Voluntary Retirement Plans

OFFICE OF THE SENIOR VICE PRESIDENT

World Class Services for a World Class University
Employee Benefits

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What We’ll Talk About Today

- Your retirement income sources
- Overview of Voluntary Retirement Plans
- How to enroll in the plans
- Withdrawals and requirements
- For more information
- Questions & answers
Your Retirement Income Sources

• University of Minnesota Plans
  – Primary Retirement Plans (employer retirement plan for benefits-eligible employees)
    • Faculty Retirement Plan & Minnesota State Retirement System (MSRS)
  – Voluntary Retirement Plans—open to all employees
    • Optional Retirement Plan & 457 Plan

• Social Security
  – Age to receive full benefits is increasing
    • 66 for people born from 1943 to 1954
    • Will gradually increase to 67 for people born in 1960 or later.

• Other Income
  – Personal savings and investments
  – Other income sources, part-time employment, etc.
Overview of Voluntary Retirement Plans

• Two plans are available:
  – Optional Retirement Plan (ORP)
  – Section 457 Deferred Compensation Plan (457 Plan)

• Many common benefits and features:
  – Contribute up to the lesser of 100% of your reduced salary* or $18,500 each year
  – Contributions are tax-deferred and reduce current taxes
  – Investment earnings also accumulate tax-deferred
  – Only employee money is invested through payroll deduction

“Reduced salary” is the amount after your required contribution to your basic retirement plan
Overview of Voluntary Retirement Plans

• Start as soon as you can & 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• Money in each plan is not taxed until it’s withdrawn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
  – More information available from the IRS (www.irs.gov)
Investment Options

- Participating investment companies by plan:
  - ORP
    - Deutsche Asset & Wealth Management (administered by ADP)
    - Fidelity Investments
    - Securian Retirement Services
    - Vanguard Funds
  - 457 Plan
    - Fidelity Investments
    - Securian Retirement Services
    - Vanguard Funds
- Companies waive sales charges and account maintenance fees
You can choose investment options ranging from conservative, interest-bearing accounts to aggressive growth mutual funds:

- Insurance company general accounts
- Money market funds
- Bond or fixed income funds
- Stock or equity funds
- Hybrid or balanced funds
Investment Options

• Mutual funds give you built-in diversification
  – Diversification is an important tool for reducing your exposure to risk
  – “Don’t put all of 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)
Investment Options

• Research funds to learn more
  – 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:
    • Percentage of time the fund buys or sells its holdings
    • The higher the turnover, the higher the expenses
  – Fund track record
    • Look at the long-term record of the fund and how it compares to the benchmark
Investment Options

• Become educated on the different investment choices and pay attention to quarterly statements

• Compare and analyze mutual funds online:
  – Morningstar: morningstar.com
  – Yahoo Finance: finance.yahoo.com
  – MarketWatch: marketwatch.com
Investment Options

• Learn more about the investment options and requirements of each plan online
  – ORP: z.umn.edu/OptRetPlan
  – 457 Plan: z.umn.edu/457Plan

• Online resources include investment company information and the specific investment options within each plan plus the fund results for both plans
How to Enroll in the Plans

• Review the plan information online
• Enroll by printing out and completing the UM form and the investment company form (paper only)
  – ORP: Complete the Salary Reduction Agreement & investment company application(s)
  – 457 Plan: Complete the Retirement Savings Agreement & investment company application(s)
• Review the schedule of effective dates for the plan to see when your investment will be credited

Note: contributions can only be taken from your paycheck
How to Enroll in the Plans

• Select either a flat dollar amount or a percentage of your salary
• The maximum you can invest is of 100% of reduced salary not to exceed $18,500 in 2018
• If you are age 50 or over, you may make a “catch-up” contribution of an additional $6,000 to the ORP
How to Enroll in the Plans

• You can enroll at any time
• You can participate in both the ORP and the 457 Plan
  – The maximum is then 100% of reduced salary or $37,000 for 2018 ($18,500 maximum for each plan)
  – If you are age 50 or over, you may make a “catch-up” contribution of $6,000 to the ORP
How to Enroll in the Plans

• You can make changes to your contributions
  – Increase or decrease your contribution amounts to the plans anytime
  – Change funds within the investment company via phone or the 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.
Withdrawals and Requirements

• Optional Retirement Plan
  – Other than for termination or retirement, money can be withdrawn from your funds only under the following conditions:
    • You are at least age $59\frac{1}{2}$
    • 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
Withdrawals and Requirements

• Optional Retirement Plan
  – 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 59\(\frac{1}{2}\) are generally subject to a 10% early distribution tax
  – Rollovers, annuities and regular installments over 10 or more years are not taxed.
Withdrawals and Requirements

• 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
Withdrawals and Requirements

• 457 Plan
  – 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
Withdrawals and Requirements

• Voluntary Retirement Plans at retirement
  – You may elect any of these payment options from both plans:
    • 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 70½.
For More Information

- Benefits Contact Center
  - Call 612-624-8647 or 800-756-2363
  - Email benefits@umn.edu

- Online Resources
  - z.umn.edu/retirement

- Retirement education events z.umn.edu/BenEvents
Questions and Answers