Massachusetts Deferred Compensation SMART Plan

EDUCATE

COUNTDOWN TO RETIREMENT

Use the retirement readiness checklist below and consider these important questions and benefits:

- Do you have sick and annual leave you want to roll into your account?
- Did you know that there may not be a 10% early withdrawal penalty if you have money in a 457(b) plan?
- Do you have a spend-down plan for your savings?
- Do you understand the tax implications of withdrawing funds from your account?
- Do you know what your pension/ Social Security benefit will be?
- Have you notified Human Resources of your intent to retire?
- Have you updated your retirement account beneficiary?
- Did you know that you can stay with the SMART Plan even after you retire and may even be able to roll your other retirement plans into it?[1]
- Have you talked with your local SMART Plan Retirement Plan Advisor or another financial or tax professional?

Take action: **Schedule an appointment** online with your local SMART Plan Retirement Plan Advisor or call **877-457-1900** to get help finding a time that works for you!

Remember your first day at your first job? Back then, your retirement was a distant dream. Fast forward to today, and your retirement is now an imminent reality.

If your retirement is just around the corner, you're probably realizing you have some new things to learn and some decisions to make. If the information and choices you're facing seem overwhelming, organize your to-do list into these three categories:

- **Retirement savings** – The amount you still want to accumulate before your retirement date
- **Retirement spending** – The total for your various living expenses after you retire
- **Retirement income** – The various income streams from which you'll draw

This guide contains some practical considerations in these areas to help you prepare for your upcoming retirement.

Retirement savings

Even though retirement is within sight, you still have time to add to the savings that will potentially provide you with retirement income. The SMART Plan offers the added advantages of:

- **Pretax contributions or Roth after-tax contributions** – You can choose to make either traditional pretax contributions or Roth contributions with after-tax dollars. You can determine whether contributing to your Plan on a traditional before-tax basis or after-tax Roth basis makes more sense for your situation.
- **A range of investment options** – The SMART Plan's investment options are regularly monitored to ensure you can continue to choose from a diverse and competitive selection. The SMART Plan also offers a self-directed brokerage window, which allows you to trade most listed mutual funds. The self-directed brokerage account (SDBA) is intended for knowledgeable investors who understand the risks associated with the SDBA.
- **Competitive fees** – Even a small difference in annual administrative fees can drastically impact your account balance over time. It is important to know what fees you are paying and to utilize an option with competitive fees that benefits you.
  - An annual administrative fee of 0.0075% of your account balance is charged on a monthly basis. For example, if you have a $10,000 account balance, the annual administrative fee will be $0.75.
  - An annual fee is charged to provide recordkeeping, communication and investment education services for the Plan of $10 per account (on accounts over $1,000) and 0.07% on total participant assets. Combined fees are capped at $350 annually and assessed monthly.

Taking advantage of catch-up contributions

If you like the idea of saving more through your SMART Plan, you can also take advantage of catch-up contributions. Ordinarily, IRS regulations limit the amount you can save each year. But with catch-up contributions, you may be eligible to save more than the annual limit.

Catch-up contributions come in two types: the age 50+ catch-up provision and the three-year catch-up provision. Which type is right for you? Refer to the chart below to see the differences and contact your SMART Plan Retirement Plan Advisor with any questions.

Your answers to these questions can help you start this conversation with your SMART Plan Retirement Plan Advisor, your human resources representative or your financial/tax advisor.

What's your age?

Do you have any information about your pension or Social Security?

Do you have any leave or sick time to roll into your account?

	2022	2023	2024	2025
Contribution limit	**$20,500**	**$22,500**	**$23,000**	**$23,500**
How much did you or will you contribute to your SMART Plan account for each of these years?				
Did you or will you contribute to other retirement plans? If so, how much?				
Did you or will you contribute to an IRA? If so, how much?				

Age 50+ catch-up	Age 60-63 catch-up	Three-year catch-up
For participants age 50 and older during the 2025 calendar year	For people turning age 60, 61, 62 or 63 in the 2025 calendar year (in the year a participant turns age 64, the catch-up contribution limit returns to $7,500)	For participants within three years prior to normal retirement age
Allows you to contribute an additional $7,500	Allows you to contribute up to an additional $11,250	Allows you to contribute up to an additional $23,500
No application required	No application required	Complete a 457(b) Application for Catch-Up form
Maximum total: $31,000	Maximum total: $34,750	Maximum total: $47,000

Note: You can only use one option per calendar year

Consolidating accounts

Do you have retirement accounts from previous employers? If so, you may be able to consolidate these accounts with your SMART Plan account.[2] Why is account consolidation an option to consider if you're nearing retirement?

- It can make account management simpler. Instead of managing multiple accounts—and paperwork and statements that come with them—you only manage one.
- It might be easier to apply a consistent and comprehensive investment strategy across all assets when you focus on one account instead of several. As a general rule, your portfolio should become more conservative as you approach retirement. Consolidating accounts might help ensure that you have the right mix of assets based on your changing risk tolerance.
- You may realize significant savings in fees due to the competitive fees and free services offered in the SMART Plan.

Consider all your options and their features and fees before moving money between accounts.

Beware of brokers

It's not unusual for a broker or financial advisor to approach you as you near retirement and offer to manage your investments for free. The fact is that every investment option has associated fees. While these fees may not be obvious at first, they are probably somewhere in the fine print. Brokers, advisors and fund companies don't work for free—but they should be forthright about how they make their money.

Ask the tough questions about who benefits when you or your beneficiaries make a trade or withdrawal. Ask about administrative and investment management fees, contract maintenance and account management charges, and commissions or sales costs. If these aren't clearly disclosed—or if you're told there are no fees associated with the investment option—think twice and do your homework before making a decision.

Retirement spending

How much will your expenses change in retirement? You'll continue to spend on basics such as food, housing, clothing, transportation, insurance and entertainment. The good news is that you probably already have a realistic idea of how these expenses will impact your retirement budget.

You may find, though, that retirement will also include some other expenses that you'll want to plan for ahead of time.

Planning for healthcare costs

Healthcare costs can be difficult to plan for. You may anticipate that your healthcare costs will increase as you age. Recurring healthcare costs such as doctor visits, dentist visits and prescription drugs may remain stable over the course of retirement compared to nonrecurring costs such as hospital stays, nursing home stays and outpatient surgeries.

Everyone's healthcare situation is different, so there are no hard and fast rules for determining future costs. However, as you assemble your retirement budget, keep in mind that healthcare costs are likely to make up a sizable portion of your retirement expenses.

Taxes: Don't overlook them

Even though you may be leaving the workplace behind, you'll probably continue to pay taxes in retirement, including property tax, sales tax and income tax.

Remember, when you contribute to your account on a pretax basis, you save on a tax-deferred basis. You don't initially pay taxes on the money you contribute or on any earnings your contributions generate until you make a withdrawal, which will most likely be when you retire. The amount of income tax you pay is based on the amount of income you receive.

If you withdraw all of your money at once, you may be put in a higher tax bracket than you would be if you spread out your withdrawals over several years.

If you choose to save or roll over contributions through the Roth program, your taxes are paid at the time of contribution, so distributions are not subject to taxation.[3] Consider your options and future tax bracket and speak to your financial advisor about which contribution option will best suit your needs and situation.

The impact of inflation

You may not think of inflation as an expense, but it can affect your retirement spending power. Due to inflation, the dollar you save today may not buy as much in your retirement years.

To keep pace with an estimated 3% annual inflation, $20,000 today would have to grow to $36,122 to have the same buying power 20 years from now. As you plan your retirement spending, keep in mind that inflation may affect how much you pay for the goods and services you budget for.

Prioritizing an emergency fund

Emergencies can still happen in retirement, which means an emergency fund should still be a priority. By budgeting for the money you need to save for your emergency fund, you can be better prepared to cover costs for such things as a deductible on a home insurance claim or unexpected out-of-pocket medical expenses.

Retirement income

Like so much of your personal retirement picture, the amount of income you'll need depends on a wide range of factors—factors that are different for everyone. In general, though, many financial professionals agree that you'll need a significant portion of your working income each year to maintain a similar lifestyle in retirement—whether that figure is 70%, 80% or 100%. Keep in mind the following as you prepare to manage your different retirement income sources.

If you are interested in consolidating your outside accounts into your SMART Plan account, contact your local SMART Plan Retirement Plan Advisor.

Call **877-457-1900** or go to **www.mass-smart.com**.

Pension benefits and Social Security

If you have a pension with an employer that didn't withhold Social Security taxes from your salary (such as a federal, state or local government agency, a nonprofit organization or an employer in another country), any income you receive from that pension could reduce your Social Security benefits. Several conditions and provisions apply, so you may want to visit the Social Security Administration's website to help you plan how much this may affect your future Social Security income. The site includes a calculator to see how your Social Security benefits may be reduced. Visit www.ssa.gov/planners/retire/wep.html for more information.

Will you continue to work?

Some people don't make a complete break from the workforce after they retire. Many will continue to work on a part-time basis. If you choose to receive your Social Security benefits before what the Social Security Administration considers full retirement age (age 66 for anyone born between January 1, 1943, and January 1, 1955) and you continue to work, your Social Security benefits may be reduced if your wages exceed a certain threshold. Visit www.ssa.gov/planners/retire/whileworking.html for a complete explanation.

Social Security and your retirement income picture

Social Security benefits can be an important retirement income stream. One thing to keep in mind: The amount you can expect depends partly on the age you expect to begin receiving Social Security benefits. If you are eligible, you may start receiving benefits as early as age 62 or as late as age 70. However, if you start benefits early, your monthly benefit amount may be lower than if you wait until you are older. You can find a full explanation on the Social Security Administration's website at www.ssa.gov.

Deferral of sick, vacation and back pay

At retirement, you may be able to defer your sick and vacation pay into your Massachusetts Deferred Compensation SMART Plan account. If you sever employment due to retirement, you may elect to defer accumulated sick pay in accordance with M.G.L. c. 29 and may elect to defer accumulated vacation and/or back pay as well. You can only defer these payments at retirement.

You can defer sick, vacation and/or back pay if you meet the following conditions:

- You can defer for any calendar month only if you had been eligible to receive that amount without terminating employment.
- You pay the deferral between the latter of 2½ months following retirement and the end of the calendar year.
- You enter into an agreement providing for the deferral before the beginning of the month in which your employer pays you the amounts or makes them available.

If you decide to defer your unused sick, vacation and/or back pay, your total annual contribution may not be higher than the allowable IRS limit. Your local Retirement Plan Advisor can help you understand current contribution limits, complete the necessary forms, understand how your normal retirement age may affect your ability to defer additional amounts and ensure your deferral does not put you in danger of exceeding the maximum contribution limit.

The role of personal savings in retirement income

Your personal savings can be an important retirement income stream. However, the money you've saved through your SMART Plan account works a little differently from money in a traditional savings account.

When you separate from service, you can begin taking withdrawals from your tax-advantaged retirement savings accounts, such as your SMART Plan account and IRAs. Your SMART Plan allows you to save on a tax-deferred basis (in other words, you don't initially pay taxes on your contributions or on any earnings they generate), so you may have to pay taxes on the money you withdraw.

If you take withdrawals from the Roth option, your taxes are paid at the time of contribution, so qualified distributions will not be subject to taxation.[3] Consider your options and speak to your financial advisor about which contribution option will best suit your needs and situation.

Understand your distribution options[4]

You can begin taking distributions upon attainment of age 59½ or separation of service, whichever comes first. When it's time to start withdrawing from your SMART Plan account, you'll have the following choices:

- **Periodic withdrawals** – You can schedule automatic regular withdrawals from your account.
- **Lump-sum withdrawal** – You can withdraw the full balance of your account, use it to purchase an income annuity or roll the balance into a new employer's qualified plan if you continue working after retirement.
- **Partial withdrawal** – You can make a partial withdrawal of your account balance.
- **A mix of periodic and partial withdrawals** – You can opt for a combination of partial withdrawals and regularly scheduled periodic withdrawals.
- **Roll over to an IRA**[5] – You may elect to roll over account balances to an IRA.

Planning for your required minimum distributions

In general, you must begin taking required minimum distributions (RMDs) by April 1 following the calendar year in which you reach the applicable RMD age, which is currently 73.[6]

To ensure the full amount necessary to satisfy the annual RMD is taken each year, this amount will be automatically paid as an annual installment unless a sufficient payment has already been set up through the SMART Plan.

If you have questions about this requirement, the ability to opt out of automatic RMD distributions and the amount you may be required to take, please call **877-457-1900** to speak with a representative or visit **www.mass-smart.com** to schedule an appointment with your local SMART Plan Retirement Plan Advisor.

The chart below shows the applicable RMD ages based on birth dates:

BIRTH DATE	APPLICABLE RMD AGE
Before July 1, 1949	70½
July 1, 1949 - 1950	72
1951 - 1959	73
1960 or later	75

To make changes to the annual RMD, you must complete and submit the necessary form by November 1 of the distribution year.

Designate a beneficiary

Naming the beneficiary for your SMART Plan retirement account is one of the most important, but often overlooked, decisions you can make when managing your account. In the event of your death, you want to be sure your account is distributed to whom you choose. If you do not choose a beneficiary, your money will go to your estate when you pass.

Add or update your beneficiary online

Log in to **www.mass-smart.com**, then select *My Accounts*. Under *Account Information*, select *Beneficiaries*. If you would prefer to complete a Beneficiary Designation form, log in, select *My Accounts* and scroll to *Plan Information*, *Plan Forms* and then the *Beneficiary Designation* link. You can also call **877-457-1900** to have a form sent to you.

1 Plan provisions may provide for the automatic distribution of small balances.

2 Funds rolled into a governmental 457 plan from another type of plan or account may still be subject to the 10% early withdrawal penalty if taken before age 59½.

3 Earnings on Roth contributions will be taxed unless withdrawals are a qualified distribution as defined by the IRS.

4 Withdrawals may be subject to income tax.

5 Governmental 457 funds rolled into another type of plan or account may become subject to the 10% early withdrawal penalty if taken before age 59½.

6 The IRS generally requires you to start taking required minimum distributions (RMDs) at age 73.

Investing involves risk, including possible loss of principal.

The Retirement Readiness Review is provided by an Empower representative registered with Empower Financial Service, Inc. and may provide tailored retirement education and guidance at no additional cost to participants.

Securities, when presented, are offered and/or distributed by Empower Financial Services, Inc., Member FINRA/SIPC. EFSI is an affiliate of Empower Retirement, LLC; Empower Funds, Inc.; and registered investment adviser Empower Advisory Group, LLC. This material is for informational purposes only and is not intended to provide investment, legal, or tax recommendations or advice.

Securities available through Schwab Personal Choice Retirement Account (PCRA) are offered through Charles Schwab & Co., Inc. (Member SIPC), a registered broker-dealer. Additional information can be obtained by calling 888-393-7272. Charles Schwab & Co., Inc. and Empower Financial Services, Inc. are separate and unaffiliated.