A GUIDE TO PREPARING FOR RETIREMENT

MaineSaves

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MaineSaves, the State of Maine's voluntary retirement savings plan, is designed to help you move forward on your journey to financial freedom by supplementing your other sources of retirement income, such as your benefits under the Maine Public Employees Retirement System (MainePERS), your spouse's retirement benefits and your personal savings.

Even if you're not currently enrolled, you still have time to join MaineSaves.

This guide offers tips on how to best use MaineSaves as you prepare for retirement. If you have any questions about this guide or about MaineSaves, please speak to your local representative.

If you've forgotten who your local representative is, or if you don't currently have one, check the Provider Contact List, available on the Employee Health & Wellness website or call Employee Health & Wellness at (207) 624-7380 or 1-800-422-4503.

WHAT'S INSIDE

Things to Consider as You Approach Retirement

MaineSaves Can Help You Increase Your Retirement Savings

As you approach retirement, you may wish to increase your contributions. Increasing your contributions may not be something you had thought of doing at this stage of your career, but it might be right for you, depending upon how close you are to retirement and how much you have already saved.

CATCH-UP CONTRIBUTIONS

Catch-up contributions allow you to save above the normal Internal Revenue Service (IRS) annual limit so you can "catch up" on your savings as you near retirement age. MaineSaves offers two types of catch-up contributions, and you can choose the option that allows for the largest contribution.

TYPE OF CATCH-UP CONTRIBUTION	YOU CAN DO THIS IF YOU…	AMOUNT YOU CAN CONTRIBUTE*
Age 50 or Older	Are age 50 or older as of the last day of the year and your contributions will reach the annual contribution limit ($19,500 in 2021).	Up to $6,000 over and above the regular annual contribution limit, for a total contribution of up to $27,000 in 2022.
Three-Year Pre-Retirement	Contributed less than the maximum in the past and are within the three-year period *before* the year in which you reach your normal retirement age (72, unless you elect another age in writing). Please note you must elect the same normal retirement age under this plan and other 457(b) plans sponsored by the State of Maine. Note: If you wish to make a three-year pre-retirement contribution and you are younger than 67½, you will need to elect your normal retirement age in writing first. Please contact your local representative for the appropriate form.	Up to an additional $20,500, for a total annual contribution of up to $41,000.

*The IRS contribution and catch-up limits change from time to time along with the cost of living.

Note that the rules and limits that apply to catch-up contributions are complicated. If you are thinking about making catch-up contributions, please consult your local representative.

Catch-Up Contributions: An Example

John is 62 years old and has been eligible to participate in MaineSaves since 2014. He is planning to retire and would like to increase his contributions to MaineSaves above the regular annual contribution limit of $19,000 in 2019. John elected a normal retirement age of 65 (in writing) and is eligible for both types of catch-up contribution. Since he can only pick one type, he is wondering which one allows for the largest contribution in the three years before he retires.

Here is John's contribution history:

YEAR	PRE-TAX CONTRIBUTION LIMIT	AMOUNT JOHN CONTRIBUTED
2014	$17,500	$12,000
2015	$18,000	$12,500
2016	$18,000	$12,500
2017	$18,000	$13,000
2018	$18,500	$13,000
Total	**$90,000**	**$63,000**

Calculating John's Three-Year Pre-Retirement Catch-Up Contributions

Here is how we can figure the total amount that John can contribute in three-year pre-retirement catch-up contributions during the next three years:

Total Amount He *Could Have* Contributed Since 2014	–	Total Amount He *Actually* Contributed	=	Total Amount Available for Three-Year Pre-Retirement Catch-Up Contributions
$90,000		**$63,000**		**$27,000**

As you can see from this calculation, over the next three years of his career, John can contribute a total of $27,000 in three-year pre-retirement catch-up contributions in addition to the regular pre-tax contribution limit, up to a total contribution of $38,000 per year. If John contributes the maximum in 2019—$19,000 in regular pre-tax contributions plus another $19,000 in three-year pre-retirement catch-up contributions—then he will have $8,000 ($27,000 - $19,000) remaining in three-year pre-retirement catch-up contributions that he can contribute during the last two years before the year in which he reaches his normal retirement age.

What about the age 50 or older catch-up contributions? Should he consider those? In this case, the most John could contribute in age 50 or older catch-up contributions for the next three years of his career is $18,000 (3 years x $6,000 per year). In John's case, he can contribute more (up to $27,000) by making three-year pre-retirement catch-up contributions. This may not be the case in every situation. Therefore, if you are considering making catch-up contributions, please consult your local representative for assistance.

Unused Vacation Payment

When you leave employment with the State of Maine, you will receive a payment for any unused vacation days—typically in your last paycheck. If you are close to retirement, consider contributing all or a portion of this payment to MaineSaves. If you don't currently have a plan account, you can join MaineSaves just to make this contribution, as long as you do so before your employment ends. This payment is subject to the annual IRS contribution limits—for 2022, this is $20,500 plus any catch-up contributions you may be entitled to (see "Catch-Up Contributions" on page 2).

Keep in mind that the taxes on a large lump sum, such as your unused vacation payment, could be substantial. By contributing your payment for unused vacation to MaineSaves, you lower your current taxable income and delay paying taxes on that contribution, which allows that money to grow tax-deferred until you take it out of MaineSaves. And, because of the tax savings, you will have more money available to grow through investment earnings and compounding.

THE POWER OF COMPOUNDING
The sooner you start saving, the sooner you can benefit from the power of compounding returns. Compounding is the process of generating earnings on your contribution's reinvested earnings. This happens when you leave your savings and their earnings in the plan instead of withdrawing them. Compounding works on two basic ideas: re-investment of earnings and time. The longer time you leave your money to compound, the higher the wealth you generate. And while there are no guarantees in investing, compounding returns has proven to be the most reliable way for the average investor to achieve significant financial growth.

To make a vacation pay deferral, plan ahead and follow these steps:

1. **Find out the amount and timing of your unused vacation payment by contacting the payroll department for your agency.**

   To make sure you have enough time to make your contribution, you should contact your local representative 30 to 60 days before you plan to leave and ask:

   - ***When will I receive the paycheck that includes my unused vacation pay?***
   - ***How much will the unused vacation pay amount be?***

2. **Decide how much to contribute.**

   As you make this decision, keep in mind that with every paycheck you have deductions for items such as your MainePERS pension benefit, health insurance and credit union loans (if applicable). Therefore, you should not contribute your entire unused vacation payment—leave yourself a cushion of $100 to $200 or so to ensure all your deductions will be covered. If you don't leave yourself a cushion and mistakenly request to defer too much vacation pay (even by a few pennies), your request will not be accepted. This means you will receive your unused vacation pay as part of your paycheck and pay taxes immediately on the full amount.

3. **File your paperwork.**

After you contact payroll, speak with your local representative to arrange the contribution. You must submit the Joinder/Deferral Agreement at least three weeks before your last day of work. In some cases, you may need an additional form—for example, if you are also electing the pre-retirement catch-up contribution.

PURCHASING ADDITIONAL MAINEPERS SERVICE CREDIT

You may use money from your MaineSaves account to purchase additional service credit in MainePERS. This may allow you to increase the amount of your benefit under that plan and/or meet the requirements for early retirement.

To be eligible to purchase additional service credit, you need to qualify under one of the categories in the member handbook, *MainePERS Benefits for State Employees*. These categories include time you spent on active military duty, working for a state outside of Maine or working in one of the teaching positions specified in the member handbook. Special rules, limitations and verification requirements apply to purchasing service credit.

For more information on purchasing service credit, see the MainePERS website (**www.mainepers.org**), where you can view *MainePERS Benefits for State Employees*. Or, you can call MainePERS at 1-800-451-9800 or contact your local representative.

You Can Consolidate All Your Rollovers in MaineSaves

When your employment with the State ends — either because you're retiring or you're changing jobs — you don't have to take your money out of the plan immediately. (See the information on your distribution options below.) In fact, you can consolidate other eligible retirement plan distributions in your MaineSaves account, as long as you have a plan balance. This includes 403(b) plans, qualified plans (like 401(a) or 401(k) plans), other governmental 457(b) plans, and even lump-sum distributions from pension plans. Your local representative can tell you if your other retirement plan accounts qualify for rollover to MaineSaves. As you consider your options, keep in mind that one of the greatest advantages of a 457(b) plan is that it allows you to save for retirement on a tax-deferred basis. It's essential to consider the continued tax-deferral of these retirement funds, and, if possible, to avoid current taxes and penalties that can eat into the amount of money you've saved.

Rolling money into the plan might be a good option for you if:

- **You want to consolidate all your savings in one spot, and you're not sure where to put it.** As long as your money stays in the plan, you will continue to defer paying taxes on it, so it's safe to park it here while you make your decisions.
- **You like the investment options offered by the plan.** The plan's Advisory Council monitors the plan's investment options to make sure the investment funds offered in the plan meet stated goals and objectives. Outside the plan, there is no one officially tasked with looking for your best interests, and you may be on your own.
- **You want a conservative investment option for your savings.** MaineSaves currently offers fixed interest options with interest rates comparable or superior to bank 5-year CD rates. But unlike CDs, you can withdraw your money from the plan at any time without penalty.

- **You like the idea of having someone you can talk to about your investments.** When you maintain a balance in the plan, you will continue to have access to the plan's local representatives, who can meet with you in person or by phone to provide advice and discuss your options.

You may want to discuss your particular situation with a tax and/or investment professional before deciding what to do with your MaineSaves account balance.

You Have Several Options for When and How Your Account Is Paid

About three months before you plan to retire, you should tell your local representative you wish to receive a distribution from MaineSaves. That way, he or she can help you decide how and when to receive your benefit payment, as well as help you complete the right paperwork.

WHEN YOUR ACCOUNT IS PAID

You may initiate the process to begin receiving payments when you retire. If your situation changes, you can cancel your election and make a new one, provided you have not yet begun receiving payments.

Alternatively, you may delay payment to a later date. As long as you have an account balance in MaineSaves, your money has the potential to grow tax-deferred and you can continue to direct the investment of your account.

The latest date that you can begin receiving payments is April 1 following the later of the year in which you turn age 72 or terminate employment with the State. At that time, you will be required to begin taking minimum distributions every year. Each provider will determine the amount of the distribution based on your life expectancy and account balance.

HOW YOUR ACCOUNT IS PAID

Because how you receive your money can be just as important as how much is in your account, MaineSaves offers a variety of payment options to meet your needs. There are things to consider with each option, so it's important that you think about which one is right for your personal situation. And remember, all payment options, except the rollover, will be taxed immediately as income. The general forms of payment are shown below, but there are many variations within each form. You can ask your local representative for more information about available forms of payment, including an estimate showing how much you can expect to receive under the forms of payment you're interested in.

FORM OF PAYMENT	HOW IT WORKS	THINGS TO THINK ABOUT
Annuities	You receive equal monthly, quarterly, semi-annual or annual payments for your lifetime.	• You can't outlive your benefit. • Depending on the type of annuity you choose, you may be able to pass benefits on to one or more beneficiaries. • Depending on the type of annuity you choose and when you and your beneficiary die, you and your beneficiary may not receive your entire account balance. • You avoid investment losses, but you also lose the potential for investment gains.
Monthly, quarterly, semi-annual or annual installments	You may choose to receive payments for a fixed period of time (for example, 10 years) or to receive a fixed amount of money at each installment (for example, $500 every quarter). Either way, payments continue until you use up your account balance. If you die before your account is paid out, your beneficiary will receive the remaining payments.	• You and your beneficiary will receive payment of your entire account balance. • Your remaining account balance is still invested, so it can continue to grow. • Because it's still invested, your account balance will go up and down, so: – If you choose payments for a fixed period of time, the amount of each payment will change. – If you choose to receive a fixed amount per installment, you will not be able to tell for sure how long payments will last. • Depending on the type of option you choose, you may outlive the number of installment payments you've chosen.
Single or partial lump sum	You receive your account balance in a single cash payment or take a partial lump sum and receive the remainder in installments.	• If you take a partial lump sum, you can continue to invest the money you leave in MaineSaves and delay paying taxes on it. • If you choose a single lump sum and you invest poorly, or spend too quickly, you may outlive your money. • If you choose a single lump sum, no benefit is paid to your beneficiary. • You pay taxes immediately on the portion of your benefit that is paid to you.

FORM OF PAYMENT	HOW IT WORKS	THINGS TO THINK ABOUT
Rollover	You can roll over your account balance to an individual retirement account (IRA), a 403(b) plan, a governmental 457(b) plan or another employer's qualified plan (such as a 401(k) plan) that accepts rollovers.	• Your account balance is still invested, so it can continue to grow. • You will continue to postpone payment of current income taxes. • You don't receive any money immediately. • You may have a 10% penalty if you take a withdrawal or distribution from the new plan before age 59½.

When choosing a form of payment, think about the other sources of retirement income that you have, such as your MainePERS benefit, and how that income would be paid to you. How do each of these benefits fit into your financial strategy for retirement as a whole? Your local representative is available to speak with you about which option is best for your personal situation.

It's Not Just What You Save, But Also What You Spend

Before you decide how and when to take your plan money, ask yourself:

What is the combined total of all my retirement benefits and savings available to provide retirement income?

When you answer this question, take all of your sources of retirement income into consideration, such as your MaineSaves account, your MainePERS benefit, Social Security and Medicare (if this applies to you), personal savings, brokerage accounts, benefits under a previous employer's retirement plan, spouse's retirement income, insurance policies, part-time work and any other sources you may have. Also, take retiree medical benefits into account.

KNOW THE AMOUNT OF YOUR RETIREMENT BENEFITS

You can log into your provider's website to view your MaineSaves account balance, or check with your local representative. Your provider will also provide you with a printed statement of your account balance every quarter.

You can request an estimate of your pension benefit by contacting MainePERS and telling them the date you plan to retire. Note: You must be within one year of your retirement date to request a pension estimate from MainePERS. Contact information is available on the MainePERS website (**www.mainepers.org**).

What Are Your Anticipated Expenses in Retirement?

As you prepare for your transition to retirement, think about how your expenses could change depending on your plans, and whether you've saved enough to meet your goals. Take into consideration both regular costs, like buying groceries each week, and one-time costs, like taking an extended vacation, and what savings or income you will use to cover these expenses.

Note that some of your other employee benefits—medical, vision and long-term care insurance—can continue in retirement, but there are likely to be increases in the cost of coverage. For example, while you are actively employed, the State pays part of the cost of medical coverage for your spouse and other eligible dependents like your children, but once you retire, you pay the full cost of medical coverage for your eligible dependents. Health care may be one of the biggest expenses you face in retirement, so plan carefully. Call Employee Health & Wellness at (207) 624-7380 or 1-800-422-4503 to learn more about the benefits that are available to you after retirement.

PAY YOUR EXPENSES WITH OTHER SAVINGS FIRST

When considering which savings to use to pay your expenses, think about the effect on your taxes. Different investments may have different tax consequences when money is withdrawn. Check with your tax advisor to see which option is best for you.

When planning for your expenses in retirement, ask yourself these questions.

- ***What do I want to do in retirement?*** If you would like to spend more time on your hobbies, travel more or assist your children with college tuition or housing expenses, you may need more than the 70% of pre-retirement income that experts suggest people typically need to keep the standard of living they enjoyed while working.
- ***Where will I live after I retire?*** Daily expenses and housing costs may be higher or lower based on location. If you decide to move when you retire, be prepared for your living expenses to change.
- ***Will my money last throughout my retirement?*** Your retirement could last 30 years or more, so it's important to have a financial plan that will last through retirement.

You can find online modelers to help you figure your projected expenses. For example, the Department of Labor features an Expenses Worksheet on their website. To view this worksheet, visit **http://www.dol.gov/ebsa/publications/** and scroll down to Retirement. Then click on the publication "Taking the Mystery Out of Retirement Planning," select "Chapter 3 – Tracking Down Future Expenses" and scroll to the end of the chapter for a link to the Expenses Worksheet.

Calculators and modelers are also available on the provider websites to help you plan your income in retirement. These tools can incorporate your income from other sources into your plans. If you don't have access to a computer, your local representative will assist you at no charge.

Take a Look at How Your Account Is Invested

Your investment strategy isn't limited to your investments in MaineSaves. Look at your whole financial picture, including any personal savings and investments or other retirement plans.

Remember that for as long as you have an account balance in MaineSaves, you can continue to direct the investment of your account and your account may continue to grow tax-deferred. As you transition to retirement, it may be a good time to look at how your savings are invested among different investment types—such as stocks and bonds—and check that you are on track to meet your retirement goals. Generally, experts advise shifting to a more conservative investment mix as you approach retirement, to protect the market value of your account. However, if you have other retirement savings, you may want a different strategy in this plan.

Also, take into consideration that employees today are generally living longer and retiring earlier, so you may need to position your account for continued growth, or invest in funds with a higher risk and potential return, so that your income lasts as long as you need it. Speak to your local representative or other financial advisor for investment guidance and for information on how often you should review your mix of investments.

If you keep a balance in MaineSaves throughout retirement—which could last 30 years or more—your account may continue to grow through investment earnings and compounding.

Don’t Forget About Taxes

Because you postponed taxes on your plan contributions, you will need to pay taxes when you take a distribution. Taxes can be complicated. So, it’s a good idea to consult with your local representative or other financial advisor about how taxes will affect your MaineSaves payments. Here is a brief summary of some issues around the federal income tax on plan payments.

Remember, when you first receive a distribution it will be subject to income tax withholding, unless you roll it over to another qualified plan or IRA. The amount that will be withheld varies by payment option. For example, lump-sum and installment payments paid over fewer than 10 years generally are subject to 20% withholding rules (that means 20% of your payment is withheld automatically at the time of payment to cover your federal income taxes). These 20% withholding rules do not apply to longer-term installments or annuities, but you may elect withholding if you wish. **Note:** The amount of withholding does not change the overall amount of taxes that you will owe.

Note: In addition to federal income taxes, state income taxes may also be withheld. Also, remember that because you may not have full-time income in retirement, your tax bracket could change. So you should try to estimate the effect of this change on future payments.

If you roll over your account balance as described in the table under “How Your Account Is Paid” on page 8, your distribution will not be subject to required income tax withholding.

For More Information

Retirement can be an exciting and rewarding chapter in your life. Please use this guide and the other resources mentioned to make the most of the retirement benefits offered through the MaineSaves plan.

For more information on MaineSaves and links to the provider websites, visit the Employee Health & Wellness webpage.

UPDATE YOUR BENEFICIARY
Don’t forget to update your beneficiary designation before your benefit payments begin, especially if you’ve had a life change such as a marriage, divorce, birth or death. You also should check that your address and your beneficiary’s address are up to date. To update your beneficiary for MaineSaves, visit your provider’s website.

Your MaineSaves Retirement Planning Checklist

	To Do	When
❐	Call your local representative if you’re considering making age 50 or older catch-up contributions.	Anytime, starting the year you turn 50
❐	Start thinking about whether you want to make three-year pre-retirement catch-up contributions before you reach your normal retirement age.	4 years before you reach your normal retirement age
❐	Request an estimate of your benefit from MainePERS and consider whether you want to use any MaineSaves money to buy additional MainePERS service credit.	6 to 12 months before you retire
❐	Contact your local representative to discuss the available forms of payment and request an estimate showing how much you could receive under each form.	3 months before you retire
❐	Consider contributing unused vacation pay to MaineSaves. Call your local payroll representative to find out how much unused vacation pay you will receive and when it will be paid.	30 to 60 days before you retire
❐	Submit your MaineSaves retirement paperwork stating: 1) whether you want to delay payment or start receiving payment right away, and 2) the payment form you would like to receive. Now is also a good time to make sure your beneficiary is up to date.	30 to 60 days before you retire

This guide is intended only as an aid to planning for retirement under the MaineSaves plan. The information in this guide is not intended to serve as tax or financial advice. The plan document governs the operation of MaineSaves. If there are any differences between this guide and the plan document, the plan document will be followed.