



# Getting Started

An introduction to deferred compensation



---

---

---

---

---

---

---

---

---

---

## Introduction

There is a large array of voluntary retirement savings plans available to investors today.

As a public sector employee, you have the option to save through your employer's 457/401a plans.



---

---

---

---

---

---

---

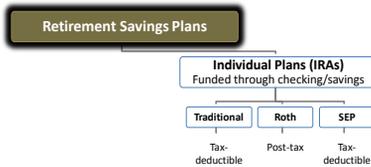
---

---

---

## Introduction

The tax treatment of contributions, earnings, and distributions of all retirement savings plans are regulated by the IRS.



---

---

---

---

---

---

---

---

---

---

## Introduction

The tax treatment of contributions, earnings, and distributions of all retirement savings plans are regulated by the IRS.



---

---

---

---

---

---

---

---

---

---

## Introduction

The tax treatment of contributions, earnings, and distributions of all retirement savings plans are regulated by the IRS.



---

---

---

---

---

---

---

---

---

---

Supplemental retirement savings plans such as your employer's 457/401a provide employees:

- Automatic savings through payroll deduction



---

---

---

---

---

---

---

---

---

---

Supplemental retirement savings plans such as your employer's 457/401a provide employees:

- Automatic savings through payroll deduction
- Tax advantages
  - Pre & post-tax deductions
  - Tax-deferred/free earnings
  - Tax credit (must qualify)



---

---

---

---

---

---

---

---

Supplemental retirement savings plans such as your employer's 457/401a provide employees:

- Automatic savings through payroll deduction
- Tax advantages
  - Pre & post-tax deductions
  - Tax-deferred/free earnings
  - Tax credit (must qualify)
- Income at retirement



---

---

---

---

---

---

---

---

Supplemental retirement savings plans such as your employer's 457/401a provide employees:

- Automatic savings through payroll deduction
- Tax advantages
  - Pre & post-tax deductions
  - Tax-deferred/free earnings
  - Tax credit (must qualify)
- Income at retirement
- Competitive investments to take you to and through retirement at little to no cost



---

---

---

---

---

---

---

---

**Think about this...**

Supplemental retirement savings plans are



*One part of your future you CAN control!*



---

---

---

---

---

---

---

---

**Future uncertainties you CAN'T control:**

- Social Security income replacement
- Pension income replacement
- Healthcare costs
- Inflation
- Taxes
- Health
- Employment
- Death



---

---

---

---

---

---

---

---

You CAN control *how you prepare* to handle these things.



---

---

---

---

---

---

---

---

You CAN control *how you prepare* to handle these things.

Retirement income planning can seem overwhelming but *saving* for retirement doesn't have to be.



---

---

---

---

---

---

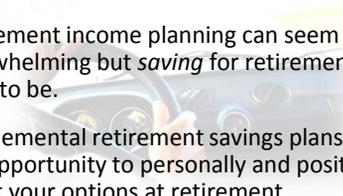
---

---

You CAN control *how you prepare* to handle these things.

Retirement income planning can seem overwhelming but *saving* for retirement doesn't have to be.

Supplemental retirement savings plans give you the opportunity to personally and positively affect your options at retirement.



---

---

---

---

---

---

---

---

RIC is a critical part of your retirement income . There are 3 main sources of income in retirement.



---

---

---

---

---

---

---

---

Full social security benefits may account for 40% of income replacement.



---

---

---

---

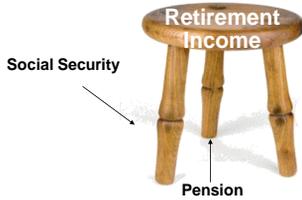
---

---

---

---

Pension benefits may account for 60% of income replacement.



---

---

---

---

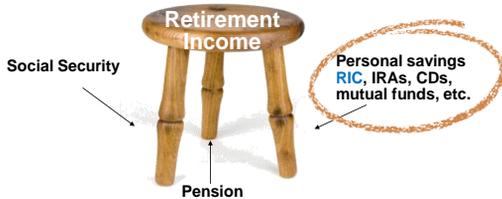
---

---

---

---

Personal savings provides a safety net to make up for income short-falls.



---

---

---

---

---

---

---

---

Now that you see the basic purpose and function of your retirement savings plan, it's time to take control!



---

---

---

---

---

---

---

---

RIC participants enjoy control over

- Contributions/Roll-ins
- Investment mix
- Enrollment/Changes
- Distributions



---

---

---

---

---

---

---

---

RIC participants enjoy control over

- Contributions/Roll-ins
- Investment mix
- Enrollment/Changes
- Distributions



---

---

---

---

---

---

---

---

## Contributions



As a participant in the RIC 457/401a program, you choose to have a portion of your wages automatically deducted from your paycheck to save for future income needs.

The minimum amount to participate is \$25/month.

457 contributions do not reduce Social Security & IPERS benefits.




---

---

---

---

---

---

---

---

---

---

## Contributions



Deductions are deposited into your selection of RIC investments in a 457 account.

Deductions may be taken from:

- All paychecks (26),
- 1<sup>st</sup> & 2<sup>nd</sup> paychecks (24),
- 1 paycheck/month (12)

Deductions may be changed or stopped at anytime.




---

---

---

---

---

---

---

---

---

---

## Contributions (limits)



The total of all contributions made to the 457 account in a tax year must not exceed the IRS annual maximum limits.

IRS Annual Maximum Contribution Limits		2012
<b>Regular</b>	100% of compensation up to:	<b>\$17,000</b>
<b>Age 50+</b>	The regular limit + \$5,500:	<b>\$22,500</b>




---

---

---

---

---

---

---

---

---

---

## Contributions (limits)



The total of all contributions made to the 457 account in a tax year must not exceed the IRS annual maximum limits.

Retirees may choose to defer unused vacation pay from their final paycheck.

IRS Annual Maximum Contribution Limits		2012
<b>Regular</b>	100% of compensation up to:	<b>\$17,000</b>
<b>Age 50+</b>	The regular limit + \$5,500:	<b>\$22,500</b>
<b>3-Year Catch-up</b>	Up to twice the regular limit	<b>\$34,000</b>

---

---

---

---

---

---

---

---

---

---

## Contributions (limits)



### 3-Year Catch-Up qualifications:

- You have missed allowable contributions in the past.
- You are 4 years from normal retirement.

The benefit is for 3 consecutive years and cannot be used again.

IRS Annual Maximum Contribution Limits		2012
<b>Regular</b>	100% of compensation up to:	<b>\$17,000</b>
<b>Age 50+</b>	The regular limit + \$5,500:	<b>\$22,500</b>
<b>3-Year Catch-up</b>	Up to twice the regular limit	<b>\$34,000</b>

\*IPERS - Rule of 88, Rule of 62/20 or age 65; POR- Age 55 & 22 years of service)

---

---

---

---

---

---

---

---

---

---

## Contributions (employer match)



**Employer match & eligible roll-ins**  
A match of up to \$75/mo is deposited to the 401a account.

Your employer matches 100% of the first \$75 you invest in your 457 account monthly.

(SPOC=50% of first \$150)

The match applies to any contribution to the 457 (pretax or post-tax).

---

---

---

---

---

---

---

---

---

---

### Contributions (employer match)

**Employer match & employer 401(k) plan**

A match of up to 50% of the first \$500/mo is deposited into the 401a account.

The employer contributes 100% of the first \$75 you invest in the 401a account monthly. (SPOC=50% of first \$150)

The match applies to any contribution to the 457 (pretax or post-tax).

---

---

---

---

---

---

---

---

---

---

---

---

### Contributions (types)

Tax advantages differ depending on the taxation of deductions.

You have the choice to have your payroll deductions taken on a pretax and/or post-tax Roth basis.




---

---

---

---

---

---

---

---

---

---

---

---

### Contributions (pretax)

Tax advantages differ depending on the taxation of deductions.

**Pretax 457 contributions** are deducted *before* state/federal tax withholding. You receive the immediate tax benefit of lower taxable income for the year.

Pretax contributions grow **tax-deferred** until you take payment. (Your tax rate may be lower in retirement).

**Example**

2012 wages:	\$38,000
RIC pretax contributions:	\$3,000
Taxable income of:	\$35,000

457 contributions do not reduce Social Security & IPERS benefits.




---

---

---

---

---

---

---

---

---

---

---

---

## Contributions (Roth)

Tax advantages differ depending on the taxation of deductions.



Post-tax Roth 457 contributions are deducted *after* state and federal income tax withholding. There is no immediate tax benefit.

Roth contributions grow tax-free for qualified distributions. (Your tax rate may be higher in retirement.)

**Example**

2012 wages:	\$38,000
RIC post-tax contributions:	\$3,000
Taxable income of:	\$38,000

---

---

---

---

---

---

---

---

---

---

## Contributions (Roth)

Roth 457 vs. Roth IRA



How does the Roth 457 differ from a Roth IRA?

**The Roth 457**

- Funded by payroll deductions
- No income limit requirements
- Higher contribution limits
- Requires IRS RMD begin at age 70 ½ for terminated employees

---

---

---

---

---

---

---

---

---

---

## Contributions (tax benefits)

Paycheck example - pretax vs. post-tax Roth deductions



	Saving pretax
Gross income	\$ 1,730
RIC contribution (pretax)	\$ -\$100
Taxable income	\$ 1,630
Federal tax*	\$ -245
State Income tax*	\$ -82
FICA	\$ -132
Income after taxes	\$ 1,171
RIC Roth contribution (after-tax)	\$ 0
<b>Take-home pay</b>	<b>\$ 1,171</b>

\*Assumes tax rate of 15% federal & 5% state

---

---

---

---

---

---

---

---

---

---



### Roll-ins

A rollover is a nontaxable transfer of your money from one retirement account to another. Outside retirement plan assets may be rolled into RIC at any time.

457 assets from previous government employer plans may be rolled into your RIC 457 at anytime.



---

---

---

---

---

---

---

---



### Roll-ins

A rollover is a nontaxable transfer of your money from one retirement account to another. Outside retirement plan assets may be rolled into RIC at any time.

457 assets from previous government employer plans may be rolled into your RIC 457 at anytime.



Traditional IRA, 401k, 403b, etc. assets may be rolled into your RIC 401a account at anytime.

---

---

---

---

---

---

---

---



### Roll-ins

A rollover is a nontaxable transfer of your money from one retirement account to another. Outside retirement plan assets may be rolled into RIC at any time.

457 assets from previous government employer plans may be rolled into your RIC 457 at anytime.



Traditional IRA, 401k, 403b, etc. assets may be rolled into your RIC 401a account at anytime.

Consider RIC benefits of penalty-free competitive fixed rate accounts, no-load/low-cost mutual funds, expert advisors, etc. Assets rolled into RIC may be rolled out at anytime without restriction.

---

---

---

---

---

---

---

---



## RIC participants enjoy control over

- Contributions/Roll-ins
- Investment mix
- Enrollment/Changes
- Distributions




---

---

---

---

---

---

---

---

## Please note:

- Provider representatives are your best source of information about the investments being offered.
- The State of Iowa does not give investment advice .
- Examples used in this presentation are for illustrative purposes only.
- All investments involve some degree of risk; ask your providers what risk is associated with the investments in your portfolio.

---

---

---

---

---

---

---

---

## Investments

### RIC investments

RIC conducts a public competitive bid\* on behalf of participants to determine which providers will offer investment products and services.

RIC providers must meet minimum standards:

- Well-diversified, competitive fund line-up
- Restriction-free and penalty-free investments
- Flexible distribution options
- 24/7 internet and phone account access
- Investment planning tools
- And more
- Low costs



\*Performed at least every 6 years

---

---

---

---

---

---

---

---

## Investments

Successful bidders are referred to as RIC providers. Each RIC provider offers 25+ diversified investments. Investment advisors are available to explain the options at no additional cost!



All funds must meet investment policy standards and undergo annual reviews.



---

---

---

---

---

---

---

---

---

---

## Investments (fund types)

Providers offer fixed rate and variable rate funds.



---

---

---

---

---

---

---

---

---

---

## Investments (fund types)

Providers offer fixed rate and variable rate funds.

Fixed rate accounts are composed of a variety of debt investments that earn an average rate (say 5.50%).

Provider expenses are paid and you receive a declared portion of that rate (say 3%) for fixed period of time. Your principal amount does not fluctuate. Rates are guaranteed by the provider. There are no fees.



---

---

---

---

---

---

---

---

---

---

## Investments (fund types)

Providers offer fixed rate and variable rate funds.

 Fixed rate accounts are composed of a variety of debt investments that earn an average rate (say 5.50%). Provider expenses are paid and you receive a declared portion of that rate (say 3%) for fixed period of time. Your principal amount does not fluctuate. Rates are guaranteed by the provider. There are no fees.

 Variable rate "mutual" funds are professionally managed pools of investments. Values fluctuate with the performance of the investments held in the funds. Principal and earnings are not guaranteed. Fund management fees apply.




---

---

---

---

---

---

---

---

---

---

## Investments (categories)

Providers offer investments in all these categories to help investors diversify to spread risk and maximize return-choose one or many.

### Bond (Income)

- Fixed Rate
- Money Market
- Inter-Term High-Quality Core Bond
- High Yield Bond
- TIPS (Treasury Inflation-Protected Securities)
- Global Bond

### Stock (Growth)

- Large Cap Stock Index
- Large Cap Value Stock
- Large Cap Growth Stock
- Mid-Cap Stock Index
- Mid-Cap Value Stock
- Mid-Cap Growth Stock
- Small Cap Stock Index
- Small Cap Value Stock
- Small Cap Growth Stock
- Total US Stock Mkt Index

### International

- Intern'l Developed Mkts
- Intern'l Emerging Mkts
- World

### Alternative

- Real Estate
- Socially Responsible
- Self-Directed Brokerage Accounts (SDBA)

### Stock/Bond (Balanced)

- Traditional Balanced
- Lifecycle (target date)




---

---

---

---

---

---

---

---

---

---

## Investments (managers)

Variable rate investments are professionally managed by top-performing investment managers such as:



Total fees for variable rate funds range from .06% - 1.83%. Fixed rate accounts have no fees.




---

---

---

---

---

---

---

---

---

---

## Investments

All funds are listed for you on the RIC At-A-Glance available on the RIC website.



---

---

---

---

---

---

---

---

---

---

## Investments (online resources)

Access to provider websites, quarterly fund performance, advisor listings, fixed rates, etc. are easily accessed from the [RIC website](#).



---

---

---

---

---

---

---

---

---

---

## Investments (investor styles)

### How do I invest?

Everyone is different. Your investment mix and potential for earnings largely depends on your:

- Risk tolerance
- Retirement goals
- Timeframe for investment



Provider representatives can help you determine what type of investor you are.

---

---

---

---

---

---

---

---

---

---

### Investments (investor styles)

#### How do I invest?

Your risk tolerance and savings goals will likely change over time and so can your investment mix (no restrictions or fees). Ask your advisor to help you.



Growth portfolio




---

---

---

---

---

---

---

---

### Investments (investor styles)

#### How do I invest?

Your risk tolerance and savings goals will likely change over time and so can your investment mix (no restrictions or fees). Ask your advisor to help you.



Growth portfolio

Income portfolio




---

---

---

---

---

---

---

---

### Investments (investor styles)

- Concerned with preserving original value
- Unable to tolerate more than minimum risk
- May have a short time until retirement
- No ability to weather short-term market setbacks




---

---

---

---

---

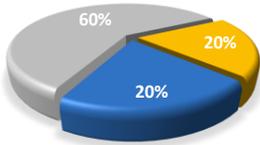
---

---

---

### Investments (investor styles)

Portfolio example



- Fixed Rate
- Fixed Income (short-term)
- Balanced Funds

Conservative investor



---

---

---

---

---

---

---

---

### Investments (investor styles)

- Concerned with steady investment growth
- Able to tolerate moderate amount of risk
- Retirement time horizon of 10-15 years
- Some ability to weather short-term market setbacks

Moderate investor



---

---

---

---

---

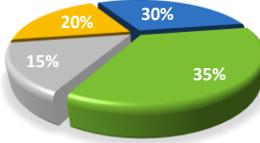
---

---

---

### Investments (investor styles)

Portfolio example



- Fixed Rate
- Fixed Income (intermediate-term)
- Balanced Funds
- Large Co Stock Funds

Moderate investor



---

---

---

---

---

---

---

---

### Investments (investor styles)

- Concerned with maximum growth
- Able to tolerate a substantial amount of risk
- May have longer retirement time horizon
- Ability to weather short-term market setbacks




---

---

---

---

---

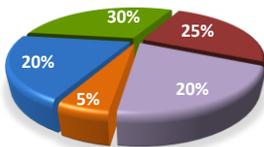
---

---

---

### Investments (investor styles)

Portfolio example



- Balanced Funds
- Stock Blend Funds
- Mid-Small Company Stock Funds
- International Funds
- Sector Funds




---

---

---

---

---

---

---

---

### Investments (risk)

Be aware of the risks associated with all investments. Ask your provider to explain them.

Mid-small co stock funds, international and sector funds

Lg co stock, growth & income funds

Corp bond, income, balanced funds

US gov't bond and money market funds, fixed rate accounts



US treasury bonds, CD's or money markets at an FDIC insured bank, savings bonds, savings, checking are not available in RIC




---

---

---

---

---

---

---

---

## Investments

Now is a good time to review your investment mix. Be sure your RIC investment portfolio complements your other investments.

- Money market at bank
- Credit Union savings account
- CD at bank
- Savings bonds/safety deposit box
- Annuity with insurance company
- RIC account
- IRAs
- Spouse's 401(k)
- Stocks in a brokerage account
- Mutual funds at investment firm



---

---

---

---

---

---

---

---

## Participants enjoy control over

- Contributions/Roll-ins
- Investment mix
- Enrollment/Changes
- Payment options



---

---

---

---

---

---

---

---

## Enrollment

- Enrollment is always open!



---

---

---

---

---

---

---

---

**Enrollment**



- Enrollment is always open!
- The provider supplies everything you need to open your accounts and begin payroll deductions.



---

---

---

---

---

---

---

---

**Enrollment**



- Enrollment is always open!
- The provider supplies everything you need to open your accounts and begin payroll deductions.
- Provider representatives can help you determine your investment style and explain the investment options.



---

---

---

---

---

---

---

---

**Enrollment**



- Enrollment is always open!
- The provider supplies everything you need to open your accounts and begin payroll deductions.
- Provider representatives can help you determine your investment style and explain the investment options.
- Your payroll deductions will begin the month following the month you enroll. You may change or stop contributions at any time.



---

---

---

---

---

---

---

---







## Changes



Your RIC 457/401a plans are very *flexible!*

You may make changes to your:

- Payroll deduction amount — Contact RIC or your PA
- Providers/investments
- Address/name/beneficiary
- Distributions options at retirement
- Investment advisors
- Direction of future contributions
- Fund elections for existing assets

Contact your provider




---

---

---

---

---

---

---

---

## Changes (investment mix)

- Providers allow investments to be changed online, by phone, or with help from your representative without fees.
- You may transfer\* assets to new investments or redirect future contributions.

Original mix:

Fixed rate account	20%
S&P 500 fund	50%
Small co fund	20%
International fund	10%



New mix:

Fixed rate account	50%
Balanced fund	50%

\* Short-term trading restrictions may apply




---

---

---

---

---

---

---

---

## Participants enjoy control over

- Contributions/Roll-ins
- Investment mix
- Enrollment/Changes
- Distributions




---

---

---

---

---

---

---

---

## Distributions (in-service)

### Distributions while employed:

- Unforeseeable Emergency
  - Must meet strict federal guidelines
  - Funds available from your 457 account only
- Eligible cash out provision
  - Total 457 balance must be \$5,000 or less
  - No contributions in the previous 24 months
- Age 70½
- Service credit purchase (pretax 457 assets only)



While employed, distribution requests are sent to RIC.

---

---

---

---

---

---

---

---

---

---

## Distributions (in-service)

### Service Credit Purchase

- If you have verified with IPERS that you are able to purchase service credits, you may use pretax money from your 457 account (as well as IRA, 401(k), 403b) for the purchase.
- This is called a plan-to-plan transfer and is nontaxable.




---

---

---

---

---

---

---

---

---

---

## Distributions

### At separation from employment

You do not have to take your money out until you want it (unless age 70½\* or older). Your assets remain invested and changes to your fund and provider selection may be made as needed.



You choose how much and when you want to take your money.

There are no vesting requirements, no product surrender fees, or restrictions.

\* IRS Required Minimum Distributions (RMD) must begin by the later of age 70½ or retirement (IRS 50% penalty on amount not taken on time).

---

---

---

---

---

---

---

---

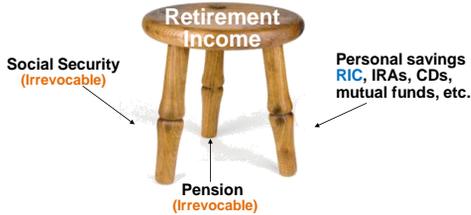
---

---

## Distributions

### In retirement

Social security and pension benefits are irrevocable.




---

---

---

---

---

---

---

---

## Distributions

### In retirement

Personal savings income options provide flexibility.




---

---

---

---

---

---

---

---

## Distributions

### In retirement RIC is flexible

You have the option to:

- Leave assets invested\*
- Take taxable distributions
  - Lump sums (total or partial)
  - Flexible periodic payments
  - Lifetime payments
  - Any combination
- Roll to an IRA or employer plan (not required)



\*IRS minimum distributions must begin at age 70 1/2 or retirement, whichever is later.

---

---

---

---

---

---

---

---

## Distributions

### In retirement RIC is flexible

You have the option to:

- Leave assets invested\*
- Take taxable distributions
  - Lump sums (total or partial)
  - Flexible periodic payments
  - Lifetime payments
  - Any combination
- Roll to an IRA or employer plan (not required)



Distribution requests are made directly to your provider. RIC approval is not required.

\*IRS minimum distributions must begin at age 70 1/2 or retirement, whichever is later.

---

---

---

---

---

---

---

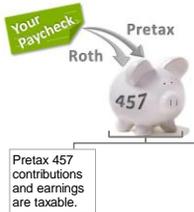
---

---

---

## Distributions (taxes)

Tax treatment of distributions differs depending on the taxation of contributions.




---

---

---

---

---

---

---

---

---

---

## Distributions (taxes)

Tax treatment of distributions differs depending on the taxation of contributions.




---

---

---

---

---

---

---

---

---

---

## Distributions (taxes)

Tax treatment of distributions differs depending on the taxation of contributions.



Pretax 457 contributions and earnings are taxable.

Post-tax 457 Roth contributions and earnings are tax-free if distribution is qualified.

### Qualified distribution:

- A distributable event has occurred (leave employment, turn age 70½, qualify for cash out);
- Roth account has been open for 5+ years; and
- You are age 59 ½\* or disabled

Non-qualified Roth distributions are subject to taxation on the earnings portion of the distributed amount.

---

---

---

---

---

---

---

---

---

---

---

---

## Distributions (taxes)

Tax treatment of distributions differs depending on the taxation of contributions.



Pretax 457 contributions and earnings are taxable.

Post-tax 457 Roth contributions and earnings are tax-free if distribution is qualified.

Pretax 401a contributions and rollover assets are taxable. IRS 10% penalty may apply prior to age 59 ½.

---

---

---

---

---

---

---

---

---

---

---

---

## RIC participants enjoy control over

- Contributions/Roll-ins
- Investment m...
- Enro.../Changes
- Distributions

Take control now!




---

---

---

---

---

---

---

---

---

---

---

---



Take charge of your future  
**TIME IS MONEY**

---

---

---

---

---

---

---

---

### Time is Money

Beth age 21  
begins to  
contribute  
\$3,000/yr



---

---

---

---

---

---

---

---

### Time is Money

Beth age 21  
begins to  
contribute  
\$3,000/yr

Beth age 36  
stops saving (total  
contributions \$45,000  
over 15 years)



---

---

---

---

---

---

---

---



---

---

---

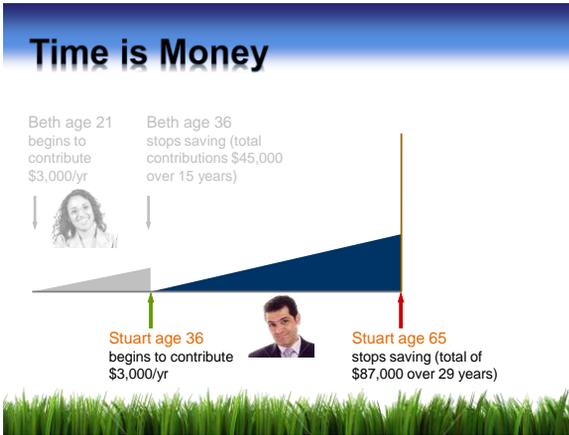
---

---

---

---

---



---

---

---

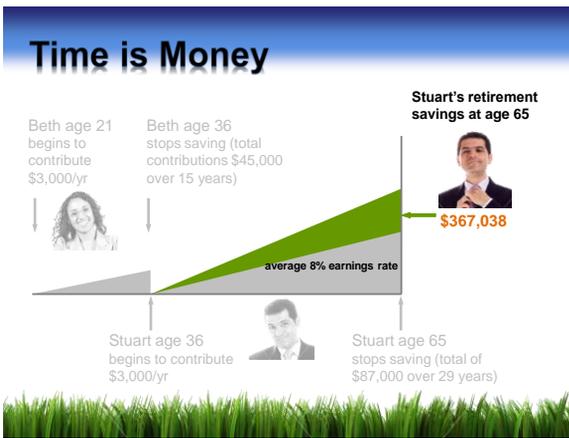
---

---

---

---

---



---

---

---

---

---

---

---

---



---

---

---

---

---

---

---

---

### Time is Money

Robbie Stoecker  
RIC Program Education  
515-242-6846  
[robbie.stoecker@iowa.gov](mailto:robbie.stoecker@iowa.gov)

Visit the RIC website at  
<http://ric.iowa.gov>

ENROLL TODAY!

---

---

---

---

---

---

---

---