Withdrawal Options & Required Minimum Distributions (RMDs)

Presented by Securian
In cooperation with
The U of M Employee Benefits Department

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Agenda

1. Keep Your Savings Working

2. Your Withdrawal Options

3. Understanding Required Minimum Distributions (RMDs)
Ways to keep your retirement savings working for you

• Stay put – keep your retirement savings in the U of M Plan
  – begin withdrawing funds only as desired/required

• Consolidate your retirement assets
  – Roll retirement assets into your U of M 401(a) plan
  – Roll your U of M assets out to another retirement plan/IRA
Overview of Your Withdrawal Options

May choose one or a combination of methods

Systematic Cash Withdrawals:

- **Dollar Amount**: a specified dollar amount of your choosing
- **Interest Only**: maintain your principal and receive only the interest earned on your General Account and/or General Account Limited options (Securian)
- **RMD Only**: your retirement plan provider calculates your IRS-required withdrawal each year and sends it to you based on the frequency you choose
Overview of Your Withdrawal Options (cont.)

Cash Withdrawals:
- You choose the amount and when you want the withdrawal to occur
- Paid to you (next day) upon request
- Direct deposit or check

Annuitize:
Annuitize all or a portion of your account balance – converts your retirement savings into regular monthly payments to you
Cash Withdrawals

• Receive payment; spend as you like
• Withdraw all or a portion of your account balance
• Pay income taxes on amount withdrawn
• IRS mandatory 20% is withheld immediately (for non-RMD amounts)
• Lose tax-deferred status of the money withdrawn (if not rolled over)

This communication is a general discussion of the relevant federal tax laws. It was not intended for nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax issues applicable to their specific fact pattern.
Cash Withdrawals – Early Distribution Tax

• Early distributions made prior to 59 ½ may be subject to an IRS penalty equal to 10% of the taxable portion of the distribution – in addition to applicable income taxes

• Common exceptions to the early distribution tax:
  • due to death or disability
  • from the 457 Deferred Compensation plan
  • to an employee who terminated during or after the calendar year in which he/she turned age 55
  • under a QDRO (i.e., Divorce)
  • as a direct rollover

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### Annuity or Systematic Withdrawal?

<table>
<thead>
<tr>
<th></th>
<th>Annuity</th>
<th>Systematic Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible?</td>
<td>No – irrevocable</td>
<td>Yes – can start, stop, or change</td>
</tr>
<tr>
<td>Guaranteed income for life?</td>
<td>Yes * – but amount will vary if variable annuity</td>
<td>No – risk outliving savings</td>
</tr>
<tr>
<td>Pass to heirs?</td>
<td>Maybe – depends on method selected</td>
<td>Yes – all remaining assets</td>
</tr>
</tbody>
</table>

* Guarantees based solely on the financial strength and claims-paying ability of the insurance company offering the annuity.
### Annuity or Systematic Withdrawal? (cont.)

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<th>Annuity</th>
<th>Systematic Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatically satisfies IRS required withdrawals?</td>
<td>Yes – generally</td>
<td>Yes – if you choose RMD Systematic Withdrawal service</td>
</tr>
<tr>
<td>Ability to change beneficiary?</td>
<td>Limited – depending on annuity selected</td>
<td>Yes</td>
</tr>
<tr>
<td>Maintenance-free?</td>
<td>Yes – if you select a fixed annuity</td>
<td>Limited – depending on plan provider service options</td>
</tr>
<tr>
<td>Distributions received taxed as ordinary income?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
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Annuity or Systematic Withdrawal? (cont.)

Contact Securian for more information:

1. Discuss your unique situation

2. Review benefits of each option

3. Estimate monthly payment amounts (annuity vs. systematic withdrawal)
Overview of Required Minimum Distributions (RMDs)
Required Minimum Distributions (RMDs)

What is an RMD?

• Annual IRS-required withdrawal from tax-deferred retirement plan accounts (distributed no later than December 31)
Required Minimum Distributions (RMDs)

When do RMDs start?

• Required Begin Date (RBD): Beginning April 1 of the year after you reach age 70 ½ (or leave the University, whichever is later)

What if I don’t take my RMD?

• Failure to satisfy these rules may result in a tax equal to 50% of the amount that should have been distributed
Required Minimum Distributions (RMDs)

How Securian Helps You

1. Securian automatically calculates your annual RMD amount
2. Notification mailing sent the fall before you turn 70 ½
   - Option on form to set up RMD Only withdrawal service to have Securian calculate annual RMD amount and automatically send to you each year (worry-free) in a frequency you elect (e.g. monthly, annually).
3. Annual reminder letter (if RMD not satisfied by Nov 30)
4. Questions? Call Securian (1-800-421-3334) for assistance
Required Minimum Distributions (RMDs)

How is my RMD calculated?

- Calculated by dividing your prior year’s December 31 account balance by your life expectancy.

- Typically, your life expectancy is determined by the IRS Lifetime Uniform Distribution Table A.

- Exception: If sole beneficiary is a spouse more than 10 years younger, a special table producing even smaller payments is used to calculate RMD.
## Required Minimum Distributions (RMDs)

### Sample of IRS Lifetime Uniform Distribution Table A

<table>
<thead>
<tr>
<th>Age</th>
<th>Life Expectancy Factor</th>
<th>% of Total Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>27.4</td>
<td>3.65%</td>
</tr>
<tr>
<td>72</td>
<td>25.6</td>
<td>3.91%</td>
</tr>
<tr>
<td>74</td>
<td>23.8</td>
<td>4.20%</td>
</tr>
<tr>
<td>76</td>
<td>22.0</td>
<td>4.55%</td>
</tr>
<tr>
<td>78</td>
<td>20.3</td>
<td>4.93%</td>
</tr>
<tr>
<td>80</td>
<td>18.7</td>
<td>5.35%</td>
</tr>
</tbody>
</table>
Required Minimum Distributions (RMDs)

RMD Calculation Example:

Chris (U of M retiree) turns age 70 ½ in 2017.

Balance as of 12/31/2016: $100,000
Life Expectancy Factor: 27.4 years

2017 RMD: $100,000 \div 27.4 = $3,649.64
More About Required Minimum Distributions (RMDs)
RMD: Points of Clarification

If you are over 70 ½ and …

• … still working at the U of M, you do **NOT** need to take RMDs (this does not apply to other retirement plans or IRAs). This exception only applies to plans of your current employer.

• … employed elsewhere (not at U of M) you **must** satisfy the RMD for your U of M retirement plans.

**Exception:** Can grandfather out the pre-1987 balance until age 75.
RMD: Points of Clarification

- You **cannot** satisfy minimum distributions from your U of M plans – Optional 403(b), Faculty 403(b), 457 Deferred Comp, or Faculty 401(a) – by increasing distributions from an IRA.

- Distributions must be made **separately** from the 403(b), 457, and 401(a) (although 403(b)s can be combined with other 403(b)s).

- Amounts required to be distributed **cannot** be rolled into another tax-deferred retirement account, i.e., IRA, 403(b), 401(k), etc.
RMD: Points of Clarification

• U of M retirement plans and IRAs offer similar distribution options. Rolling over to an IRA often does NOT change RMD payments or timing of payments for non-spouse beneficiaries. The RMD payments may be somewhat different with spouse beneficiary (our team can explain these further if a concern and also design ways to mitigate impact if goal is to keep in the U of M plan).

• Non-spouse beneficiary rollover option does not extend RMD payments.
Your Beneficiaries & RMDs

1. Securian will contact beneficiaries once notified of a death

2. Securian will educate beneficiaries on available options and assist with the claim

3. Decision by beneficiary must be made by 9/30 of the year following year of death

4. Securian will calculate and monitor RMDs for beneficiary’s new account
Your Beneficiaries & RMDs

Spouse Beneficiary

Prior to RBD: Beginning the year the employee would have turned 70 ½, use spouse’s life expectancy to calculate RMDs

Post RBD: Beginning the year following the year of death, use the spouse’s life expectancy (or employee if younger) to calculate RMDs
Your Beneficiaries & RMDs

Non-Spouse Human Beneficiary

Prior to RBD: Either use the beneficiary’s life expectancy in the year following the year of death and subtract one year for each following year, or entire amount must be distributed by end of 5th year following year of death.

Post RBD: Use the beneficiary’s life expectancy (or employee if younger) in the year following the year of death and subtract one year for each following year.

Note: rolling over to an inherited IRA will NOT change (or “stretch”) RMD payment timing or amount.
Your Beneficiaries & RMDs

Non-Spouse Human Beneficiary

“Subtract One Year” RMD Calculation Example:
- Chris (retired) is 88 years old with life expectancy of 12.7 years; he must withdraw 7.87% of prior year’s account balance
- Chris dies in 2016
- Beneficiary is nephew who is 32 years old in 2016

In 2017: nephew is 33; thus, life expectancy is 50.4 years = 1.98%
In 2018: nephew is 34; thus, life expectancy is 49.4 \( (50.4 - 1) = 2.02\%
…and so on
Your Beneficiaries & RMDs

Non-Human Beneficiary

Example: Estate, Charity, “Non-Qualified” Trust, etc.

Prior to RBD: The account must be depleted by December 31 of the 5th year following death.

Post RBD: RMD payments may continue based on the participant’s remaining life expectancy, reduced by one year for each year elapsed.
Questions?

Stay to discuss one-on-one

or

Call 1-800-421-3334