MICHIGAN OFFICE OF RETIREMENT SERVICES
Big Plans. Small Steps.

Pension Plus and Pension Plus 2

First Quarter Newsletter 2020

Michigan Public School Employees' Retirement System

10 Ways to Use Your Tax Refund

Are you getting a tax refund this year? What do you plan **to do with it?**

Here are some ideas to pay yourself back now and for the future.

1. **BUILD YOUR EMERGENCY FUND** - Life happens. Be prepared. A good rule of thumb is to have 3-6-months' savings to cover unexpected expenses.
2. **DITCH THE DEBT** - Reduce or eliminate debt from high-interest credit cards or loans. Use some of your refund to make a dent.
3. **SAVE MORE** - Create a budget to gain control over your finances, then save some of your refund in a savings accounts reserved for a personal goal like a vacation or a new car.
4. **SAVE FOR RETIREMENT** - Take advantage of tax-deferring some of your income and maximize your contributions for the year to help save even more.
5. **INVEST IN YOURSELF** - You are your biggest asset. You can increase your value in the working world by elevating your knowledge or adding a new skill.
6. **IMPROVE YOUR HOME** - If interest rates are favorable, consider re-financing to upgrade a room or two and increase the value of your home.
7. **LIVE A LITTLE** - Treat yourself to a fun night out. You deserve it!
8. **START A BUSINESS** - Do you have a hobby or business venture you want to start or grow? Invest in your ideas and maybe get a few small business tax deductions next year as well.
9. **GIVE. REPEAT.** - Donating to a charitable cause that has meaning to you is something we don't often get a chance to do. Your refund gives you a chance to give back.
10. **TAKE STOCK** - If you have already contributed the maximum amounts to your retirement accounts, consider opening a money market fund, a Roth IRA or start a 529 college savings plan for your kids.

Did you know?

The average tax refund for 2019 was $3,030.[1]

Be sure to **pay yourself back first**, and remember, it's never too late to get your financial life in order, so you can live the best life you can envision.

[1] Source: https://www.cnbc.com, an excerpt; on average, taxpayers expect to receive $3,030 back from the IRS, according to a recent report by GoBankingRates.

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Pay Student Loan Debt or Save for Retirement?

It depends.

This is the first in a series of articles this year for people in varied life stages. This quarter, we will focus on those starting their career and the choices they face paying off debt while planning for the future.

If you are new to the work force and focused on building a career, you probably wish you were **making more money**. And if you, like most young Americans, have student loan debt, it can be challenging to prioritize what to do with the money you're making now.

So what do you do?

Maybe you aren't making a lot right now and retirement is so far away. Do you pay down the student debt or save for retirement? It depends, but balance is key.

Paying student loan debt?

- Paying down student debt first before you start saving for the future may be the most helpful because it could help reduce stress, but remember that all loans are not created equal.
- Most federal loans have lower interest rates, meaning it won't cost you as much in interest to take longer to pay off your loans, which means you can start saving for retirement sooner.
- If you have a higher interest rate personal student loan, it may make sense to pay this down faster and make smaller contributions to your retirement plan in the meantime.[1]

Did you know?

Approximately 70% of college graduates today carry an average of $37,000 in student loan debt[2].

What about saving for retirement?

- The sooner you can save, the longer you can take advantage of potential compounding interest on savings that can help add up over time.
- Saving pre-tax money impacts your net pay by less than you think. For example, saving $50 pre-tax per paycheck impacts your net paycheck by only $36[3].

The bottom line is, getting an education was an important investment in yourself and loans from it are often just a part of life. But so is saving for retirement, even if it's just a little bit now. Whatever you do, we want you to feel good about your money, your life, and your ability to retire well.

[1]Source: Should I pay off student loans or save for retirement, Maurie Backman, June 24, 2019, Motley Fool, The Ascent

[2]Source: Forbes.com, article, Student Loan Debt in 2017: A $13 Trillion Crisis, February 2017, Zack Friedman

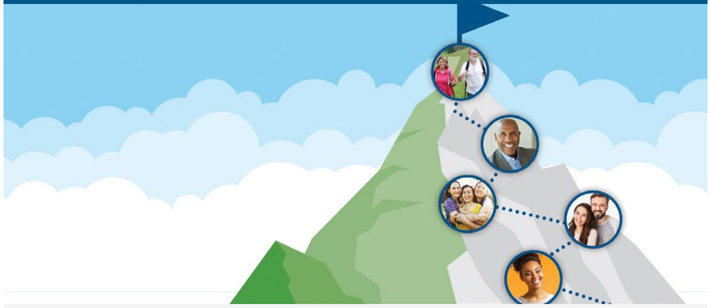
[3]Assumes savings are made in a pre-tax account at a 28% tax rate. This hypothetical example is not guaranteed and does not reflect any specific product. Investments are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, may be worth more of less than the original investment. In addition, these figures do not reflect taxes or any fees, expenses or charges of any investment product.

QUARTERLY CALENDAR:

Transactions made on these dates when the New York Stock Exchange (NYSE) is closed will be processed the following business day that the NYSE is open:

- **Monday, May 25, 2020 –** *Memorial Day*
- **Friday, July 3, 2020 –** *Independence Day (observed)*

Making Progress with Small Steps



Experts recommend saving at least 15 percent of earnings to maintain their standard of living for a retirement lasting 30 years or longer.[1]

The Small Steps program provides participants saving less than 15 percent of their wages with an easy and gradual way to save more for their future.

Under this program, a participant's pre-tax savings rate increases by 1 percent at the beginning of each year until the 15 percent target rate is reached (not including the employer's matching contribution). Participants have the opportunity to opt-out of the program each year, if they wish.

In the first available paycheck in January 2020:

- 108,101 participants increased their contributions by 1 percent through the Small Steps program.
- 901 participants reached the 15 percent target savings rate through the Small Steps program or by increasing to 15 percent on their own during the opt-out period.

Everyone needs to be sure they're saving enough. Either the Small Steps program or the Rate Escalator can help you get there. The Rate Escalator feature lets you set your own savings increase schedule. You control the time frame and amount of increases, not to exceed the IRS annual limits. If you use the Rate Escalator, the Small Steps annual increase does not apply.

Go to stateofmi.voya.com, log into your account, then select Account > Contributions > Rate Escalator. Or call **800-748-6128**.

Small Steps is on the move!

The Small Steps program is springing forward in 2021! The increase will be made in the first available paycheck in March 2021 instead of January 2021.

Stick to the plan

Stick to the plan when markets correct — **it's normal**.

Stock market growth potential is great for your retirement savings, but history tells us that it can't last forever. Market "correction" could happen at any time, but the potential for gains or losses should always be expected as a part of investing. So how do you manage your expectations? Here are some things to keep in mind amid times of uncertainty:

- Time, not timing, is key. Predicting the market is not like predicting the weather. There are no high-tech gadgets or radar systems to predict how high or low the market will get. Without knowing the exact moment to take action, any decision to sell out of an investment could prove costly.
- Sticking to your retirement saving plan is important. Your overall investment and retirement planning strategy can help keep you focused and remain invested for long-term market results. However, past performance doesn't guarantee or predict future returns.
- Diversification can help you manage some of your investment risk by mixing a wide variety of investment options within your portfolio, or investing in a "fund of funds" like a target date fund[2] can do the diversifying for you. Diversifying your investments can help reduce the impact of any one security on your overall portfolio performance[3].
- One way to diversify your assets is through asset allocation. This is the process of dividing a portfolio among investment asset categories like stocks, bonds, and cash. Asset allocation can also help reduce risk because it keeps you from putting all of your "eggs" in one basket[3].

While it's important to be aware of what the market is doing, keep in mind that fluctuation is normal and should be expected. Sticking to your plan and your long-term goals can help you stay on course as you work toward your retirement objectives.

[1] Ultimate guide to retirement, money.cnn.com, August 20, 2018.

[2] Generally speaking, Target Date funds target a certain date range for retirement, or the date the investor plans to start withdrawing money. Investors can select the fund that corresponds to their target date. They are designed to rebalance to a more conservative approach as the date nears. An investment in the Target Date fund is not guaranteed at any time, including on or after the target date.

[3] While using diversification and/or asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss in declining markets, they are well-recognized risk management strategies.

Spreading the Wealth

Unless you're a financial professional, financial terms can be **confusing** to understand. Take asset allocation and diversification, for example. While they are often used together when investing, they are distinct and different.

What is asset allocation?

- Three major types of asset classes (or investment categories) - stocks, bonds and cash - combine to make up 100% of your investment portfolio.
- Think of **A**sset **A**llocation as an investment portfolio technique that aims to balance risk '***A****cross*' stocks, bonds and cash. That's because each class has its own levels of risk and will behave differently over time.
- Your asset allocation will be based on factors such as when you want to retire, how much retirement income you will likely need and what level of investment risk can you handle. For example, if you have many years to retire your asset allocation could be a more aggressive, higher risk mix of stocks and bonds. However, if you are nearing retirement you may find that a more conservative blend of stocks, bonds and cash makes more sense.
- While using asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss in declining markets, it is a well-recognized risk management strategy.

It's all about balance.

That's where diversification comes in.

Diversification is more of a '***D****eep* ***D****ive*' within an investment category.

- Let's say you wanted to invest in stocks. To diversify within the stock category, you would invest in a variety of different types (domestic, foreign, large-cap, mid-cap, etc.) to spread the investment risk across a number of investments instead of investing it all in one fund.
- Being diversified is no guarantee of protection from loss in declining markets or better performance, but it is a well-recognized risk management strategy.

The State of Michigan 401(k) and 457 Plans (the Plans) offer multiple investing options to help with asset allocation and diversification.

- **Target Date Retirement Funds** – Based on your retirement time horizon, target date retirement funds offer a diversified investment strategy.
- **Online Advice** – Allows you to control the investments in your Plan accounts with a little advice. To access this free option, log into your Plan account and select the Voya Advisor link.
- **Professional Management** – You can receive a personalized mix of funds selected and monitored for you for an additional fee. You will also receive one-on-one support, ongoing account management, quarterly reports, and more. Your initial consultation is free of charge. For more information, call the Plan Information Line at 800-748-6128. Customer Service Associates[1] are available 8:00 a.m. to 8:00 pm., Monday through Friday (except on New York Stock Exchange holidays).

Still not sure?

Your financial professional can review your investment strategy to help make a plan that is right for you. Remember, it's never too late to get your financial life in order so you can live well now while planning for the retirement tomorrow you envision.

[1] **Advisory Services provided by Voya Retirement Advisors, LLC (VRA). VRA is a member of the Voya Financial (Voya) family of companies.** For more information, please read the Voya Retirement Advisors Disclosure Statement, Advisory Services Agreement and your plan's Fact Sheet. These documents may be viewed online by accessing the advisory services link(s) through your plan's web site at stateofmi.voya.com. You may also request these from a VRA Investment Advisor Representative by calling your plan's information line at 800-748-6128. Financial Engines Advisors L.L.C. (FEA/Financial Engines) acts as a sub advisor for Voya Retirement Advisors, LLC. Financial Engines Advisors L.L.C. (FEA) is a federally registered investment advisor and wholly owned subsidiary of Edelman Financial Engines, LLC. Neither VRA nor FEA provides tax or legal advice. If you need tax advice, consult your accountant or if you need legal advice consult your lawyer. Future results are not guaranteed by VRA, FEA or any other party and past performance is no guarantee of future results. Financial Engines® is a registered trademark of Edelman Financial Engines, LLC. All other marks are the exclusive property of their respective owners. FEA and Edelman Financial Engines, L.L.C. are not members of the Voya family of companies.