Hi there! I’m Tiffany and I’ll be taking you through PEBA’s retirement readiness information series. The South Carolina Public Employee Benefit Authority has prepared this series to provide you with information that may help you take some important yet practical steps toward securing your financial future. Let’s get started.
Before we get started, I’d like to take a minute to remind you that personal finance, as the name implies, is a highly individualized and personal matter. The information provided in this presentation, and in the other presentations in this series, is general educational information provided to illustrate certain financial ideas and concepts. This information does not take into account your personal situation and should not be considered personal financial or investment advice. In reviewing this presentation, you should consider whether the information presented is appropriate for your particular needs, and, where appropriate, you may wish to seek advice from a financial professional to determine what is best for your individual financial circumstances. PEBA does not make any guarantee or other promise as to any results that may be obtained from using the content of this presentation.
In PEBA’s two “Planning for Your Future” presentations, we reviewed how to establish a personal financial plan. We created a budget and set some short- and long-term financial goals and determined how much of a financial safety net you’ll need. The plan does not have to be complex to get solid results. Keeping it simple can work just as well and can be easier to stick with.

So let’s complete your personal financial plan by looking at step four: saving for your future.
As a member of a PEBA-administered retirement plan, you are enrolled in either a defined benefit plan or a defined contribution plan. Let’s briefly review these retirement plans before discussing options for supplementing the retirement income you can expect to receive from PEBA.
**PEBA retirement plans**

**Defined benefit plans**
- South Carolina Retirement System (SCRS)
- Police Officers Retirement System (PORS)

**Defined contribution plan**
- State Optional Retirement Program (State ORP)

PEBA administers both defined benefit plans and a defined contribution plan. The primary retirement plans are the South Carolina Retirement System, or SCRS, and the Police Officers Retirement System, or PORS, and the State Optional Retirement Program, or State ORP. SCRS and PORS are both defined benefit plans. State ORP is a defined contribution plan.

Regardless of which PEBA-administered retirement plan you are eligible for and participate in, keep in mind that you will need more than the expected income from your retirement plan to live comfortably in retirement.
The defined benefit plans, SCRS and PORS, provide a lifetime monthly benefit based on a statutory formula. Your retirement benefit is not based on the amount of money you contribute to your retirement plan or investment performance. These plans also offer disability protection for you and survivor options for your beneficiaries in the event of your death.
The State ORP is available as an alternative retirement plan to employees who work for a state agency, higher education institution, or public school district, and who are otherwise eligible for SCRS membership, and meet any other eligibility requirements.

The State ORP provides an account into which both you and your employer contribute. Your retirement benefit is based on the balance in your account at retirement. Your State ORP account consists of contributions made by you and your employer, and any related investment gains or losses, and any fees associated with your account activity. You are totally responsible for your investment performance. With the State ORP, you have immediate rights to your account balance when you terminate employment or reach age 59 ½.
Now that we’ve reviewed the retirement plans, let’s take a look at the options available for supplementing your retirement income.
There are as many options for saving as there are financial and other institutions offering savings products and services. You can open a personal savings account, purchase a certificate of deposit, commonly called a CD, or open a money market account. These are considered shorter-term savings options.

One long-term savings option available to you as a member of a PEBA-administered retirement plan is the South Carolina Deferred Compensation Program, commonly referred to as the SCDCP. If your employer participates in the SCDCP, you can sign up for any of the SCDCP’s savings options now. There is no waiting period or length of employment requirement. Click on the link entitled S.C. Deferred Compensation Program for more information about this program. Please note that, because the SCDCP’s plans are retirement plans, your access to funds in the plans prior to retirement is limited and, even where access is available, it may be subject to significant tax penalties. We’ll talk more about the SCDCP in another presentation.
Another way to save for your retirement is to use a personal savings account into which you deposit funds on a regular basis or periodically. Many savings accounts earn modest interest but can keep your money safe if you choose a financial institution insured through the Federal Deposit Insurance Corporation, commonly known as the FDIC, or the National Credit Union Share Insurance Fund. Insured financially institutions guarantee protection of up to $250,000 of your personal savings.
Here are a few more things to keep in mind when you get ready to open a savings account:

- Interest rates vary from bank to bank, so shop around for the best interest rates.
- Often times, interest rates are subject to change. Be sure to understand why and when the interest rates that apply to your personal savings account are subject to change.
- Many accounts require that you deposit a minimum dollar amount to even open the account and some require that you have a minimum account balance at all times.
- Some savings accounts have strict transaction limitations as well as high monthly transaction fees.

Always ask questions before opening any account so you know if limitations and fees apply. Your goal is to put your money to work for you, not someone else.
Now let’s take a look at another savings option, certificates of deposit, or as they are commonly known, CDs. A CD is a bank deposit that guarantees a return from the bank after a certain length of time.

- CDs may provide higher interest rates on your deposits than most standard savings accounts.
- Variable terms are available from three months to five years.
- Typically, the longer the duration of the term, the more you may earn on your initial deposit.
- Due to their low amount of risk, CDs are among the safest ways to save money with a bank.
- CDs require a commitment and you will not have access to the money you deposit into a CD until after the certificate has reached maturity.
- There are also may early withdrawal penalties.
Another savings option that can help supplement your income at retirement is a money market deposit account, which can be described as a cross between a savings and a checking account.

A money market deposit account is an interest-bearing account that typically pays a higher interest than a personal savings account. Interest is paid on a monthly basis. And unlike CDs, most money market accounts are flexible and provide you with access to the money in your account.

Before you dive into a money market deposit account, do your research and make sure it is the right option for you. For example, it is important to understand the difference between a money market deposit account and a money market fund. Money market funds are mutual funds and not bank accounts. While these savings options have similar names and are often sold at the same financial institutions, there are important differences to note. One significant difference is that money market deposit accounts obtained through a financial institution insured by the FDIC are insured for up to $250,000 per person.
Although money market deposit accounts are not term-specific, there are some characteristics to keep in mind. Money market deposit accounts tend to require a higher minimum account balance with heavy fees applied if that balance falls below the required minimum. You do have greater access to your money than through a CD, but there are transaction limits with a money market deposit account, so be sure to know what those limits are.
So, we’ve talked about interest-bearing accounts such as savings accounts, CDs and money market deposit accounts, but what exactly is interest?
As an investor or someone who is saving money through a personal savings account, interest is additional money that your account earns periodically. The amount of interest, or earnings, you receive is calculated based on the amount of your deposit, the type of savings or investment vehicle you’re using, the applicable interest rates, and in many cases, the duration of the investment.

The two types of interest are simple interest and compound interest, which we will discuss as we review the next few slides.
Simple interest is money that you earn on your original deposit amount. Simple interest is determined by multiplying the original deposit amount by the interest rate and by the duration of the investment. Simple interest is called “simple” because it ignores the effects of compounding. The interest amount is always based on the original principal amount, so interest earnings on previously earned interest is not included.
Compound interest is calculated on your original deposit plus the accumulated interest on your deposits since you began making them. So in essence, with accounts that pay compound interest, you earn interest on your interest earnings. The more frequently interest is compounded, the more quickly your earnings grow. Let’s take a look at an example that clearly shows the difference between simple interest and compound interest.
The chart on this slide shows the difference in how simple and compounding interest is calculated on a deposit. As you can see, using the same initial deposit, interest rate, and time period, compounding interest produces more earnings on your money than simple interest. When selecting a savings option, check the interest rate(s) and the type of interest applied to the option. Selecting an option with compounding interest will make a difference but make sure you’re comfortable with all other characteristics of the option, such as any potential limitations, inaccessibility, fees and penalties.
This concludes our presentation on Step 4 of establishing your personal financial plan, which is saving for your future. We’ve created a budget, set financial goals, built a financial safety net, and reviewed options for additional savings. It is important to realize that once you establish a personal financial plan, you are never really finished. Implementing a financial plan isn’t a project with a start and end date.

None of us will ever truly be “finished” planning for our financial future because budgets and goals can change multiple times throughout our lives. For example, the financial safety net you worked so hard to build may diminish after an emergency situation and you will need to replenish that safety net to ensure your continued protection against financial upsets or emergencies. Also, once you begin saving for your future, it is best to never stop. Even if you can only begin with a small amount, you’ve heard in this presentation how powerful compounded interest can be, so start saving now regardless of how much you can set aside. Every dollar really can make a difference in your future.
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