 66. A TRA recipient replacement percentage would be higher.

² Based on the collecting an unreduced social security benefit at age 66 and a final average salary of 2020 retirees from MSRS, PERA, TRA public pension plans. Does not assume future earnings. Salary Source: MSRS, PERA and TRA 2020 Comprehensive Annual Financial Report. Social Security Source: SSA Benefit Calculator.

Case study income replacement

Sarah



Anita

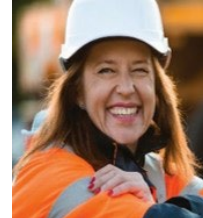


Retirement Age	62	66
High-5 monthly salary	\$4,619	\$5,000
Pension replacement	31%	51%
Social Security replacement	24%	31%
TOTAL INCOME REPLACEMENT	55%	82%

FOR ILLUSTRATIVE PURPOSES ONLY Your actual results will vary.

Case study savings needed

Sarah



Anita



Retirement Age	62	66
TOTAL INCOME REPLACEMENT	55%	82%
Savings needed to replace 80%	\$272,500*	\$0
Savings needed to replace 100%	\$485,000*	\$186,000*

FOR ILLUSTRATIVE PURPOSES ONLY Your actual results will vary.

Based on a 5% annual rate of return (not guaranteed) and 2% inflation. Assuming annual withdrawals to reach stated income replacement lasting until age 90.

Calculate how much retirement income you will need



MNDCP



Enrollment

Contribution effects on your paycheck calculator

How much should I save calculator



Investments

Investor Profile Quiz

Target Date Funds
Interactive PDF

Target Date Funds Video



Withdrawals

Plan Withdrawal Calculator

How long will my savings last? Calculator

ROTH Conversion and Distribution Calculator



Pretax vs. Roth After Tax

ROTH Decision Tree

ROTH vs. Pretax Calculator

Do your own calculation

www.msrs.state.mn.us/toolbox#mndcp

Take action

Bridge the income gap



MNDCP account

Maximize contributions
if possible



HCSP account

Use your HCSP account
assets



Pension & Social Security

Consider delaying your
retirement date



Minnesota Deferred
Compensation Plan

What is the MNDACP?



A voluntary savings plan to supplement your pension & Social Security income

Available to all MN public employees and elected officials

State sponsored 457(b) Plan



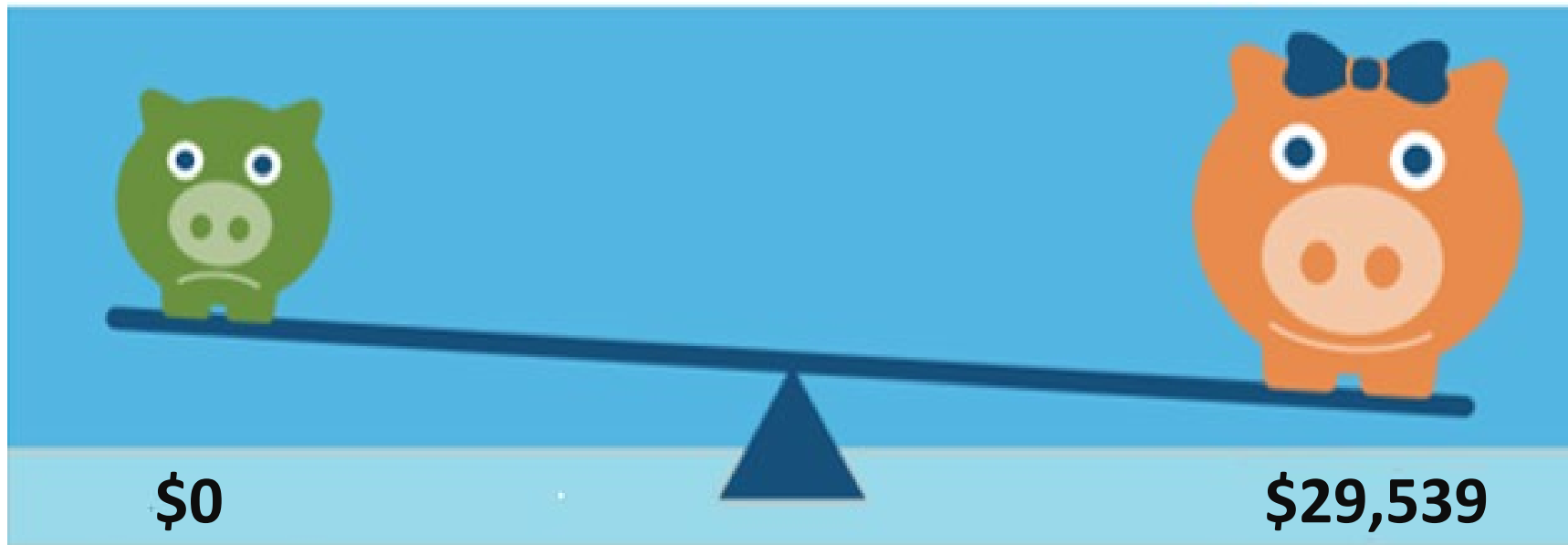
2024 Contribution limits

Under age 50
\$23,000

Age 50 & over
\$30,500

Take advantage of matching dollars

How much an employer match could help



FOR ILLUSTRATIVE PURPOSES ONLY Figures represents the growth of a minimum \$10 contribution per pay period plus an annual \$250 employer matching contribution over 25 years at 6% interest (not guaranteed) compounded annually.

Maximize your contribution

Contribution per pay period	10 years	20 years
\$25	\$8,810	\$24,602
\$50	\$17,620	\$49,203
\$100	\$35,240	\$98,407
\$200	\$70,481	\$196,814
\$500	\$176,202	\$492,035

FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration is not intended as a projection or prediction of future investment results, nor is it intended as financial planning or investment advice. It assumes 26 pay periods per year, a 6% annual rate of return and reinvestment of earnings with no withdrawals. Rates of return may vary. The illustration does not reflect any charges, expenses or fees. The tax-deferred accumulation shown would be reduced if these fees had been deducted.

Pre-tax vs Roth after-tax

	Pre-Tax	Roth After-Tax
Contributions	Tax deferred	Taxable
Earnings	Tax deferred	Tax free*
Distributions	Taxable	Tax free*

** As long as Roth account was held for 5-year period and the distribution is on/after age 59½.
If both conditions are not met, the earnings portion only of a Roth distribution is taxable.*

How to build a diversified portfolio

Generally, there are two options to consider:

① **For the Hands-Off Investor**

Invest in professionally managed, diversified funds such as a target retirement fund or balanced fund

② **For the Hands-On Investor**

Build your own portfolio from the core investment options available to you

Hands off investor

Select one Target Retirement Fund

35 years
to retirement



25 years
to retirement



15 years
to retirement



5 years
to retirement



Target Retirement
date reached



Stocks



Bonds or Fixed Income/Short-Term Investments



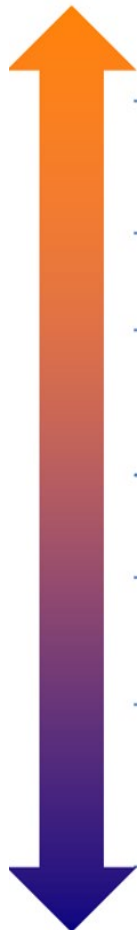
Target Date Funds Disclosure

Generally, the asset allocation of each target date fund will gradually become more conservative as the fund nears the target retirement date. The date in a target date fund's name is the approximate date when investors plan to start withdrawing their money (which is assumed to be at age 65). The principal value of the fund(s) is not guaranteed at any time, including at the time of the target date and/or withdrawal. For more information, please refer to the fund disclosure document.

Hands on investor

Choose your investments

Higher Risk
Potential Reward

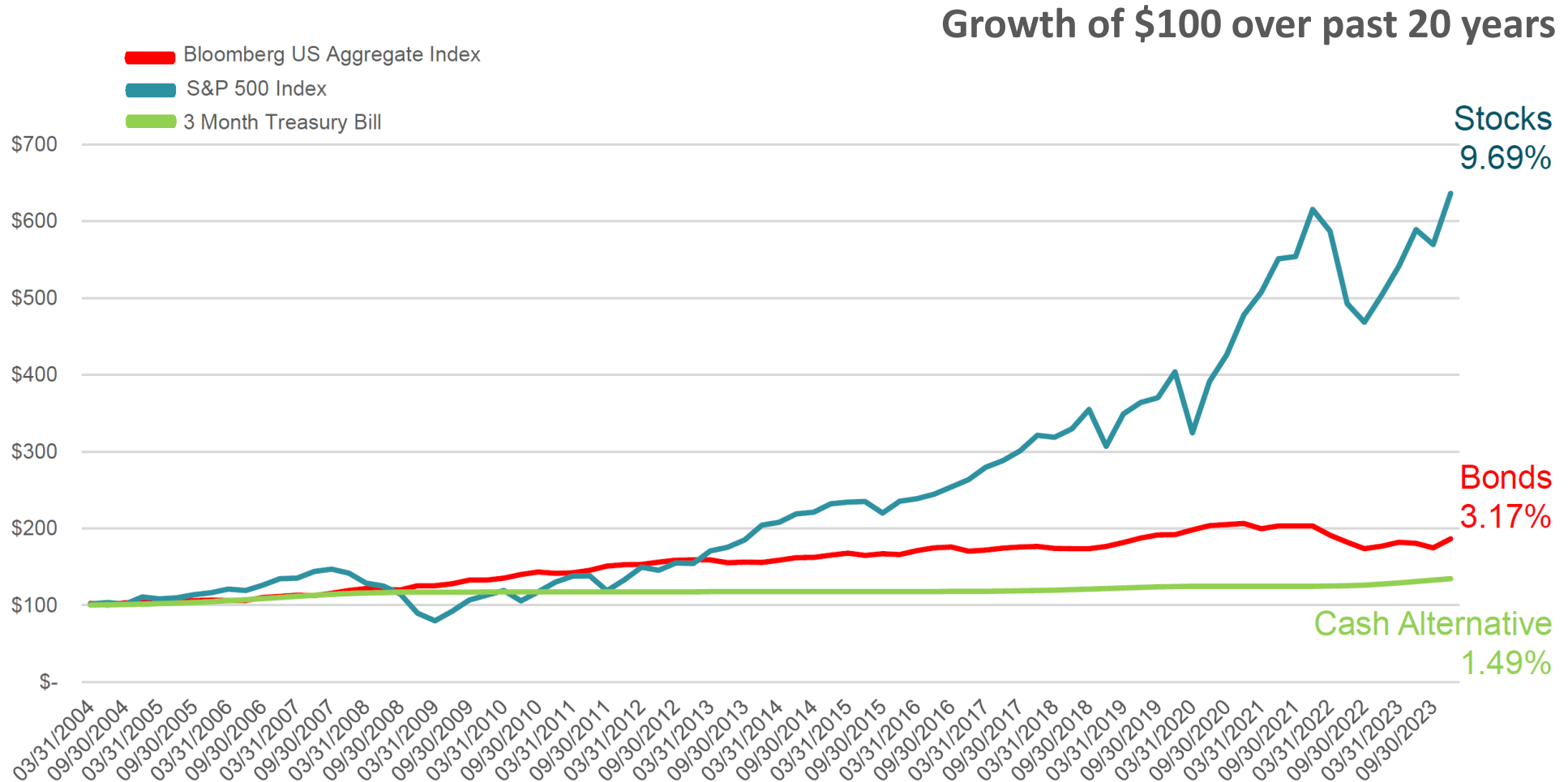


Lower Risk
Potential Reward

Asset Class	MNDCP Investment Options
Small-Cap U.S. Stock	T. Rowe Price Small-Cap Stock Fund
International Stock	Fidelity Diversified International Fund Vanguard Total International Stock Index Fund
Mid-Cap U.S. Stock	Vanguard Mid-Cap Index Fund
Large-Cap U.S. Stock	Vanguard Total Stock Market Index Fund Vanguard Institutional Index Fund Vanguard Dividend Growth Fund
Balanced	Vanguard Balanced Index Fund
Bond	Dodge & Cox Income Fund Vanguard Total Bond Index Fund
Short-Term Investments	Stable Value Fund Money Market Fund

Investing involves risk, including possible loss of principal.

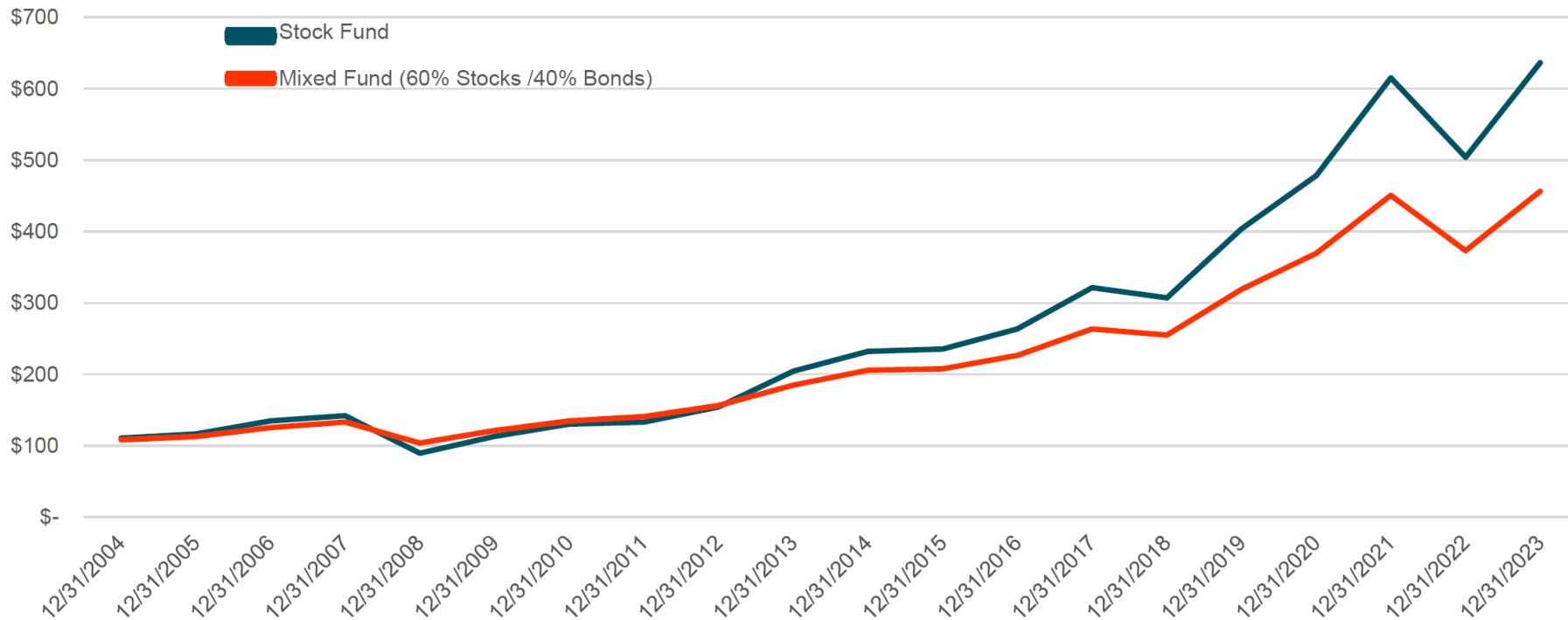
How different investments have performed over time



FOR ILLUSTRATIVE PURPOSES ONLY. Returns are annualized. Source: Factset Systems as of December 31, 2023. Bloomberg US Aggregate, S&P 500 Index, and Citigroup (3M) Treasury Bill are benchmark indexes. A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest in a benchmark index. Past performance is not a guarantee of future results.

Comparing two investment portfolios

Growth of \$100 over past 20 years



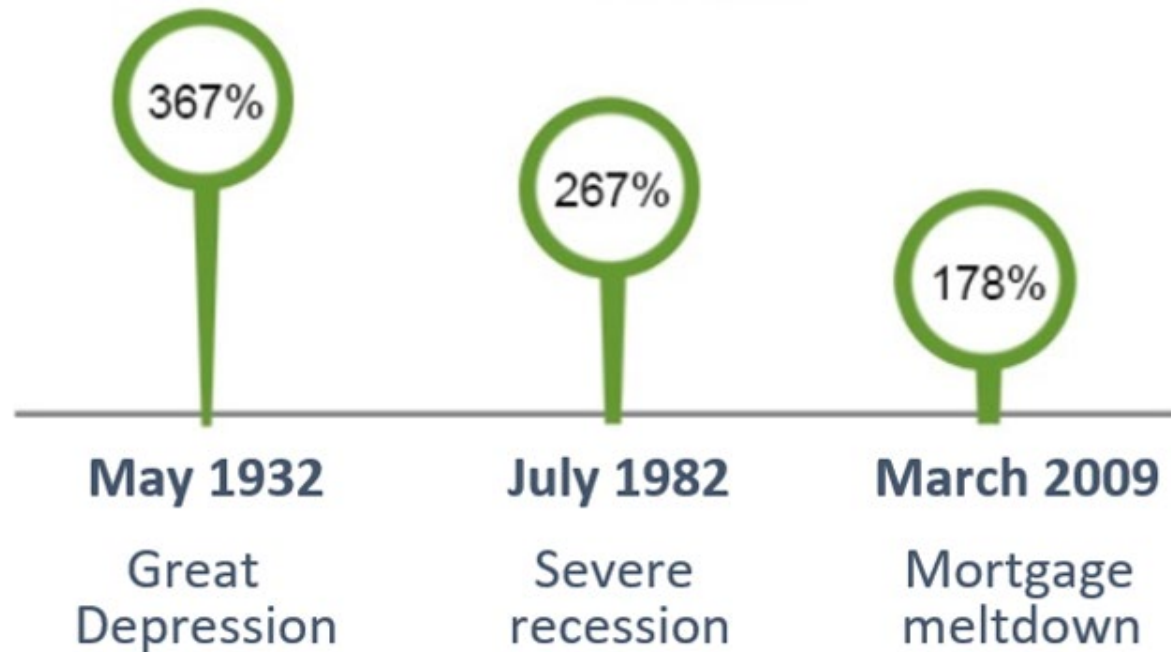
FOR ILLUSTRATIVE PURPOSES ONLY. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. It is not intended as financial planning or investment advice nor as a projection or prediction of future investment results. Past performance is not a guarantee or prediction of future results.

Annual return data from Factset Systems, as of December 31, 2023. Example assumes portfolios are not rebalanced. Stock fund is represented by S&P 500 Index and Mixed Fund is represented by S&P 500 Index and Bloomberg US Aggregate Bond Index returns.

Keep perspective

It has paid to stay invested in U.S. stocks during troubled times

Subsequent 5-year S&P 500 Index[®] return

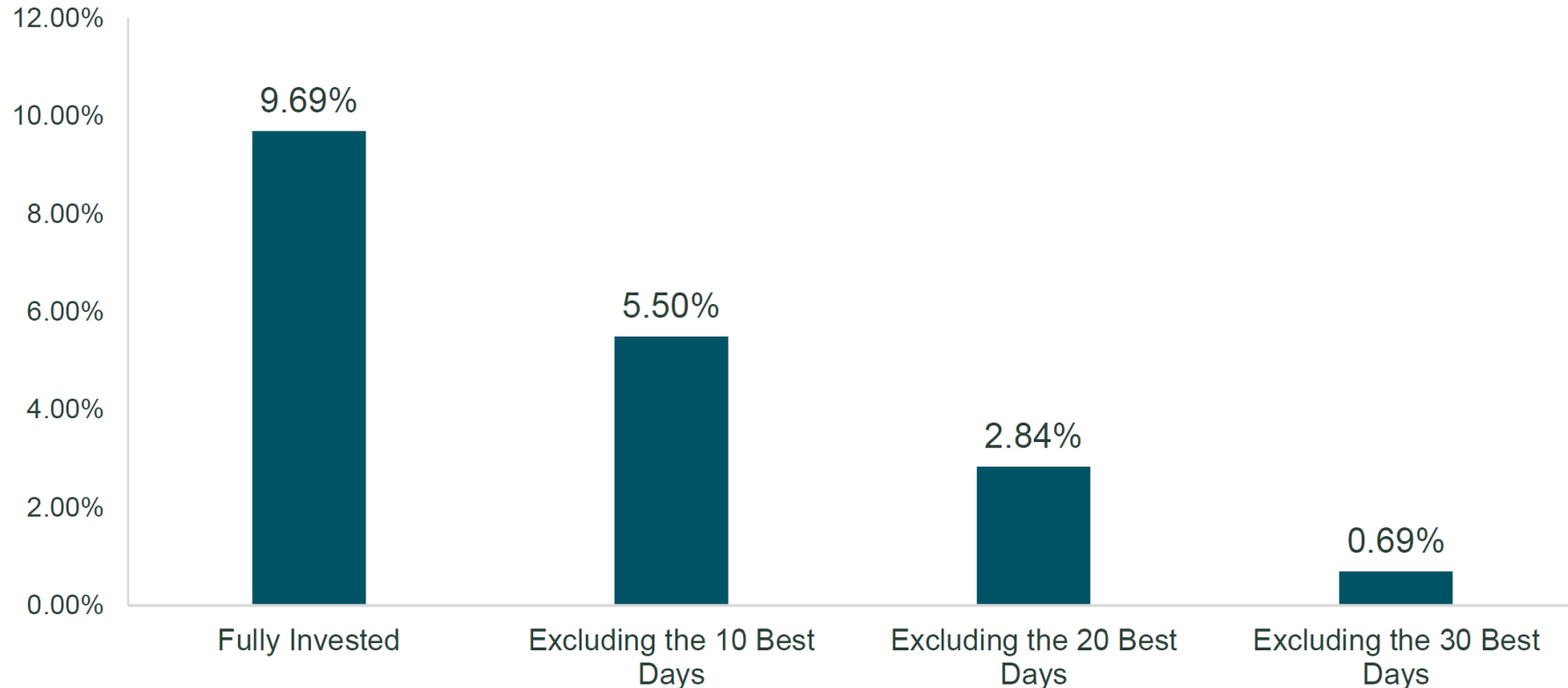


FOR ILLUSTRATIVE PURPOSES ONLY Past performance is not a guarantee or prediction of future results. You cannot invest directly in a benchmark index. U.S. stock market returns represented by total return of S&P 500 Index[®], which is an index used as a proxy for the stock market in general.

Source: Fidelity Investments. https://institutional.fidelity.com/app/item/RD_13569_23965.html With data provided by Ibbotson, Factset, FMR Co., Fidelity Asset Allocation Research Team (AART) as of 3/31/2015.

Managing investments in economic downturns

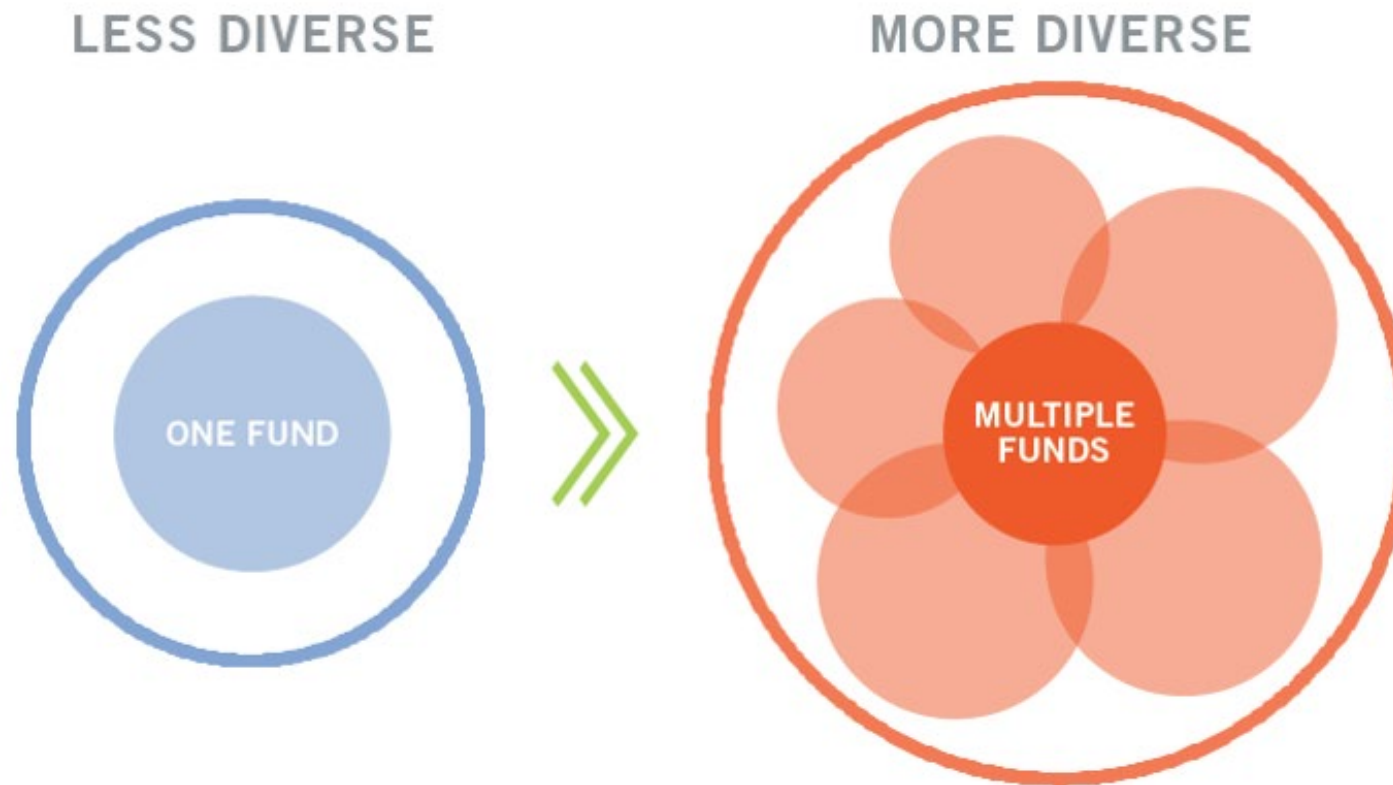
Returns of S&P 500 Index® - 20 years ended December 31, 2023



FOR ILLUSTRATIVE PURPOSES ONLY. Source: Data obtained from Factset Systems. S&P 500® index returns January 1, 2004 through December 31, 2023. Returns expressed as total returns. This chart is intended for illustrative purposes only; it is not investment advice. Past performance is not a guarantee of future results. S&P 500® Index is a registered trademark of Standard & Poor's Financial Services LLC, and is an unmanaged index considered indicative of the domestic Large-Cap equity market. An index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest directly in a benchmark index.

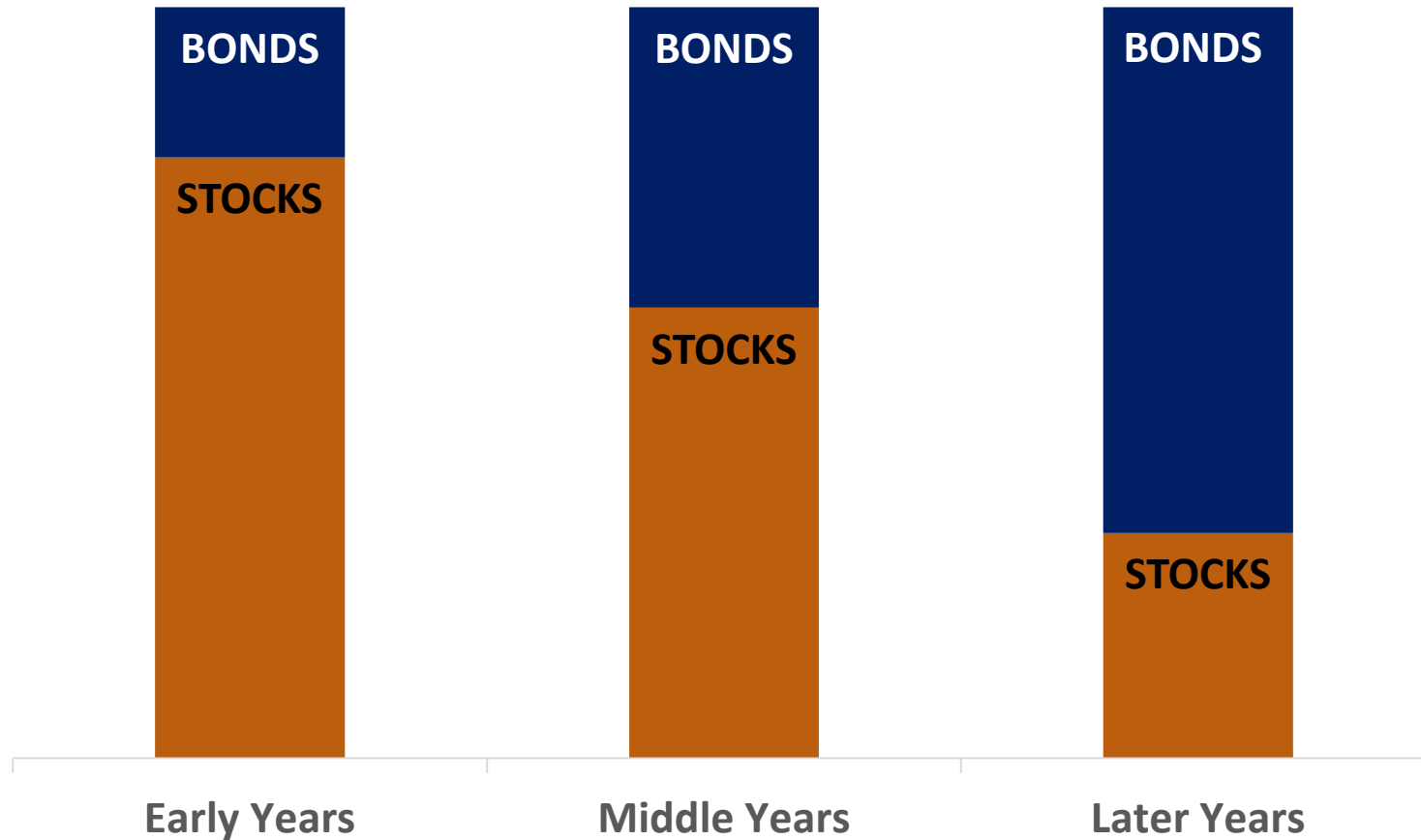
Diversify to manage risk

Diversification - Holding a mix of investments such as stocks in large, small and international companies, bonds (government and corporate) and cash alternatives (Stable Value, Money Market)



FOR ILLUSTRATIVE PURPOSES ONLY. Diversification does not ensure a profit or guarantee against loss.

Asset allocation example



FOR ILLUSTRATIVE PURPOSES ONLY. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. This is not intended as financial planning or investment advice.



Money Market Fund Disclosure

You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at \$1 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Investment Disclosure

Please consider the investment objectives, fees and expenses carefully before investing. The prospectus and/or disclosure documents contain this and other important information about the investments offered through your plan. To obtain a prospectus or disclosure document, or to learn more about the investment options, visit www.msrs.state.mn.us or call 800-657-5757. Read such materials carefully before investing.



Distribution eligibility

You are not required to withdraw your MNDCP account balance upon severance of employment

- Distribution eligibility begins:
 - 30 days after ending employment, at any age
 - On/After age 59½, regardless of employment status
 - Upon death or disability

- No IRS 10% tax penalty on withdrawals prior to age 59½

How long will your savings last?

Gross Withdrawal	Savings Balance		
	\$50,000	\$100,000	\$150,000
\$500/month	11 yrs 4 mos	>50 yrs	>50 yrs
\$1,000/month	4 yrs 9 mos	11 yrs 4 mos	22 yrs 3 mos
\$1,500/month	3 yrs	6 yrs 8 mos	11 yrs 4 mos

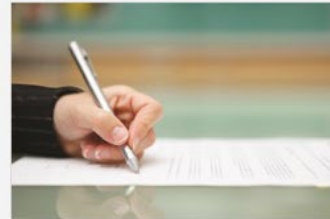
FOR ILLUSTRATIVE PURPOSES ONLY

Your actual results will vary. This hypothetical example assumes a 6% annual rate of return. Rate of return not guaranteed.

Calculate how long your savings will last



MNDCP



Enrollment

Contribution effects on your paycheck calculator
How much should I save calculator



Investments

Investor Profile Quiz
Target Date Funds
Interactive PDF
Target Date Funds Video



Withdrawals

Plan Withdrawal Calculator
How long will my savings last? Calculator
ROTH Conversion and Distribution Calculator



Pretax vs. Roth After Tax

ROTH Decision Tree
ROTH vs. Pretax Calculator

Do your own calculation

www.msrs.state.mn.us/toolbox#mndcp

Keep beneficiary designations up-to-date

What happens if something happens to you?

A beneficiary will inherit your account assets

Plan ahead
AVOID PROBATE



Take action



Maximize
your contributions



Minimize
account fluctuations
with a diversified
investment strategy



Get free money
enjoy any employer
matching dollars



Keep in mind
you are not required to
roll out or close your
MNDCP account





Health Care Savings Plan

What is the HCSP?

A tax-free savings account

- ✓ Tax-free contributions
- ✓ Tax-free potential growth
- ✓ Tax-free reimbursements
- ✓ No Social Security, Medicare or income taxes

Reimburse **post-employment** health care expenses for employee, spouse, legal tax dependents, and children up to 26th birthday.

Tax-free matters

Taxable Cash Payout

Severance payment	\$10,000
Federal Income Tax	2,200
State Income Tax	680
FICA Tax	765
<hr/>	
Net cash payment	\$6,355

Tax-Free HCSP Payout

Severance payment	\$10,000
Federal Income Tax	0
State Income Tax	0
FICA Tax	0
<hr/>	
Net cash payment	\$10,000

FOR ILLUSTRATIVE PURPOSES ONLY

This hypothetical example assumes a 22% federal withholding rate + 6.80% state withholding rate + 7.65% FICA (Social Security and Medicare) tax rate. Individual tax rates will vary based on total taxable income and filing status for the year.

Eligibility for participation



Participation MUST be...

- negotiated in union contract
or
- included in personnel policy
for non-union employees



Participation CANNOT be...

- individual choice—group participation must be specified in union contract or personnel policy

State employee participation

Union	Paycheck contribution	Severance	Vacation
AFSCME		✓	✓
MAPE	1%	✓	✓
MMA*	1.5%	✓	✓
Managerial & Commissioners	1%	✓	✓

For participation specifics, refer to your union contract at:

<https://mn.gov/mmb/employee-relations/labor-relations/labor/>

*Effective 7/1/2024

Investment Default



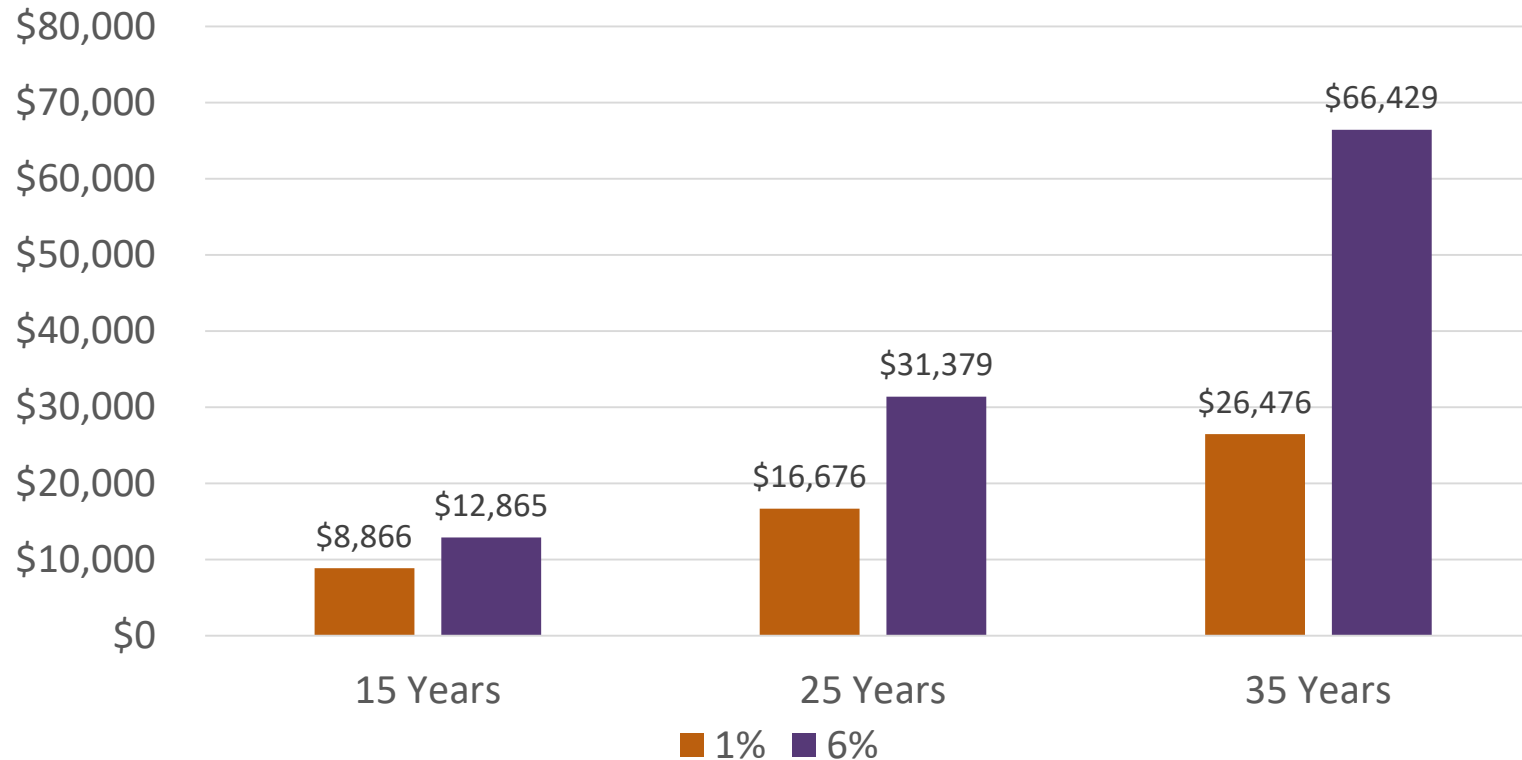
Money Market Fund

- Seeks to maintain the value of the original investment
- Seeks to earn interest competitive with short-term interest rates
- Plan expenses may exceed earned interest
- Other investment options available

You could lose money by investing in a money market, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed. Although the fund seeks to preserve the value of your investment at \$1 per share by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

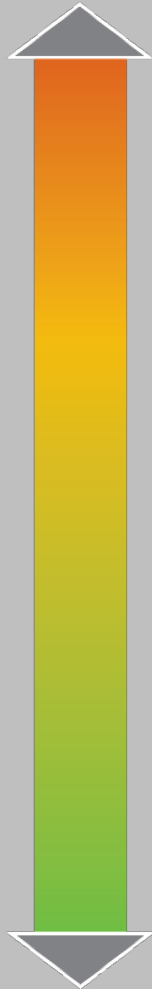
Investments matter

Growth of an investment earning 1% vs 6% annual return



FOR ILLUSTRATIVE PURPOSES ONLY Figures represents the growth of 1% of salary for the periods shown at 1% and 6% interest (not guaranteed) compounded annually less the 0.65% annual HCSP administrative fee. Data assumes a starting \$50,000 annual salary with annual 2% raises.

*Higher Risk
Potential Reward*



*Lower Risk
Potential Reward*

Investment options

T. Rowe Price Small Cap Stock Fund

Vanguard Total International Stock Index Fund

Vanguard Mid Cap Index Fund

Vanguard Total Stock Market Index Fund

Vanguard Dividend Growth Fund

Vanguard Balanced Index Fund

Dodge & Cox Income Fund

Vanguard Total Bond Market Index Fund

Stable Value Fund

Investing involves risk, including possible loss of principal.

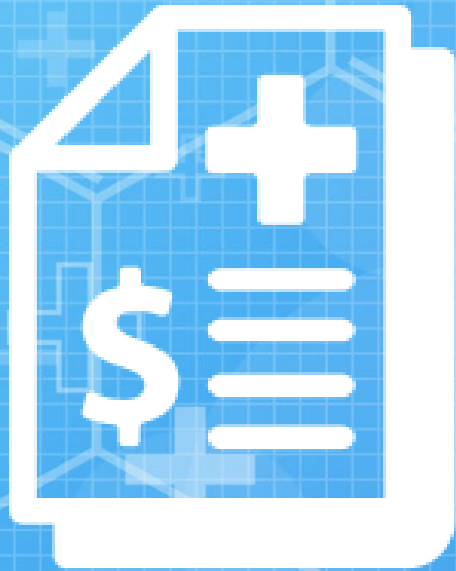
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No investment is 100% risk free. You can incur loss of principal by investing. There is no assurance that investing will ensure a profit or protect against loss.

Foreign investments involve special risks, including currency fluctuation, taxation differences and political developments. Equity securities of small and mid-sized companies may be more volatile than securities of larger, more established companies. Asset allocation and balanced investment options and models are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bond/bond funds. A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

Request reimbursements

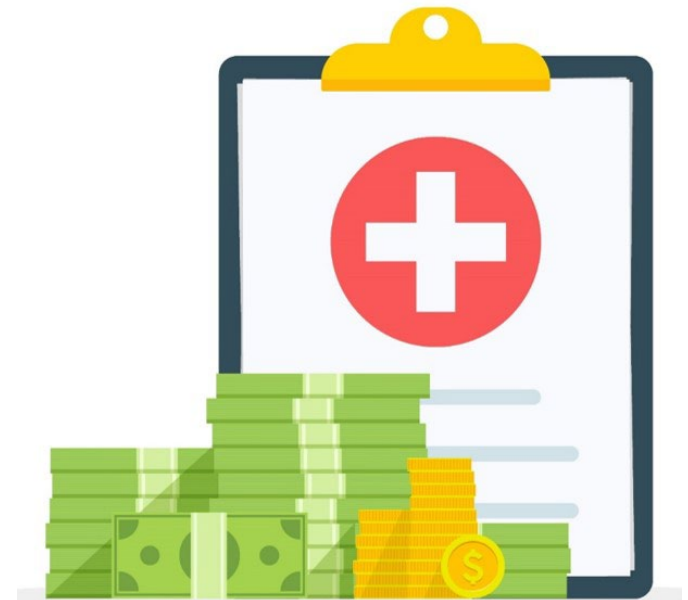


- Upon termination of employment...
at any age
- Once retired
- If collecting a disability benefit
from a MN public pension plan

What is reimbursable

Eligible medical/dental expenses, including:

- *Insurance Premiums*
 - Health, Medicare, Dental, Long-Term Care
- *Dental costs*
- *Eye-care costs*
- *Co-payments & prescription drugs*
- *Over-the-counter drugs with prescription*



For other eligible expenses, see IRS Publication 502

What cannot be reimbursed

- Life insurance premiums
- Teeth bleaching
- Cosmetic surgery
- Finance charges on bills
- Fees for health club membership
- Funeral expenses
- Vitamins



About beneficiary designations

What happens if something happens to you?

Spouse or legal dependents¹

- Account balance automatically transfers to HCSP account for spouse

OR, if no spouse

Account balance automatically transfers to HCSP account for dependent(s)

- Reimbursements remain **tax-free**

If NO spouse or legal dependents¹

- Account balance transfers to HCSP account for your designated beneficiaries
- Reimbursements taxed as ordinary income

¹Legal dependent is someone you can claim on your federal tax return

Take action



**Review
your investments**
The Money Market
Fund is the
investment default



Remember
post-employment account
for health expenses only



No tax reporting
since reimbursements are
exempt from federal and
state taxation

**WE WANT
TO HEAR
FROM YOU**

**TAKE OUR
SURVEY**

surveymonkey.com/r/MSRS_webinar_survey



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- St. Cloud - 4150 Second Street S · Suite 330
- Mankato - 11 Civic Center Plaza · Suite 150
- Detroit Lakes - 714 Lake Ave · Suite 100
- Duluth - 625 East Central Entrance

Contact us

Receive more details about the information you just saw

or

Make an appointment to speak to one of our retirement counselors



www.msrs.state.mn.us



1.800.657.5757 or 651.296.2761



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This material is for informational purposes only and is not intended to provide investment, legal or tax recommendations or advice.

Today's workshop was designed to:

- *Provide you with fundamental information on your MSRS retirement plans*
- *Objectively highlight your investment options*
- *Outline other sources of information for your decisions*

