Voluntary Retirement Plans

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June 21, 2017
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
Voluntary Retirement Plans

Two plans: Optional Retirement Plan (ORP) and Section 457 Deferred Compensation Plan

- Each plan allows you to contribute up to the lesser of 100% of your reduced salary or $18,000 each year
  - “Reduced salary” is the amount after your required contribution to your basic retirement plan
- Contributions are tax-deferred and reduce current taxes
- Investment earnings also accumulate tax-deferred
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• Money in each plan is not taxed until withdrawn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
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
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
Researching Funds

• Mutual funds give you built-in diversification
  • Diversification is an important tool for reducing your exposure to risk
  • “Don’t put all your eggs in one basket”
• Funds or asset classes have distinct characteristics and different responses to market changes
• Consider investing among asset classes (i.e., stocks, bonds, cash)
• Consider diversifying within asset classes (e.g., small-cap, large-cap, international growth, value)
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?
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
  • Yahoo Finance: http://finance.yahoo.com/
  • MarketWatch: http://www.marketwatch.com/
Enrolling in the Voluntary Retirement Plans

- Enrollment kits are available from Total Compensation.
  - 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
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
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.
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
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, annuities and regular installments over 10 or more years 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
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
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 ½.
Questions?

Contact Employee Benefits:
• Call 612-624-8647 or 800-756-2363
• Email to benefits@umn.edu
• Visit website at
  • Links to the investment companies’ websites
  • Learn more about the companies and investment opportunities