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The Seven Most Frequently Asked Questions About Retiring from Mayo Clinic

THE SEVEN MOST FREQUENTLY ASKED QUESTIONS:

1) Should I take the pension lump sum, or the monthly income?
2) How do I know my pension is safe?
3) Are there tax implications to roll over my Mayo 403(b) into an IRA?
4) What will take the place of my regular paycheck after I retire?
5) How will I ensure my healthcare expenses are covered both pre- and post-Medicare eligibility?
6) When and how should I apply for Social Security retirement benefits?
7) Will I be able to retire with confidence after I leave Mayo Clinic?

INTRODUCTION

As an employee of Mayo Clinic, you work for one of the most important organizations in the entire world. You contribute to a mission that impacts the well-being of millions every year. It is also an organization that provides many exciting retirement options for employees like you. However, over the years, many Mayo employees have told us they often feel overwhelmed by the sheer number of choices they're faced with when planning for retirement. In addition, your demanding work schedule often leaves little time to research or find answers to these important questions: The security of your pension, what to do with your 403(b), and how to pay for healthcare expenses and ensure a lasting retirement income. These are a few topics that almost every Mayo employee ponders before retirement. Wouldn't it be great if you could have answers to the most common questions handed to you? Fortunately, you can. We have written this unique guide to help you feel more confident in your retirement. Inside, you'll find answers to the seven most frequently asked questions we've heard from other Mayo employees.

These are questions you have likely thought of yourself. We've answered these questions in plain English and aim to provide information you can use to make informed decisions and feel more confident about your retirement.

1) SHOULD I TAKE THE LUMP SUM OR THE MONTHLY INCOME?

This is possibly the most common question Mayo Clinic employees have, and no wonder! Nobody likes the thought of outliving their money in retirement. Ensuring you'll have enough to enjoy retirement and stay retired is crucial, so choosing the right strategy is vital, too. Let's start by breaking down how each option works.

Lump Sum: If you choose the lump sum option, the entire value of your pension will be distributed to you as a one-time payment. This sounds particularly tempting for many retirees. After all, who wouldn't want to have more money more quickly? Indeed, the lump-sum option ensures you have more money to invest, spend, or save as you see fit.

On the other hand, choosing the lump sum can make some retirees vulnerable to spending too much too fast. That's a problem because once you spend your lump sum, it's gone forever.

Monthly Income: Protecting yourself from overspending is one reason to choose the monthly income option. Also known as the annuity option, this is a set monthly payment that will last until you – and, if you prefer, your surviving spouse or partner – pass away. It's essentially a way of ensuring financial discipline in retirement because you will only have so much money to spend each month. In this regard, it's very much like receiving a regular paycheck. With that said, a significant downside to choosing monthly payments over a lump sum is a lack of flexibility. Because your monthly payments are set and limited, they're most useful for paying your regular monthly expenses. But what about if you have debts you want to pay off? What if you want to build a new home? What if you're going to take that significant trip across Europe? What if you're going to leave a legacy for your children and grandchildren? In those cases, a lump sum may be a better fit. Because it is a more significant amount of money, it gives you more options for spending and even growing your retirement savings through proper investing. There's one other thing to be aware of regarding the annuity option. Any benefit you accrued before December 31, 2003, will receive a cost-of-living adjustment once payments begin. That means your benefits will increase by an annual increment, up to but not more than 1.5% per year. However, any benefit accrued after that date does not receive a cost-of-living adjustment. This matters because if you choose the annuity option, your monthly payments may not keep up with inflation – the rate at which prices for goods and services go up over time. The Federal Reserve, tasked with keeping consumer prices stable in the United States, strives for an annual 2% inflation rate. But sometimes, inflation can go much higher, as we have seen in the aftermath of the COVID-19 pandemic. So, if you anticipate relying on your pension to cover your living expenses in retirement, that's something to keep in mind. If you opt for the monthly payment, more information about your options can be found here. There is something else to be aware of when it comes to your pension, and that is:

The Effects of Early Retirement

All employees vested in Mayo Clinic's pension plan are eligible to start receiving benefits at retirement. However, if you begin taking benefits before age 65, your monthly pension benefit will be reduced by a certain percentage. And the earlier you retire, the more significant the reduction! The chart on page 3 shows how your payments would be reduced depending on how early you begin taking them. Note that the percentage differs depending on whether you become eligible for your pension before or after December 31, 2003.

Effects of Early Retirement	
Age Benefits Begin	**% of Full Payment Received (Effective Jan 1, 2004)**
65	100
64	90
63	80
62	72
61	66
60	61
59	56
58	52
57	48
56	44
55	40

Mayo Clinic. (2022). Allied Health Staff 2022 Retirement Planning.

As you can see, taking your monthly pension benefits early can significantly impact your retirement savings. For this reason, it greatly pays to wait until age 65, if possible. Ultimately, the answer to which option is right depends on one thing: you. It depends on your habits, your needs, and most importantly, your retirement goals. There's simply no one-size-fits-all solution.

2) HOW DO I KNOW MY PENSION IS SAFE?

You've probably heard that pensions are becoming rare. It's true. According to the Bureau of Labor Statistics, only 15% of private industry workers had access to a pension plan in 2022. That number is likely to decrease even more as time goes by. That's because pensions are more expensive for employers to maintain than defined contribution plans like 401(k)s and 403(b)s. This fact has many Mayo Clinic employees just wondering how safe their pension truly is. The good news is that Mayo Clinic has always been steadfast in its commitment to providing a pension for its employees. It's a significant reason why Mayo Clinic often ranks high on "best places to work" lists. It's also a helpful recruiting tool. In addition, your pension is secured by the Pension Benefit Guarantee Corporation (PBGC). This is a U.S. government agency tasked with protecting worker pension benefits if their employer were ever forced to file for bankruptcy or if the pension plan runs out of money. As Mayo Clinic pays premiums to the PBGC, your pension payments are guaranteed.

Now, there are limits and stipulations to this. For one, the PBGC typically provides monthly benefits instead of a lump sum. However, some retirees can choose a lump sum if their plan terminates in 2024 or later and the value of their benefit is no more than $7,000. Additionally, there is a limit to how much the PBGC can pay monthly. For example, a 65-year-old pensioner with a monthly straight-life annuity would be covered up to $7,107.95 monthly. A joint annuity shared with a spouse would receive up to $6,397.16. Those numbers go up for those who are older and down for those who are younger. Study the table on page 4 for more specific information. As a Mayo Clinic employee, it's very unlikely you would ever need to rely on the PBGC for your pension. However, it's still nice to know that protection is available if you ever need it!

PGBC Maximum Monthly Guarantees for 2024		
Age	Straight-Life Annuity	Joint and 50% Survivor Annuity
65	$7,107.95	$6,397.16
64	$6,610.39	$5,949.35
63	$6,112.84	$5,501.56
62	$5,615.28	$5,053.75
61	$5,117.72	$4,605.95
60	$4,620.17	$4,158.15
59	$4,335.85	$3,902.27
58	$4,051.53	$3,646.38
57	$3,767.21	$3,390.49
56	$3,482.90	$3,134.61
55	$3,198.58	$2,878.72

"Maximum Guarantee Tables," Pension Benefit Guaranty Corporation, www.pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee

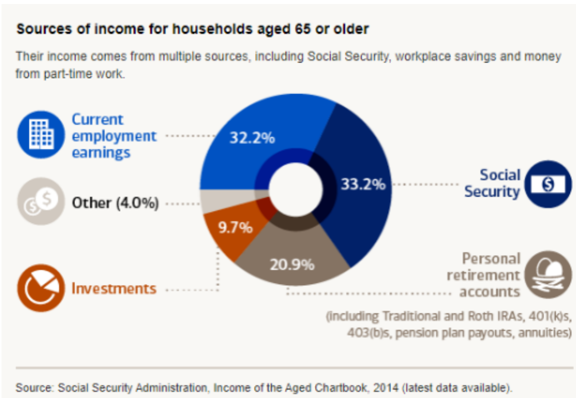
3) ARE THERE TAX IMPLICATIONS TO ROLL OVER MY MAYO 403(b)?

In addition to your pension, you likely participate in Mayo Clinic's 403(b) plan. If you don't, you should – because Mayo matches your contributions based on the number of years you've worked there! As you near retirement, though, you may begin thinking about rolling your 403(b) into an Individual Retirement Account (IRA). In the past, many other Mayo employees have asked us if such a rollover leads to tax consequences. The answer is gratifyingly simple: No! The government does not tax rollovers to a standard IRA. So, there's no penalty unless you withdraw funds from the IRA before 59½. In that case, you must pay a 10% penalty under most circumstances. (After this, you can make withdrawals without a penalty.) Now, taxes will come into play once you start making withdrawals. These are known as distributions and are taxed as ordinary income. You can choose whether to take distributions from your IRA for a period of time. By law, however, you must begin taking them annually when you turn 73 (75 starting in 2033). These are called required minimum distributions (RMDs). RMDs are essentially the government's way of ensuring people use tax-advantaged retirement accounts for what they were designed to do – fund retirement. RMDs are usually taxed as ordinary income.

Some Mayo employees have a Roth 403(b). With a Roth, your contributions are taxed, but your distributions are not. This is the opposite of a standard 403(b) or a standard IRA, where contributions are not taxed, but distributions are. Note that you can elect to have your contributions go to a Roth 403(b) if you choose, but Mayo Clinic's matching contributions will still go to the traditional 403(b). In that scenario, your contributions to the Roth will be taxed now, while Mayo's match will not be.

4) WHAT WILL REPLACE MY REGULAR PAYCHECK AFTER I RETIRE?

This is a question every pre-retiree asks at some point, regardless of whether they work at Mayo Clinic or not. This is common because it's just about the most crucial retirement-related question you can have. We're talking about income. Very few people can afford to retire based on what's in their savings account. It would be best to have a consistent income stream to meet expenses, reach your goals, and ensure your money lasts a lifetime. Ideally, you'll have more than one. For example, this Social Security Administration graphic lists some ways that people over 65 pay for retirement.



The good news is that there are many potential wells from which to draw water. We've already covered one of them, your pension. If you opt to receive your pension as a lump sum, you'll be in the driver's seat regarding how often you want to receive money. And if you choose the annuity option, you'll receive a monthly direct deposit. Essentially, you'll still be getting a monthly paycheck from Mayo Clinic! But there are other sources of income to explore, too. Here are a few of the most important:

Social Security: This is the obvious one. Social Security is an important source of income, but taking steps to maximize your benefits is important. We'll cover this a bit more later.

403(b)/IRA: As we discussed, you must begin taking distributions from your 403(b) or IRA once you hit age 73, although you can certainly start taking them earlier if necessary. Depending on your desired lifestyle, you may be able to entirely replace your current paycheck with a combination of these distributions, your pension, and your Social Security benefits.

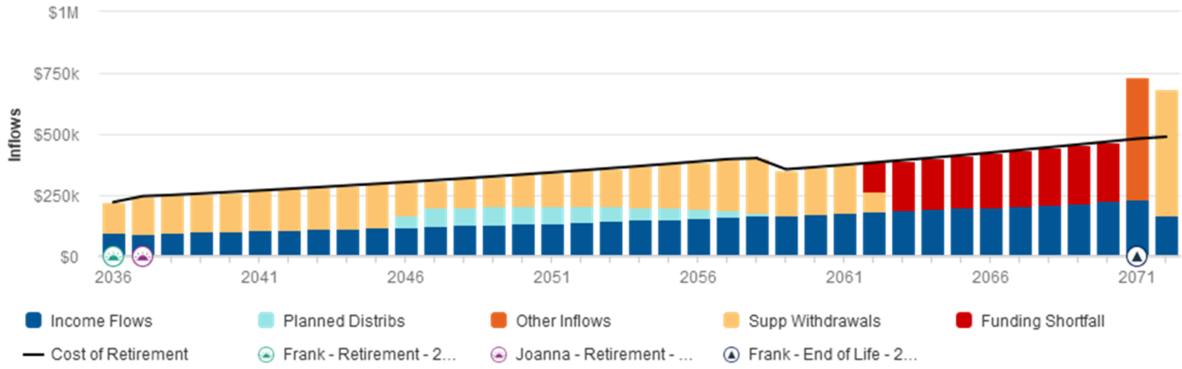
Stocks: Many retirees are shy of investing in the stock market, wary of the inevitable dips and dives that no investor can avoid. While it is important to decrease your investment risk leading up to retirement, it's important to note that it's possible to be too afraid of risk. You see, stocks can be a powerful way to grow your money. Growth is important, even in retirement! Many retirees discover the money they saved can dry up quickly, especially on things like medical care.

For this reason, stocks can potentially be a good hedge against inflation – which, as we've already covered, can make it harder to pay for cost-of-living expenses in retirement.

Dividends: Some companies pay a regular dividend—essentially, a percentage of their profits—to their shareholders. That's why dividend-paying stocks can be desirable sources of retirement income. If you invest in a dividend stock, you get a regular paycheck or direct deposit. Here's a quick example of how they work. Say you own 1,000 shares in a company. The company pays a quarterly dividend of $0.50 a share. Multiply the dividend by the number of shares you own, and voila!

Retirement Resource Usage

The chart below shows how your income sources and portfolio assets could be used to fund your retirement. Years which are not successfully funded show the shortfall.



Owning 1,000 shares nets you a payment of $500 four times a year. None of this means that dividend-paying stocks are perfect…just that they are worth looking into.

Annuities: An annuity is a product that provides guaranteed payments to the owner for as long as they live. However, be aware that annuities can come with a lot of fine print and expenses. So, while annuities can be a good source of retirement income, you should exercise caution before purchasing one.

Bonds: Bonds have traditionally been popular with older investors looking to invest more conservatively. Because bondholders receive regular interest payments, they can be a reliable source of income. Investors can also benefit from the fact that some bonds provide tax-free income. The bond market can experience volatility like the stock market, so always do your due diligence before investing.

Your savings: The least exciting form of retirement income can also be one of the most reliable. Your hard-earned savings might not earn you a lot of interest, but they do bring you a lot of liquidity, and you have complete control over them.

Working a part-time job: More and more retirees are realizing that some form of part-time work after retirement may be enjoyable, even if it's unnecessary. It can be personally rewarding to still feel like you are contributing to a company or cause – and the social benefits of interacting with other people may be the most important of all.

Rental Income: Some retirees draw income from properties they own, whether through traditional rent or options like Vrbo and Airbnb. Investing in farms, commercial and residential real estate is also possible.

Above is an example of a potential income schedule for a retired couple. Taken from the financial planning software we use, it shows how this person has several different streams of income and how each stream is projected to grow and change over time.

Regardless of which sources you draw from, the real key to replacing your paycheck is organization and discipline. This is where working with a financial planner can come in handy. They can help you create an income schedule, ensuring you receive distributions from all your accounts exactly when you need them, in the amount you need. It's also an excellent way to ensure you aren't giving more to Uncle Sam than you have to. It's important to remember that all these sources of income have different tax implications. For example, dividend income is taxed differently than rental income, and so on. Working with a firm that focuses on tax planning can help determine how each option could impact your taxes.

5) HOW WILL I ENSURE MY HEALTHCARE EXPENSES ARE COVERED PRE- AND POST-MEDICARE ELIGIBILITY?

This is a terrific question to ask. Because make no mistake: Your medical expenses will go up after retirement. And the further into retirement you are, the higher your expenses will likely be. However, many pre-retirees fail to plan for these costs. It's a significant mistake that too many pre-retirees make. The good news is that Mayo Clinic assists their retired employees with medical coverage. Your coverage as an active employee under the Mayo Medical Plan will end on the last day of the month you retire. What happens next depends on several factors. If you are not yet old enough to qualify for Medicare, you can remain on the Mayo Medical Plan until you become eligible. You have to elect to retain medical coverage at the time of your retirement. Once you become eligible for Medicare, you can enroll in Mayo's Medicare Supplement Plan. You can buy this extra insurance from a private health insurance company that will help pay your share of out-of-pocket costs beyond what Medicare can cover. For retirees, they are almost always a good idea. If you started working at Mayo before 2002, they offer a subsidy to help offset the cost of a supplemental plan. The subsidy is an annual contribution to a Health Reimbursement Arrangement or HRA. Currently, the subsidy is $1,764 per person or $3,528 if both you and your spouse are Medicare-eligible, you can use these.

6) WHEN – AND HOW – SHOULD I APPLY FOR SOCIAL SECURITY RETIREMENT BENEFITS?

Determining what age to start receiving your benefits is important because it could spell the difference between minimizing and maximizing your benefits. The earliest you can begin collecting benefits is at age 62. However, those who start taking Social Security at this age will find their monthly payments reduced by up to 30%. That's right – you get less than three-quarters of the monthly benefit you would otherwise get if you waited until your full retirement age.

What is your full retirement age? It's the age at which a person may first become entitled to full or unreduced benefits. You can see your full retirement age on the chart here:

Social Security Full Retirement Age	
Year of Birth	**Full Retirement Age**
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and Later	67

"Full Retirement and Age 62 Benefit By Year of Birth," Social Security Administration, https://www.ssa.gov/benefits/retirement/planner/agereduction.html

Once you hit your full retirement age, you can begin taking benefits without any reduction. However, it still pays to wait if you can afford it. That's because benefit payments go up 8% every year you wait beyond reaching your full retirement age. The latest you can begin collecting benefits is age 70. At that point, there's no longer any benefit to waiting, as your benefits will no longer increase. If you haven't already, that's the time to claim your Social Security. Regarding how to take benefits, you can apply online, over the phone, or in person at your local Social Security Administration office. We typically recommend clients apply four months before they plan to start collecting benefits. That's because payments generally start in at least six weeks. Applying earlier ensures there won't be a gap. Finally, it's a good idea to factor Social Security into an overall retirement plan. Examining your cash flow, expenses, and goals can help determine whether you need to start taking benefits sooner or later.

7) WILL I BE ABLE TO RETIRE WITH CONFIDENCE AFTER I LEAVE MAYO CLINIC?

It all leads to this. This question is why everyone asks all those other questions. It's because you have dreams- dreams you've worked for and saved for, even yearned for. And now's the time for you to achieve them. Now's the time for you to enjoy them. So, if you plan carefully for the future, including addressing the questions discussed in this guide, will you be able to retire with confidence? You need to ask one final question, but only you can answer it: "What do I dream of doing in retirement?" Not everyone knows the answer to this question. Many people never take the time to dream. They never create their bucket list; never ponder their deepest, sweetest desires. It's entirely possible to spend too much time worrying about how to retire and not enough on why you're retiring or what you want to do in retirement. Retirement is about finally having the opportunity to focus on living. It's no longer about getting ahead in life but about experiencing life itself. For that reason, retirement should be fun. It should be enlightening. It should be rejuvenating. Above all, retirement should be … whatever you want it to be! Working at Mayo Clinic has given you many of the resources you need for a great retirement.

Hopefully, the answers in this guide will bring you even closer. By applying the information you've learned, you can make smarter decisions for your situation - decisions that will help you not just afford retirement…but enjoy it. After all, planning for retirement is about more than pensions and investment accounts. It's about envisioning the life you always wanted to live…and then living it!

CONCLUSION

Understanding the resources Mayo Clinic provides – and how to use those resources – is crucial to making smart retirement decisions. Having a financial advisor who is knowledgeable and experienced with Mayo Clinic will provide you with more confidence and put you on the right path to achieving your goals.

ABOUT FORTRESS:

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