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# Financial focus

FINANCIAL SECURITY FOR YOUR GOLDEN YEARS

## RETIREMENT BOARD

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**Brian Larson**  
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**Nicola Sapp**  
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**Julie Johnson**  
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Board meetings are held on the 4th Monday of every month, except for June and December, at the Retirement Plan's office.

## Knowing the Difference

### Defined Benefit Versus Defined Contribution Plans

When it comes to retirement plans, there are two main types that employers offer their employees: defined benefit (DB) plans and defined contribution (DC) plans. An example of a DB plan is a traditional pension plan, such as your El Paso County Retirement Plan. The most common example of a DC plan is a 401(k).

Both types are designed to help employees save for retirement, but they work toward that goal in different ways. The five major differences are:

#### No. 1: Investment Risk

In DB plans, the employer assumes the investment risk. Employees don't have to worry about a stock market downturn delaying their retirement or reducing benefits they've already earned. If investments don't meet the target return, the employer has to pay more into the plan to fund the benefit.

In DC plans, the employee assumes the investment risk. Any benefit that can be purchased with the money in a DC plan is based on the account balance. The account balance, in turn, is affected by ups and downs in the investment markets. If there's a drastic market downturn right before the employee retires, his or her account balance may not be big enough to provide the financial support the employee had planned on.

#### No. 2: Longevity Risk

In DB plans, the employer also assumes the longevity risk — the risk that a retiree will live longer than expected and possibly outlive his or her money. Retirees covered by DB plans usually receive a pension payment for life, guaranteed by the employer, no matter how long that life might be.

In DC plans, the employee assumes the longevity risk. If the employee didn't save enough money, or lives longer than he or she planned for, then that employee may run out of savings in retirement.

#### No. 3: Portability and Flexibility

In DB plans, the employee has to keep his or her money in the plan to get a pension. The employee also can't roll money from another retirement account into a DB plan. However, an employee can roll money from a DB plan into a DC plan or personal IRA.

In DC plans, an employee can sometimes roll money from one employer's plan into another employer's DC plan if he or she gets a new job. Alternately, the employee can open an IRA or other tax-deferred savings account to receive the rollover. If vested, the employee gets to keep any employer matching money.

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# EL PASO COUNTY RETIREMENT PLAN

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Active and deferred vested members, have you tried the benefit calculator on our website? Log on to [www.epcretirement.org](http://www.epcretirement.org) and click on the *Benefit Calculator* link. This will help you calculate your benefit through the date you want to retire.

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# Start Small: It's Never Too Late to Teach Kids About Money



If your child knows how to count, it's time to start teaching him or her about money. In addition to being a good financial role model, providing guidance and giving your child the opportunity to work with money will instill healthy fiscal habits that can last a lifetime.

## Preschool and Early Grade School

At this age, the lessons are simple, but as children get older, they'll start to understand the role money plays in their everyday lives.

- Help your child learn the different coins and how much they are worth.
- Let your child observe you using money to buy groceries or pay bills.
- Let your child know that you go to work to earn money.

## Grade School and Middle School

Receiving an allowance gives your child hands-on experience with money management. It also gives you a chance to teach your child about saving money.

- Make saving some money a condition of your child's allowance. Pay your child in denominations that make saving easy (for example, five \$1 bills instead of a \$5 bill).
- Set short-term and/or long-term saving goals, such as buying a toy or game, to help keep your child motivated.
- Help your child understand the power of compound interest by offering to pay interest on his or her savings.

- Involve your child in any research you do before making big purchases.
- Teach your child how to plan purchases and compare prices while you're shopping for groceries.
- As your child grows into a teenager, let him or her pay for expenses, such as school lunches, out of his or her allowance.
- Talk to your young teen about credit cards — what they are and how they're used. Point out the interest charged on outstanding balances.

## High School

Now it's time to give your teenager the practice he or she needs to handle money in the real world — while he or she is still under your roof.

- A summer job is a fast way to learn money's value.
- Open a checking account for your teen and forgo the overdraft protection. A bounced check and the accompanying fees can quickly teach a teen to be mindful of the account balance.
- Consider getting your teenager a secured credit card. This type of card requires cash collateral, which becomes the line of credit. That way, he or she can practice using plastic without racking up big balances.
- Let your teenager make his or her own financial decisions and mistakes. Making small choices now can help prepare him or her for bigger, better decisions later.

Sources: *Forbes.com*, *CNNMoney.com*, *FamilyEducation.com* and *Bankrate.com*

# Understanding the Value of Your Benefit

As a member of the El Paso County Retirement Plan (EPCRP), you participate in a 401(a) plan, which is a type of defined benefit plan. In simplest terms, a defined benefit plan guarantees you a lifetime benefit. The guarantee that you can not outlive your benefit is considered by many to be the most important piece of the retirement planning puzzle.

EPCRP uses a formula based upon your age, years of service and final average monthly salary (FAMP) to determine your monthly benefit amount. Essentially, the higher your income and the longer you work, the higher your lifetime benefit will be.

Your contributions to the plan are accounted for individually and get an additional boost by earning 3% annual interest, which is compounded monthly. Even if you are a deferred vested member, you are still earning monthly compounded interest, without continuing contributions. Compound interest is everyone's friend, because it lets you earn interest on interest. However, the value of the interest earned does not compute into your retirement benefit. The interest accrues to protect your contributions from the effects of inflation in case you close your account. If you withdraw your contributions and interest after a qualifying separation of service, you forfeit your right to guaranteed lifetime income.

If you decide to begin your retirement early, you are taking a smaller amount of money and trying to spread it over a longer period of time. This is due to the fact that you are expected to receive a longer stream of payments. If you wait to retire, your life expectancy (as determined by our actuaries) will not be as long and EPCRP will be able to give you larger payments for your lifetime. This is true whether you are a deferred vested member or an active member. Your benefit will not stop — it will continue in the same amount until the time of your death.

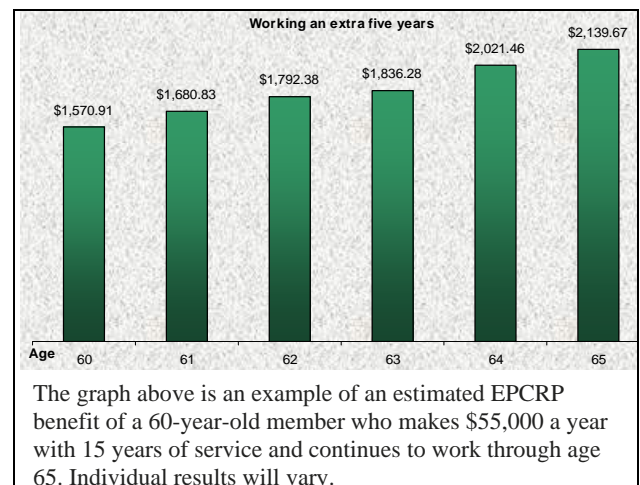
There is another fact to take into consideration: If you decide to take early retirement and have not met the Rule of 75, your benefit will be reduced by 3% for each year you are under age 62. This is a permanent reduction for your lifetime.

When planning for retirement, evaluate all sources of income you may be receiving. Consider when and how much you'll draw from your deferred compensation plan, any IRAs or annuities. If you have an after-work hobby that might produce income in retirement, consider that, too. Look at your options for taking Social Security and make sure that Social Security has an accurate accounting for all your years of work. Be sure to really look at a long-term budget projection. Think

about putting money away for discretionary and emergency funds in case you need a new car in the future or have unexpected home repairs. Also think about your health insurance, since Medicare doesn't kick in until age 65.

When looking at your budget, keep in mind that even though your EPCRP benefit will never decrease, there is no guarantee it will keep up with inflation. This means you need to independently plan for increasing your cash flow or decreasing your expenses the longer you live.

Every person's situation is different, but the earlier you evaluate your retirement, the easier it will be to plan. To find out what your options are, please contact the EPCRP office at (719) 520-7490. We can provide detailed information on your benefit, as well as estimate what your benefit will be at a specific date.



## DB vs. DC Plans: 5 Big Differences

*Continued from Page 1...*

### No. 4: Employee Contributions and Enrollment

In a DB plan employer decides how much the employee can contribute to the plan. With multi-employer plans (such as EPCRP), the plan's retirement board sets the contribution rate for the employee and the employer. The employee cannot contribute more or less. Enrollment in a DB plan is also mandatory, in most cases.

In DC plans, enrollment is usually voluntary. The employee can also decide how much to contribute, usually a percentage of salary up to a level chosen by the employer.

### No. 5: Investment Choices

In a DB plan, the employee does not choose the investments. The contributions of all employees and employers are pooled together and invested. The plan's portfolio can be balanced among different asset classes (stocks, bonds, etc.) to generate its long-term target return. Employees don't need to worry about protecting their account balances as retirement approaches.

In a DC plan, the employee can usually choose one of several portfolio types, each with a different level of risk. Generally, as the employee gets older, he or she changes the portfolio from higher risk, higher return investments, to lower risk, lower return investments. That means the account's potential earnings decrease in favor of protecting the account balance.

# Things to Consider When Naming a Beneficiary

Naming a beneficiary for your EPCRP benefits helps ensure that your contributions and interest, as well as any other benefit, is paid to the person you wish should you pass away.

Your marital status influences how your benefit will be distributed, even if you don't name a beneficiary. Here are a few things to keep in mind:

If you are **married ...**

- Your spouse must provide written consent if you name someone other than him or her as your primary beneficiary; or if, at retirement, you select an optional payment method that pays less than the joint and 50% survivor option. More information on spousal consent is available on page 18 of your EPCRP *Income for Your Retirement* handbook. The latest edition of the handbook is available online at [www.eppuretirement.org](http://www.eppuretirement.org).

- With no beneficiary on file at EPCRP, any benefit payable at your death will automatically go to your spouse. This is true even if you die without a will.

If you are **single ...**

- You may name anyone you wish as a beneficiary, including your estate.
- Your benefit will automatically pass to your estate if you pass away without a beneficiary on file with EPCRP. This is also true if you die without a will.

## Other Types of Beneficiaries

- **Minors:** You may name a minor as a beneficiary, but you will also need to name a custodian to receive payment for that child until he or she turns 18. EPCRP cannot make payments directly to minors.
- **Contingent beneficiaries:** If your primary beneficiary passes away, we will split any benefit payable equally between your first and second



contingent beneficiaries. You may allocate different percentages of your benefit to each contingent, if you wish.

## Member or Retiree?

As a member, you may change your beneficiary at any time on the *Member Website*. If you are a retiree, your ability to change your beneficiary will depend on the payment method you selected. You can find more information about changing your beneficiaries in retirement on page 18 of the EPCRP handbook.



El Paso County Retirement Plan

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