Voluntary Retirement Plans

Welcome to the voluntary retirement plans information session. This presentation is provided to you by Employee Benefits in the Office of Human Resources.
Disclaimer

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Be sure to read over carefully the appropriate prospectus or custodial agreement before investing in any fund or account.
Sources of Retirement Income

- Employer Retirement Plan
  - Faculty Retirement Plan
  - Minnesota State Retirement System (MSRS)
- Social Security
  - The full retirement age for Social Security is increasing from age 65. The full retirement age is 66 for people born from 1943 to 1954 and will gradually increase to 67 for people born in 1960 or later.
- Personal savings
- Other income sources or part-time employment

Your retirement income will come from three main sources.

The first source is your employer-sponsored retirement plan. Faculty and academic professional and administrative staff participate in the Faculty Retirement Plan. Civil service and labor represented staff participate in the Minnesota State Retirement System.
To boost your personal savings, you have the opportunity to participate in two voluntary retirement plans — the Optional Retirement Plan and the Section 457 Deferred Compensation Plan.

You are eligible as long as you are paid on a continuous basis.

Each plan allow contributions up to the lesser of 100% of your reduced salary or $18,000. Your "reduced salary" is the amount after your required contribution to your basic retirement plan.

Your contributions are tax-deferred and reduce the amount of current federal and state income taxes. Your investment earnings also accumulate tax-deferred.

Contributions to a tax-deferred savings plan are deducted from your paycheck before income taxes are taken. This advantage may increase the amount of your take-home pay.
Voluntary Retirement Plans

- Start as soon as you can and contribute as much as you can within plan limits
- Take advantage of the power of compounding interest and dollar-cost averaging
- Wide range of investment options available in each plan helps diversify and reduce risk
- Money in each plan is not taxed until withdrawn
- Saver’s Credit for low- and middle-income individuals
  - Tax credit up to $1,000 on first $2,000 contributed to plan
  - Based on amount of adjusted gross income of the taxpayer and his or her spouse—the higher their income, the lower the credit

Start as soon as you can and contribute as much as you can within plan limits.

With that strategy, you will experience the power of compounding interest when you make regular contributions each pay period, referred to as dollar-cost averaging.

Each year your total contributions earn an annual rate of return with no deduction for income taxes.

Both plans offer a wide range of investment options to help diversify and reduce risk in your plan. You will not pay taxes until you withdraw money from the plan.

Low- and middle-income individuals may qualify for an additional tax credit of up to $1,000 on the first $2,000 contributed to the plan. The Saver’s Credit is based on the amount of adjusted gross income of the taxpayer and his or her spouse — the higher their income, the lower the credit.
Retirement Investment Companies

- ORP—participating investment companies:
  - Deutsche Asset & Wealth Management
  - Fidelity Investments
  - Securian Retirement Services
  - Vanguard Funds
- 457 Plan—participating investment companies:
  - Fidelity Investments
  - Securian Retirement Services
  - Vanguard Funds
- Companies waive sales charges and account maintenance fees

You have a choice of four investment companies in the Optional Retirement Plan: Deutsche Asset & Wealth Management, Fidelity, Securian, and Vanguard.

In the Section 457 Deferred Compensation plan, your choices are Fidelity, Securian, and Vanguard.

The participating investment companies waive sales charges and account maintenance fees for University of Minnesota participants.
Investment Options

• You can choose investment options ranging from conservative, interest-bearing accounts to aggressive growth mutual funds:
  • Insurance company general accounts
  • Money Market Funds
  • Bond Funds
  • Stock Funds
  • Hybrid Funds

You can choose investment options ranging from conservative, interest-bearing accounts to aggressive growth mutual funds.

Investment fund options include:

• **Insurance company general accounts**, which are available only through Securian. These accounts invest in the general assets of Minnesota Life Insurance Company.

• **Money market funds**, which represent investments in short-term, high-quality securities such as Treasury bills and certificates of deposit.

• **Bond funds**, which invest in bonds issued by governments and corporations. Bond prices fluctuate with changes in interest rates.

• **Stock funds**, which invest in the common stocks of companies and represent ownership in a company.

• **Hybrid funds**, which invest in a combination of money market accounts, bonds, and stocks.
Mutual funds give you built-in diversification, which is an important tool for reducing your exposure to risk. Remember the old saying, "don’t put all your eggs in one basket!"

Funds have distinct characteristics and may perform differently in response to market changes.

Consider investing among classes such as stocks, bonds and cash investments.

In addition, consider diversifying within asset classes, such as stocks, by investing in small and large companies and domestic and foreign companies.
Researching Funds

• Study investment company websites for important information that is disclosed in the company prospectus and annual report
  • Look for investment objectives, investment holdings, and fund expenses

• Turnover ratio
  • Look at the percentage of time the fund buys or sells its holdings – the higher the turnover, the higher the expenses

• Track record
  • Look at the long-term record of the fund; how does it compare to the benchmark?

You can study investment funds by looking at investment company websites for the fund prospectus. You can find additional fund information in the annual and semi-annual reports.

Look for the fund’s investment objective: the prospectus indicates in what type of security the fund invests, and the semi-annual and annual reports list the specific securities the fund holds.

Look at how the expenses of the fund compares to other funds. Generally, the higher the expense, the lower the return to the investor.

The turnover ratio shows how often the fund buys and sells its holdings. The higher the turnover, the higher the expenses.

Look at the fund’s track record. How has it performed in the past? Compare the fund to its peers and to an investment benchmark.
Researching Funds

• Become educated on the different investment choices and pay attention to quarterly statements
• Compare and analyze mutual funds online:
  • Morningstar: [www.morningstar.com](http://www.morningstar.com)

Make a point of becoming educated on the different investment choices and pay attention to quarterly statements.

You can find a number of websites to research funds such as Morningstar, Yahoo Finance, and MarketWatch. Each site has information on mutual funds and provides tutorials and tools to help you compare funds.
Enrolling in the Voluntary Retirement Plans

- Enrollment kits are available from Employee Benefits.
  - Call 612-624-8647 or 800-756-2363 or email benefits@umn.edu
- For ORP:
  - Complete the Salary Reduction Agreement and investment company application
- For 457 Plan:
  - Complete the Retirement Savings Agreement and investment company application
- Return completed forms to Employee Benefits
- Note: contributions can only be taken from your paycheck

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Enrolling in the Voluntary Retirement Plans

• Select either a flat dollar amount or a percentage with a maximum of 100% of reduced salary not to exceed $18,000
• If age 50 or over, you may make a “catch-up” contribution of an additional $6,000 to the Optional Retirement Plan

For each plan, you may elect to contribute a flat dollar amount or a percentage of your pay each pay period. You may contribute a maximum of 100% of your reduced salary, not to exceed $18,000.

If you are age 50 or over, you may make a catch-up contribution of an additional $6,000 to the Optional Retirement Plan for a maximum of $24,000.
Changes Permitted in Both Plans

- Increase or decrease contribution amounts to the plans during the year
- Change funds within the investment company:
  - may be done over the phone or through investment company website, subject to the company’s restrictions
- Change investment companies:
  - Must complete new agreement and account enrollment form
  - Transfer of existing funds requires an asset transfer form for the new company
- The ORP and the 457 Plan do not accept rollovers from other plans.

You may make changes to your investment accounts during the year. You would complete a new agreement form to increase or decrease your contributions. The requested change is made based on the schedule of effective dates for each plan.

Changes within an investment company can be done by a phone call to the company or online through the investment company’s website, subject to the company’s restrictions.

You can change investment companies by completing a new agreement and account enrollment form for the new company. You can even transfer money between investment companies by completing an asset transfer form.

Keep in mind that the ORP and the 457 Plan do not accept rollovers from other plans.
Optional Retirement Plan: Withdrawals

• In the ORP, other than for termination or retirement, money can be withdrawn from your funds only under the following conditions:
  • You are at least age 59½
  • You encounter a severe financial hardship
  • You are required to make payment to a former spouse, according to the provisions of a Qualified Domestic Relations Order
  • You become totally disabled
  • You die

For the most part, funds may not be withdrawn from the Optional Retirement Plan before your retirement or termination of employment.

However, money can be withdrawn from your funds under the following conditions:
• You are at least age 59½
• You encounter a severe financial hardship
• You are required to make payment to a former spouse, according to the provisions of a Qualified Domestic Relations Order
• You become totally disabled
• You die

You may withdraw money from the plan at age 59½ even if you are still employed at the University of Minnesota.
Optional Retirement Plan: Withdrawals

- Loans can be requested for up to 50% of your Optional Retirement Plan balance with Securian or Fidelity.
- Money withdrawn is subject to federal and state income tax:
  - Payments will have 20% withheld automatically for federal taxes
  - Distributions prior to age 59½ are generally subject to a 10% early distribution tax
- Rollovers are not taxed.

In the Optional Retirement Plan, you can request a loan for up to 50% of your account balance with either Securian or Fidelity.

Money withdrawn is subject to federal and state income tax. Payments will have 20% withheld automatically for federal taxes. Distributions prior to age 59½ are generally subject to a 10% early distribution tax.

Rollovers are not taxed.
Section 457 Deferred Compensation Plan: Withdrawals

- In the 457 Plan, other than for termination or retirement, payment can only be made under the following conditions:
  - The calendar year in which you attain age 70½
  - When you encounter an unforeseeable emergency — at the University’s discretion
  - You die
  - Loans are not allowed

For the most part, funds may not be withdrawn from the 457 Deferred Compensation Plan before your retirement or termination of employment.

The 457 Plan can make a payment only after the calendar year in which you attain age 70½ if you are still employed, or when you die.

Distributions may be available for unforeseeable emergencies — at the University’s discretion.

Loans are not allowed.
Section 457 Deferred Compensation Plan: Withdrawals

- In-service distributions (while employed) are available if:
  - Your balance does not exceed $5,000
  - There have been no previous in-service distributions
  - You’ve made no contributions in the previous two years
  - You elect such a distribution
- No early distribution tax

In-service distributions are available in the 457 Plan if:

- Your balance does not exceed $5,000,
- There have been no previous in-service distributions,
- You have made no contributions in the previous two years, and
- You elect such a distribution.

Distributions from the 457 Plan are not subject to an early distribution tax if you are under age 59-1/2.
Account Options When You Retire

- You may elect any of these payment options:
  - Lump-sum distribution
  - Partial distributions
  - Regular installments
  - Lifetime annuity
  - Tax-free “rollover” into an IRA or other qualified retirement plan
- You must begin distributions by April 1 of the calendar year following the year in which you turn age 70-1/2.

You have a number of options with your voluntary plan account when you retire or terminate your employment with the University of Minnesota.

You may request:

- A lump sum distribution,
- A partial distribution,
- Regular installments,
- Lifetime annuity payments, or
- Tax-free rollover to an IRA or other qualified retirement plan.

You are not required to withdraw your money immediately, but you must begin distributions by April 1 of the calendar year following the year in which you turn age 70-1/2.
Questions?

Contact Employee Benefits:

• Call 612-624-8647 or 800-756-2363
• Email to benefits@umn.edu
• Visit website at [www.umn.edu/ohr/benefits/retiresave](http://www.umn.edu/ohr/benefits/retiresave)
  • Links to the investment companies’ websites
  • Learn more about the companies and investment opportunities

For more information, contact Employee Benefits or visit the website, which includes links to the investment companies’ websites. The investment company websites include fund information and various planning tools.