

Income Gap

What is an income gap?

You might have an income gap if:



your savings does not meet your retirement income needs



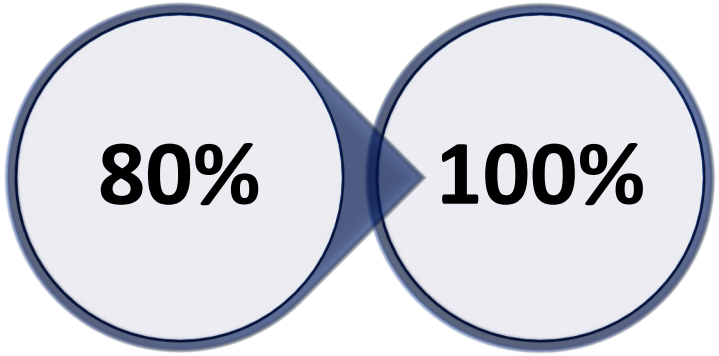
you retire early and need more retirement savings

or

you fear you will outlive your savings

How much income will it take?

You may need



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 replaces:[1]

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



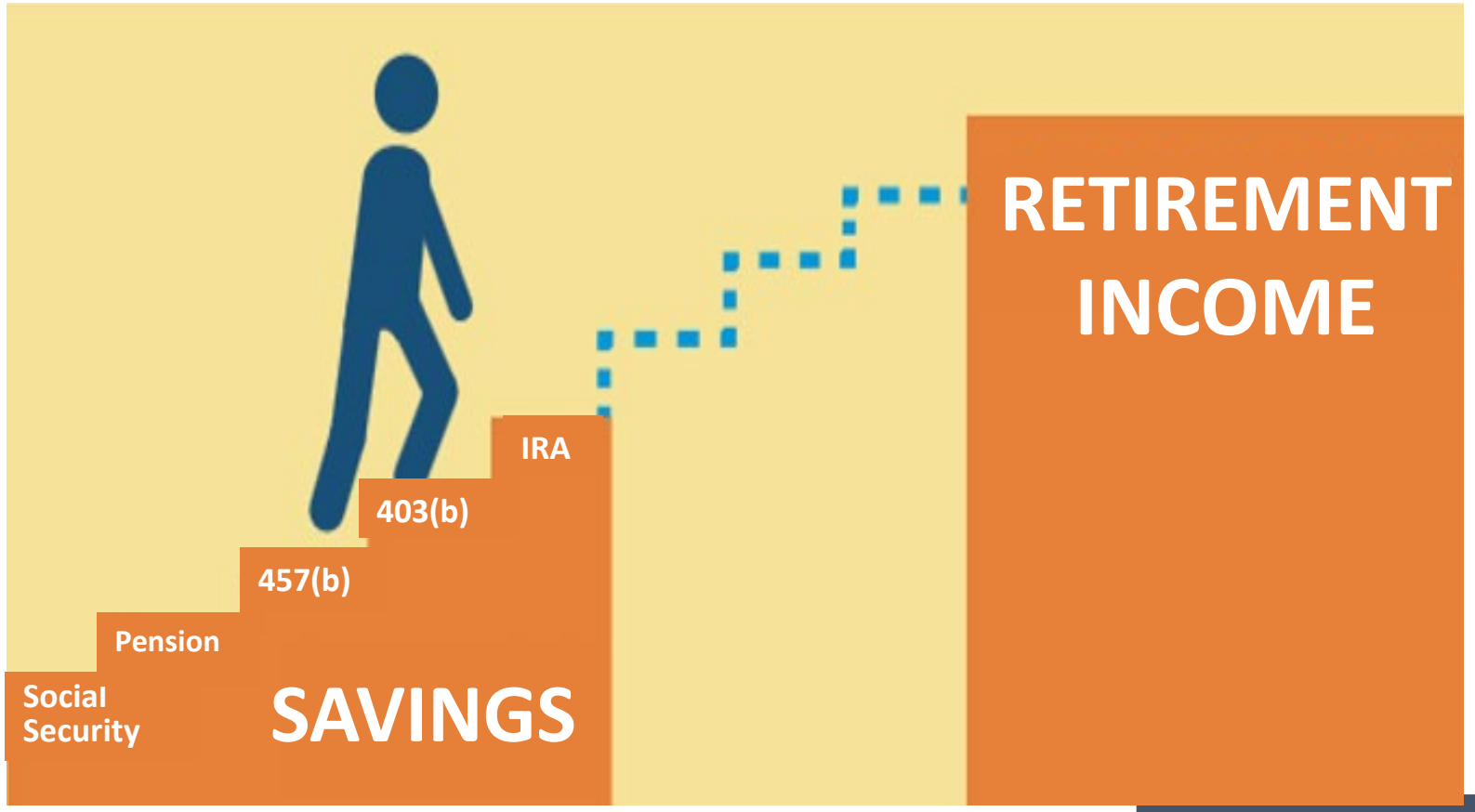
Income your Social Security replaces:[2]

- Average MN public employee recipient = 32%

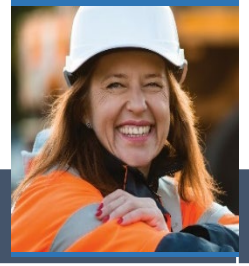
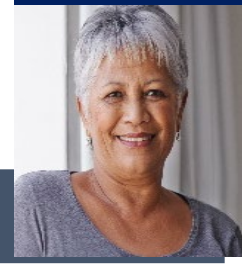
[1] Based on the years of service of MSRS pension recipients. Assumes full retirement age of 66. A TRA recipient replacement percentage would be higher.

[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.

Bridge any income gaps

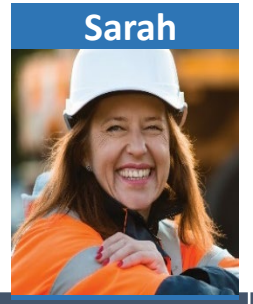


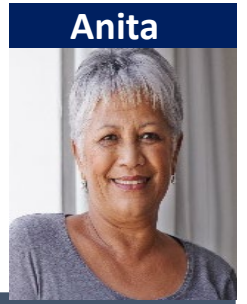
Case study income replacement

Retirement Age	62	66
	 Sarah	 Anita
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



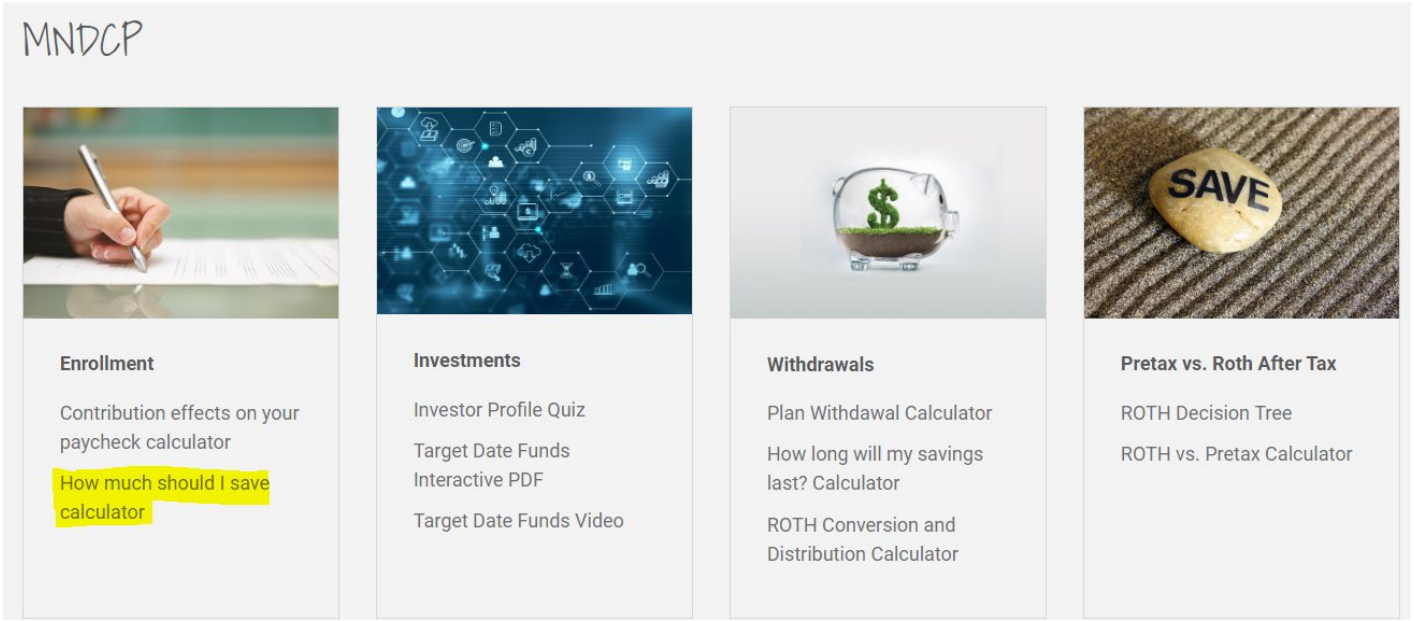


Retirement Age	62	66
TOTAL INCOME REPLACEMENT	55%	82%
Savings needed to replace 80%	$272,500*	$0
Savings needed to replace 100%	$485,000*	$186,000*

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





Do your own calculation www.mnretire.gov/toolbox#mndcp

Take action

Ways to bridge the income gap

MNDCP account assets

Increase your annual contribution if possible



HCSP account assets

Learn how to use your HCSP account assets

Pension & Social Security

Defer, if possible, the date of your retirement



Minnesota Deferred Compensation Plan

What is the MNDCP?

MNDCP Minnesota Deferred Compensation Plan

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

Available to all MN public employees

State sponsored 457(b) Plan

Make the most of the MNDCP

1. Maximize your contributions
2. Minimize stock market volatility
3. Take advantage of lower fees

Maximize your contribution

Bridge the income gap

Comp Time if eligible

Shift Differential if eligible

Unused sick /vacation if eligible

Bonus/Commission if eligible

Age 50 & over
$32,500

Ages 60 to 63
$35,750

Within 3 years of normal retirement age
$49,000

2026 annual limits

2026 Age-Based Catch-Up Limits for High Wage Earners

Under 50

—

Base deferral only

Total deferral: **$24,500**

Ages 50–59 and 64+

+$8,000

Age-based catch-up

Total deferral: **$32,500**

Ages 60–63

+$11,250

Age-based catch-up

Total deferral: **$35,750**

R

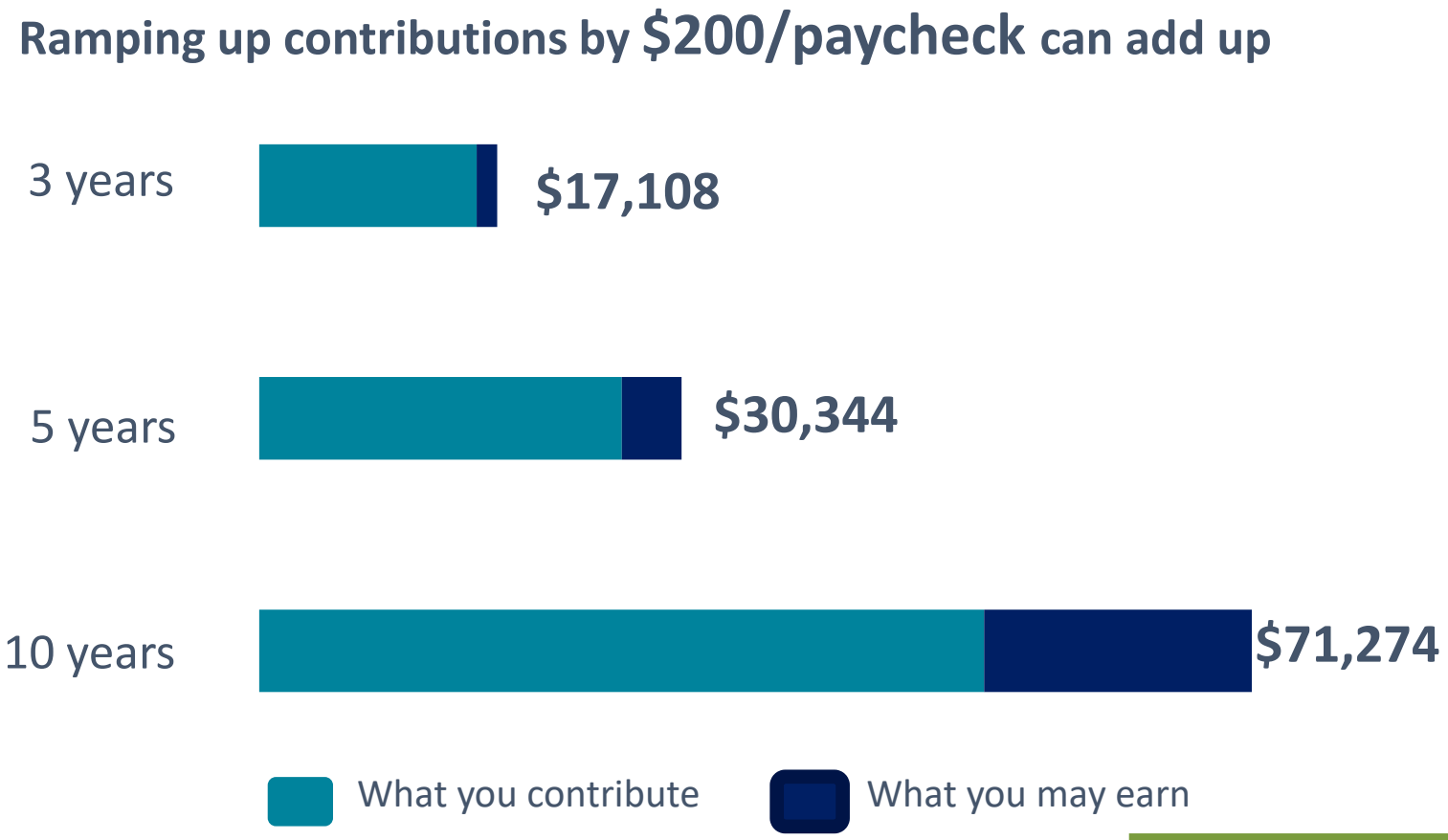
For High Wage Earners = 2025 FICA wages over $150,000 (W-2 Box 3, same employer)

All age-based **catch-up** dollars must go in as Roth (after-tax); the base $24,500 can stay pre-tax.

The special 3-year pre-retirement catch-up is exempt, but can't be combined with other catch-up methods.

Source: IRS Notice 2025-67 (2026 limits). 2027 limits pending IRS announcement. Not tax advice.

The impact of saving more



FOR ILLUSTRATIVE PURPOSES ONLY *Figures represent the growth of bi-weekly contributions at 6% rate of return (not guaranteed) compounded monthly, reinvestment of earnings with no withdrawals. The tax-deferred amounts shown do not reflect any charges, expenses or fees.*

Bridge the income gap

Minimize market fluctuation impact

Investment diversification: Spreading your investments over multiple asset classes

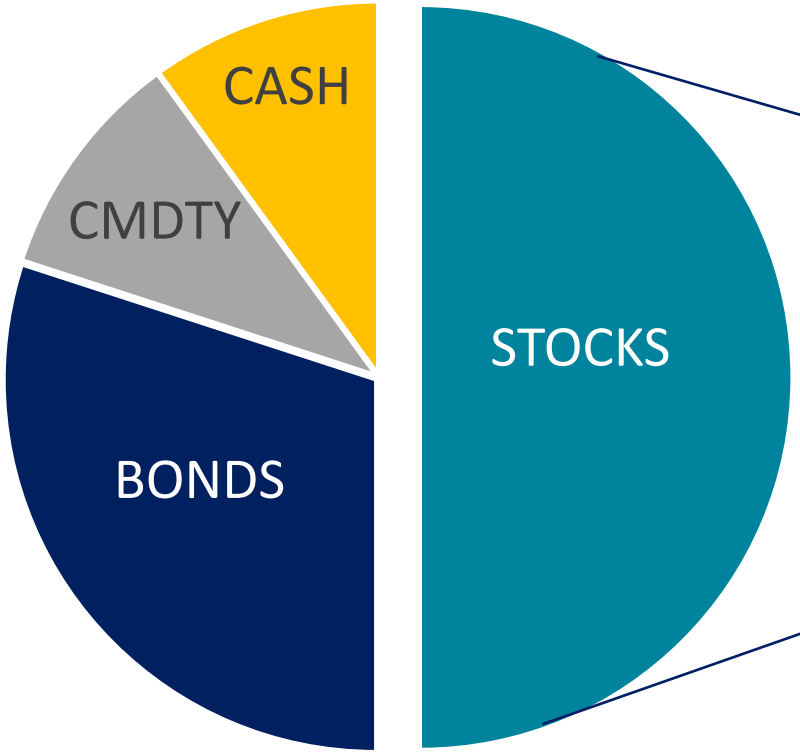


Less Diversified **More Diversified**

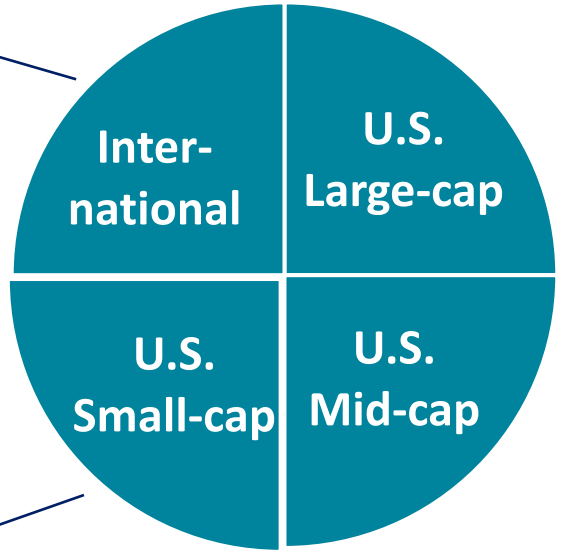
FOR ILLUSTRATIVE PURPOSES ONLY *Diversification does not ensure a profit or protect against loss in declining markets.*

How diversification works

Sample asset allocation of an investment portfolio



Diversification within the stock allocation



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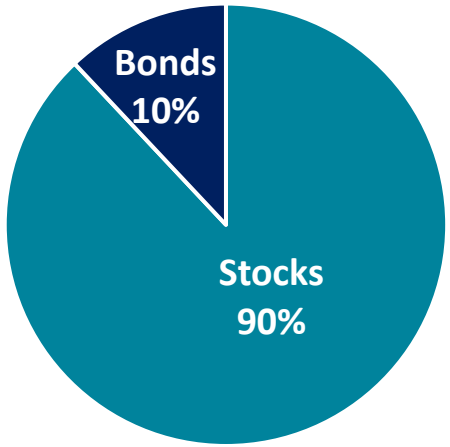
Sample asset allocation models

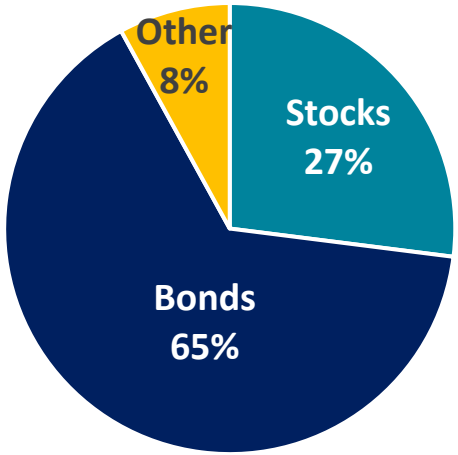
Aggressive Portfolio

Best year…… 33.7%
Worst year…… -34.7%
Average…….. 9.5%



Conservative Portfolio

Best year…… 20.2%
Worst year…… -14.4%
Average…….. 6.4%



FOR ILLUSTRATIVE PURPOSES ONLY *The models shown illustrate hypothetical investment allocations for Aggressive & Conservative risk profiles. Index returns were used to provide calendar year returns from 1/1/1994 to 12/31/2023 based on asset allocations used for each model. Results are hypothetical and are not based on the performance of actual portfolios. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. Investing involves risk, including possible loss of principal. (See last slide for additional information)*
Source: *State Street Global Advisor with data provided by Morningstar & Factset.*

Asset Allocation Model Disclosure

The hypothetical illustrations are for informational and educational purposes only. They are not intended to be a recommendation of a specific investment or investment strategy. In applying a particular asset allocation model to your individual situation, you should consider other assets, income, and investments in addition to the account you are considering for investment, to the extent the model does not consider these additional assets.

Index returns shown are not those of an actual fund or portfolio, and are used to provide calendar year returns back to 1994 based on hypothetical asset allocations used for a Conservative and Aggressive model, respectively. They are not backtested returns and do not reflect the changes to glide paths over time. A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. You cannot invest directly in a benchmark index.

For calendar year return calculations, the following index data from 1/1/1994 to 12/31/2020 was used, reflective of the underlying indices used for the asset allocations. US Large Cap Equities: S&P 500 Index; Global REIT: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Roll Select Commodity Index; US Core Bonds: Bloomberg Barclays US Aggregate; Small/Mid Cap US Equities: Russell Small Cap Completeness Index; Long Government Bonds: Bloomberg Barclays Long Government Bond Index; US Short-Term Government/Credit: Bloomberg Barclays Capital 1-3 Year Government Credit Index.

For returns back to 1994 for indices with insufficient track records, used current indices for existing track records and replaced with equivalent indices with longer track records for the periods prior to index inception. US Intermediate TIPS: Bloomberg Barclays US Treasury Inflation Protected Notes (1-10 Y) from 1/1/1998 to 12/31/2020 and the Bloomberg Barclays US Aggregate Index from 1/1/1991 to 12/31/1997; US High Yield Bonds: Bloomberg Barclays High Yield Very Liquid from 1/1/1995 to 12/31/2020 and the FTSE High Yield Index from 1/1/1991 to 12/31/1994; and International Equity: MSCI ACWI ex USA IMI Index from 1/1/1995 to 12/31/2020 and the MSCI ACWI Index from 1/1/1991 to 12/31/1994.



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.mnretire.gov or call 800-657-5757. Read such materials carefully before investing.

Avoid rollover regret



Upon separation of employment:

- You are not required to close or rollout your 457(b) or 403(b) account to an IRA
- Consider consolidating your retirement plan accounts
- Discuss rolling money from one account to another with your financial advisor/planner and consider any potential fees and/or limitations of available investment options

Rollover remorse



One final point!

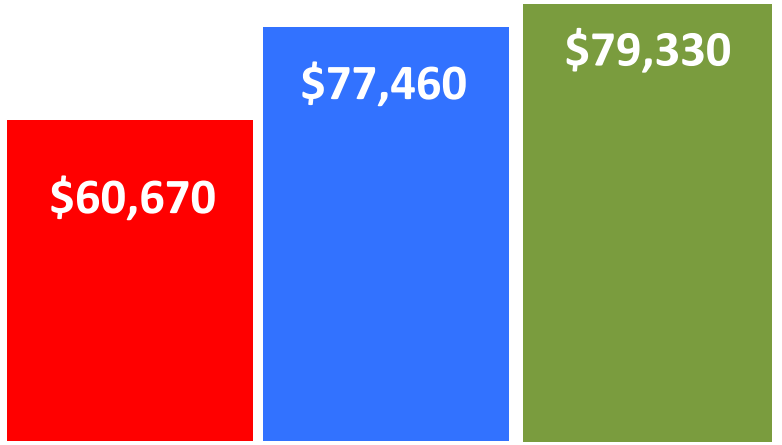
Once all assets are out of the plan,
you may not rejoin

Assumptions

- **Starting balance: $65,000**
- **No contributions**
- **5% annual rate of return**
- **Annual 4% withdrawal of account balance**
- **After 25 years**

For illustrative purposes only This hypothetical illustration is not intended as a projection of future investment results, nor is it intended as financial planning or investment advice. Rates of any return may vary. The illustration does not reflect other associated charges, expenses of fees. The tax-deferred accumulation shown would be reduced if these fees had been deducted.

Fees can erode your gains



Account balance with a 1.12% Advisor fee[1]

MNDCP account with a 0.10% Administrative fee[2]

No Account Fee

[1] Source: 2021 Advisory HQ study; Average Financial Advisor Fees based on assets under management for a $100,000 account

[2] MNDCP administrative fee as of 1/1/2026 capped at $125/year

Withdrawal considerations



Goals

- Number of years savings should last
- Leave savings to heirs
- Philanthropic wishes

Realities

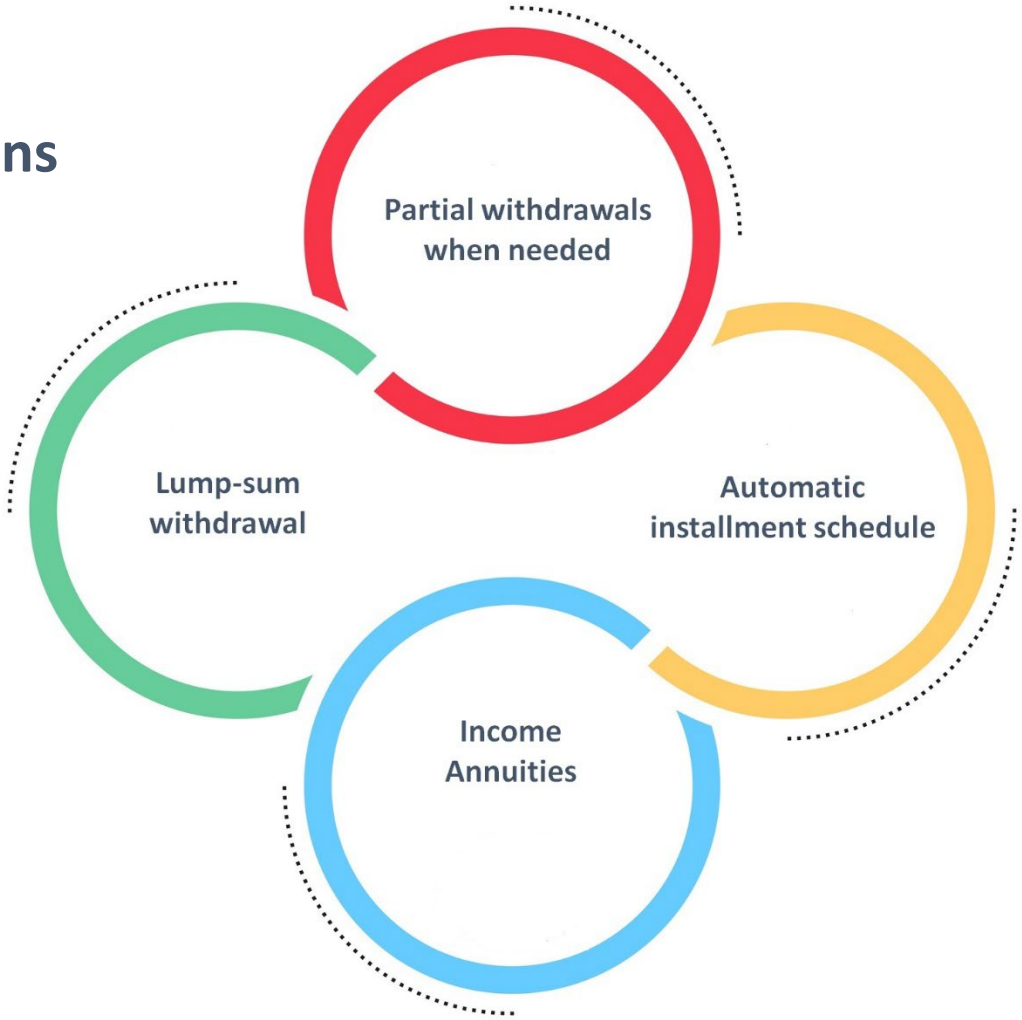
- Meet fixed expenses
- Allow for discretionary expenses
- Cover emergency expenses

Other

- Coordinate withdrawals with the use of other assets
- Tax efficient withdrawals

How to generate income from your retirement plan

Flexible Withdrawal Options



How long will your savings last?

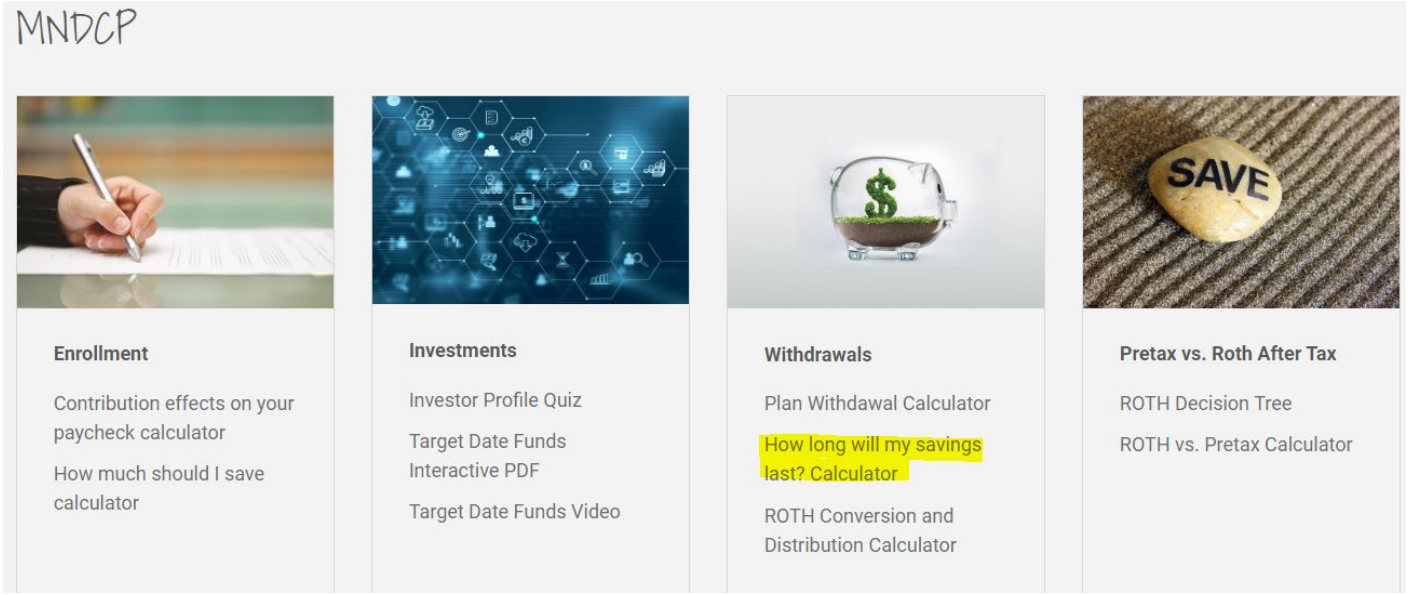


Gross Withdrawal	Savings Balance		
	$50,000	$100,000	$150,000
$500/month	11 yrs 4 mos	> 50 yrs	> 50 yrs
$1,000/month	4 yrs 9 mos	11 yrs 4 mos	22 yrs 3 mos
$1,500/month	3 yrs	6 yrs 8 mos	11 yrs 4 mos

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





Do your own calculation www.mnretire.gov/toolbox#mndcp

Understand the tax landscape

Pre-tax savings

- Withdrawals are **taxable**
- 20% mandatory federal withholding, except
  - Withdrawal schedules lasting 10 or more years
  - RMD payments

Roth after-tax savings

- Withdrawals are **tax-free** if:
  - Withdrawal made after age 59 ½ (death or disability)

    AND
  - Roth account established at least five tax years

Withdrawals made prior to age 59 ½ that are attributable to rollovers from another type of plan may incur a 10% early withdrawal IRS penalty

Calculation

1. MNDCP account balance as of previous December 31 $_____

2. Life expectancy factor (see table) The age you will turn this year _____

3. RMD Amount (line 1 ÷ line 2) $_____

Uniform Lifetime Table II

For use by:

- Unmarried owner
- Married owner whose spouse is not more than 10 years younger
- Married owner whose spouse is not the sole beneficiary

Age	Life Expectancy Factor
72	27.4
73	26.5
74	25.5
75	24.6

RMD rules to remember



Required Minimum Distribution

- Age 73
- Every year thereafter
- Not required if still employed



Excess accumulation penalty

- 25% of amount not distributed as required

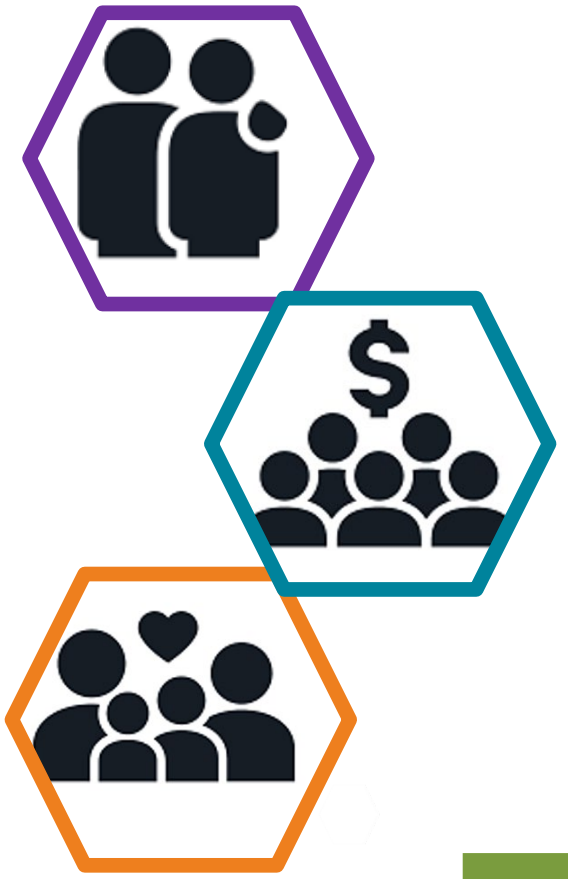
Keep beneficiary designations up to date

What happens if something happens to you?

A beneficiary will inherit your money

Plan ahead

AVOID PROBATE



Take action

Maximize
your contributions

Minimize
account fluctuations with a diversified investment strategy

Consider
a withdrawal plan that is right for you

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



Thanks for attending!

We need and welcome your feedback

Please help us improve these pre-retirement webinars by completing our online survey.

https://www.surveymonkey.com/r/MSRS_webinar_survey