Retirement Income Sources

Disclaimer: *CalPERS is governed by the Public Employees' Retirement Law. The statements in this document are general. The Retirement Law is complex and subject to change. If there is a conflict between the law and this document, any decisions will be based on the law and not this document.*

This webinar, like our previous webinars, will be available as a video on our CalPERS YouTube Channel.

Agenda

Our presentation today covers information on

- Different Sources of Retirement Income
  - CalPERS Pension
  - Social Security
  - Personal Savings

Different Sources of Retirement Income

Many financial experts believe you need approximately 75 – 85 percent of your pre-retirement income to maintain your current standard of living into retirement. This percentage may be higher or lower depending on how you want to spend your time in retirement.

Your retirement income may include one or more of the following:

- Your CalPERS Pension
- Social Security
- Personal Savings

Each of us must decide the amount of income we need to support the lifestyle we want in retirement.

Will your CalPERS pension represent 25 or 60% of your income?

For those who qualify, how much will your Social Security benefit cover?

How many of you will need to supplement your income with personal savings, such as employer sponsored savings plans, or other savings and investments that you may have?

Keep in mind, if one of your retirement income sources is lacking, then the others will need to pick up the slack. The earlier you start planning the better.

CalPERS Pension

Your CalPERS pension is a 401(a) Defined Benefit Plan. This means that the amount of your retirement benefit is determined by a formula and not by how much you contribute to the plan. In fact, the amount of your contributions has nothing to do with how much your pension will be. We manage the funds paid into the system by you and your employer. Once you retire, your benefit is payable for life.

The money to fund the benefits provided to our retirees and beneficiaries comes from three sources:

1. CalPERS Investment Returns – Pays about $0.55 for every pension dollar paid
2. Employer Contributions – Pays about $0.34 for every pension dollar paid
3. Member Contributions – Pays about $0.11 for every pension dollar paid

*Based on CalPERS income over the last 20 years, as of June 30, 2024

CalPERS Retirement Types

We offer three types of retirement.

Service Retirement, or normal retirement. Most retirees retire under a service retirement.

To qualify for a service retirement, you must be at least age 50, or if first hired on or after January 1, 2013, you must be at least age 52. If you're a state second tier member, you have to be at least age 55 to be eligible to retire.

You must also have at least 5 years of service credit, or if you're a state second tier member, you need at least 10 years. There are some exceptions to the service credit requirements, like establishing reciprocity, or if you worked part time for at least 5 years but don't have 5 years of service credit, but you'll need to contact us to find out if an exception applies to you.

Disability Retirement – If you have a disabling illness or injury that prevents you from doing the usual duties of your job, you may be eligible for disability retirement.

There is no age requirement, but you must have at least five years of service credit.

Industrial Disability Retirement – Usually only available to safety members, but other classifications can contract for this benefit. There are no minimum age or service credit requirements, but your disability must be job related.

Pension Calculation Formula

Your pension is calculated using a formula:

Service Credit x **Benefit Factor** x **Final Compensation** = **Unmodified Allowance**

Service Credit: Your total years of service with all CalPERS employers

Benefit Factor: Percentage of pay you're entitled to for each year of service credit you earned and is based on the retirement formula your employer contracts for and your age at retirement

Final Compensation: An average of the highest 12 or 36 consecutive months of your full time payrate

Unmodified Allowance: When you retire, CalPERS will multiply your years of **Service Credit** by your **Benefit Factor**, then multiply that result by your **Final Compensation** which gives your Unmodified Allowance.

The Unmodified Allowance is your basic pension and is the highest amount you can receive monthly when you retire.

When you retire, you can choose to take a reduction from your Unmodified Allowance in order to leave a lump sum or monthly benefit to a beneficiary after your death.

For more information regarding your CalPERS pension:

- Visit our website and myCalPERS
- Take a class
- Watch our YouTube videos
- Read our publications
- Contact us

Social Security

Social Security is a federally mandated social insurance program funded through payroll taxes and consists of four major programs.

1. Retirement benefits
2. Survivor benefits
3. Disability benefits
4. Medicare

For this presentation, we're only going to focus on Social Security retirement benefits.

The amount of your Social Security benefit is based on the year you were born, and the average wages earned over your lifetime. You can begin collecting as early as age 62 with a reduced benefit. There may be benefits available to eligible family members.

To qualify for Social Security, you need a minimum of 40 credits. You can also be eligible through the work record of your current, former, or deceased spouse. To receive your full benefit, you must retire from Social Security between ages 62 – 67, depending on your birth year. People born January 1 of any year should refer to the previous year. If you were born before 1943, visit Social Security's website to find your full retirement age and the percentage of benefits at age 62.

Year of Birth	Full Retirement Age	Age 62 Reduced Benefits
1943 – 1954	66	75.00 percent
1955	66- and 2-months	74.20 percent
1956	66- and 4-months	73.30 percent
1957	66- and 6-months	72.50 percent
1958	66- and 8-months	71.70 percent
1959	66- and 10-months	70.80 percent
1960 and later	67	70.00 percent

The Windfall Elimination Provision (WEP) & the Government Pension Offset (GPO)

Not all CalPERS members have the same access to Social Security benefits during retirement. Those benefits depend on whether your employer withheld Social Security taxes from your salary. Those who didn't have Social Security taxes withheld served in what are often called "non-covered" positions, with many of these being safety personnel. The "non-covered" positions exist at both the state and local government level in California.

Prior to January 6, 2025, these members were subject to a federal law that could reduce their Social Security benefits, known as the Windfall Elimination Provision (WEP). The law limited benefits for anyone in a "non-covered" position unless they had 30 or more years of "substantial earnings" from a different job where Social Security taxes had been collected.

The Government Pension Offset (GPO) applied to those who receive a government pension that is based on employment not covered by Social Security, and you are eligible for your spouse or your surviving spouse's Social Security benefits.

The Social Security Fairness Act, HR 82, was signed into law by President Biden on January 5, 2025. The implementation of this legislation will eliminate the reduction of Social Security benefits caused by the WEP and GPO for individuals receiving public pensions from work not covered by Social Security. Visit our Social Security & Your CalPERS Pension page for updated information on Social Security and your CalPERS pension.

For More Information on Social Security

Visit Social Security's website for more information about their programs and benefits. Create a my Social Security account to securely access your Social Security record, earnings history, statements, and more. Use the Social Security Office Locator to find your local office, or Contact Social Security By Phone.

Personal Savings

Your CalPERS pension and Social Security benefits may not be enough for the lifestyle you wish for in retirement, and if that's the case you may need to supplement them with personal savings.

Personal savings can come from a variety of sources:

- Personal savings accounts
- Individual Retirement Account (IRA or Roth IRA)
- Brokerage accounts or mutual funds
- Stocks, bonds, or real estate
- Employer Sponsored Savings (deferred compensation) plans

Employer Sponsored Savings Plans

One of the most common ways to save for retirement is through employer sponsored savings plans, often called deferred compensation plans, such as a 401(k), a 457 or a 403(b) plan.

Key elements of an employer sponsored savings plan

- The retirement benefit is determined by your contributions into the plan and the investment earnings (or losses) they produce
- There is no guaranteed benefit like you have under the CalPERS Defined Benefit Plan
- You are responsible for deciding how much to contribute into the plan and how the funds are invested

Advantages of an employer sponsored savings plan

- Usually provides a variety of investment choices that allow you to diversify, or spread your risk, over several asset classes
- You may be able to withdraw money from the plan for financial emergencies – which is not allowed with your CalPERS contributions
- If you have an employer-sponsored plan, the money contributed is pre-tax, which lowers your taxable income now
    - The money you invest and earn over the years grows tax-deferred until the funds are withdrawn in retirement.
    - Once you begin receiving the money, you'll begin paying taxes on it, but it'll be based on your tax bracket at that time.

Example of Tax Deferred Savings

	Sandy	James
Monthly Salary	$2,500	$2,500
Before Tax Savings	$0	$100
Taxable Income	$2,500	$2,400
Taxes Paid	$400	$365
Net Pay	$2,100	$2,035
After-Tax Saving	$100	$0
Take Home Pay	$2,000	$2,035

Now that we've talked about types of employer sponsored savings plans, let's look at an example of the tax savings that are possible. In the example in the table above, we have two members who are both saving $100 per month, Sandy and James.

Sandy has a taxable monthly income of $2,500. After Sandy's taxes of $400 are paid, the net amount is reduced to $2,100.

Sandy then puts $100 into a savings account. Because that $100 is after tax monies, in the end, take home pay is $2,000.

James has the same monthly salary as Sandy prior to taxes, $2,500. But James decides to contribute $100 to a tax-deferred savings plan, which reduces the taxable income to $2,400.

Once James' taxes of $365 are withdrawn, the net pay is $2,035.

Because less taxes were taken out; James' take home pay is $35 more than Sandy's.

Benefits Of Investing Early

	Mary	John	Jose
Begins Investing	Age 30	Age 45	Age 45
Invests For	15 years	15 years	20 years
Yearly Investment of	$3,600	$3,600	$5,400
Total Invested	$54,000	$54,000	$108,000
Balance at Age 65	$284,861	$118,863	$210,561

Let's look at an example of the benefits of compounding interest – it's also an example of why starting early can be beneficial! The example in the table above assumes a 6% rate of return and retirement at age 65. Rates will be different for everyone based on how you invest.

In the first column, Mary begins investing at age 30 with a retirement age of 65. Mary invests $3,600 a year, which is $300 per month, for 15 years until age 45. The amount Mary invested, in this case $54,000, stays invested and continues to earn dividends and interest until beginning withdrawals at age 65.

In the second column, John doesn't begin investing until age 45. John invests a total of $3,600 a year for 15 years until age 60 at which time investing stops. Again, the $54,000 total amount stays invested and continues to earn dividends and interest until beginning withdrawals at age 65.

The third column brings us to Jose.

Jose, like John, doesn't begin investing until age 45. To try and make up for lost time, a higher amount of $5,400 is invested each year, which is $450 per month, for 20 years for a total of $108,000 until retirement, also at age 65.

By beginning early, Mary ends with a total balance of $284,861, the highest of the three.

John invested the same amount for the same period, but because John began later in life, the balance at age 65 is much lower than Mary's at $118,863.

Jose also began later in life and even though a higher amount was contributed for a longer period of time, the total balance of $210,561 is still well below that of Mary.

While there is a benefit to investing early, keep in mind that no matter what age you are, there are always benefits to saving for your retirement.

Public Agency & School Member Plans

If you're a public agency or school employee, you may be eligible to participate in the CalPERS Supplemental Income 457 Plan if your employer contracts to offer this program. Your employer can offer this program to you at no cost to them and contributions are made on a pre-tax basis.

Your employer may not contract with us to offer the CalPERS 457 plan, but most have similar plans that you can participate in. Check with your employer to see what plans are offered.

State employees can enroll in the Savings Plus Program, which is administered by the California Department of Human Resources. The Savings Plus Program offers 401k and 457 plans.

We offer another savings option for state employees, the Supplemental Contribution Plan. This plan allows you to voluntarily invest after-tax contributions into an account where all earnings grow tax deferred until you begin to take withdrawals in retirement or upon separation from all state employment. Upon distribution, you only pay taxes on the pretax earnings.

Visit our Deferred Compensation webpage for more information.

If you're interested in any types of investing, consider consulting a financial planner or other qualified professional; we do not provide financial planning services or advice.