

Retirement and Deferred Compensation

NEW EMPLOYEE ORIENTATION
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The Dictionary Definition

retirement
ri-'tī-r(ə)r-mənt
noun -
withdrawal from
one's position or
occupation or from
active working life.



What the Dictionary Doesn't Tell You

Retirement is a fundamental change in your way of life and requires significant adjustments.

- > It can be voluntary or involuntary
- > It changes your daily routine
- > It can alter your social network
- > It changes your family dynamics
- > It's not a onetime event or date, but a decades-long process
- > It evolves over time

Retirement planning doesn't end with retirement!

Retirement

- ▶ Many experts recommend replacing 70% to 80% of your working income to maintain a similar lifestyle in retirement.
- ▶ Additional sources of retirement income can be:
 - ✓ Social Security
 - ✓ Personal savings and investments



Social Security Provides Only A Fraction of Retirement Income



Average Annual Pay % of Annual Pay Replaced by Social Security

| | |
|-------------|-----|
| ◦ \$20,000 | 55% |
| ◦ \$40,000 | 43% |
| ◦ \$60,000 | 36% |
| ◦ \$80,000 | 31% |
| ◦ \$100,000 | 27% |

Source: Social Security Administration (www.ssa.gov), April 2006. This assumption is based on current age of 35, retiring at age 67. This example assumes no future increases in prices or earnings.

Pension Plans

Two Plans:

1. **State Plan:** TCRS (Tennessee Consolidated Retirement System)
Exempt and non-exempt employees eligible
Defined Benefit Plan
2. **Optional Plan:** AIG, ING, TIAA-CREF
Exempt faculty and staff are eligible
Defined Contribution Plan

Tennessee Consolidated Retirement System (TCRS)

Defined Benefit Plan

- Pension determined by formula using:
 - Age at retirement,
 - Years of credible service,
 - Average of 5 highest consecutive years salary
- Lifetime benefit
- Five year vesting period

▶ **Income Replacement**

TCRS estimates:
 1.5% of salary for each year of service
 30% income replaced for 20 years service
 45% income replaced for 30 years service

Tennessee Consolidated Retirement System (TCRS)

Exempt employees wishing to participate:

Optional Retirement Plan (ORP)

Defined Contribution Plan

- Pension determined by total accumulations and how long the \$\$ must last

Employee has ownership and control over investments
 Choice of three companies
 No vesting period

<http://treasury.tn.gov/orp/>

Optional Retirement Plan (ORP)

Exempt/Salary employees wishing to participate:

QUESTIONS

Deferred Compensation

Dih-furd Kom-puhn-sey-shuhn-

Current compensation (wages or salary) deferred (postponed or delayed until a certain time or event: retirement) until a later time usually for the purpose of investment.

How Much Should I Save?

- ▶ If your estimated annual retirement income doesn't total 75 to 85% of your current salary, you'll want to build up savings to make up the difference.

For example, if pension benefits will replace 40% of your salary and you expect social security benefits to replace 25% of your salary, you should try to save enough to replace about 10 to 15% of your salary.

Plans Available

- ▶ **401(k) Traditional** – Matching \$50
Pre-tax contributions- Taxes paid at the time of withdrawal.
- ▶ **401(k) ROTH** – Matching \$50 (into 401(k) Traditional)
Post-tax contributions- No Taxes are paid at the time of withdrawal.
- ▶ **403(b)**
Pre-tax contributions- Taxes paid at the time of withdrawal.
- ▶ **457**
Pre-tax contributions- Taxes paid at the time of withdrawal.

401(k)

- ▶ **Traditional**
Pre-tax contribution
Pay taxes upon Withdrawal
- ▶ **Roth**
Post-tax contribution
Tax-free growth

Both plans are through Great West Retirement and have the same investment options.

Participate in one or both...No matter which plan you choose, the university's contribution will go into the Traditional 401K.

403(b)

Company (or companies) you can choose:



457

- ▶ Same form & investment options as 401(k) plans
- ▶ Added flexibility for two Catch-Up options
 - Standard Catch-Up – allows participants in the three calendar years prior to normal retirement age to contribute more based upon amounts not contributed in previous years
 - Age 50+ Catch-Up – Contribute an additional \$5,500.

What are the contribution limits ?

- ▶ 401(k) & the 403(b) combined:
 - Under age 50 – \$16,500. per year
 - Over age 50 – \$22,000. per year
- ▶ 457 has a separate limit of:
 - Under age 50 – \$16,500. per year
 - Over age 50 – \$22,000. per year
 Additional \$\$ can be deferred with the 457 Catch-Up option.

Q & A

▶ When can I join a deferred compensation plan?

You can join at any time. Enrollment forms received by the 1st of each month will have the first contribution deducted with that month's paycheck paid at the end of that month.

▶ When am I vested in the 457 and 401(k) plans?

Your contributions to the Program and any earnings they generate are always 100% vested (including rollovers from previous employers).

Q & A

▶ Can I change or stop my contributions?

Yes, you can change or stop or restart your deduction any time. Salary Reduction Agreements received by the 10th of the month will change your deduction on that month's paycheck.

▶ May I take a loan from my account?

Your 401(k) plan allows you to borrow the lesser of \$50,000 or 50% of your total account balance. The minimum loan amount is \$2,000, and you have up to five years to repay your loan—up to 15 years if the money is used to purchase your primary residence. There is also a \$50 origination fee for each loan, plus a monthly fee of \$2. Your 457 plan does not allow loans.

For more information about loans, please contact your Great-West representative.

Q & A

▶ May I roll over my account from my former employer's plan?

Yes, but only approved balances from an eligible governmental 457 (b), 401(k), 403(b) or 401(a) plan or an Individual Retirement Account (IRA) may be rolled over to the 457 or 401(k) plan,

▶ May I leave my accounts with the State of Tennessee or roll them over if I leave my current employment?

Yes. You are not required to transfer your account when you leave the university.

QUESTIONS

