



**Plan
Now**

Retire Today!

MNDCP Minnesota Deferred Compensation Plan
Plan Now

Table *of* Contents



Retire Today _____ 2

How Long Will Your
Savings Last _____ 3

Withdrawal
Considerations _____ 7

Withdrawal
Options at-a-Glance _____ 9

What Makes MNDCP
a Smart Option _____ 13



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Retire Today

With the Minnesota Deferred Compensation Plan (MND CP), the same account that helped you build your retirement savings can help you manage your retirement income over the long term. And even after you retire, you'll still enjoy the competitively priced fees associated with MND CP, which result from economies of scale related to the size of the Plan. In addition, you have a lot of flexibility and options on how to access your retirement savings when you separate from service or retire. Be sure, so you'll need to understand your choices to find the right fit for your needs.

Retirement Phases and Income Needs

Because we're living longer lives, we're spending more time in retirement than previous generations. That means that retirement needs tend to change over time. Year one will probably be different than year 10. It might help to think about your retirement years in phases, which may assist you with making a more realistic retirement budget.

The Early Years – When you first retire, you may find yourself busier than when you were working. You may also find that you're spending more than you thought you would. This “post-retirement spending bump” tends to happen as people enjoy their newfound free time. It might be smart to plan for additional expenses early in retirement as you get used to this new phase of your life.

The Middle Years – After the initial burst of activity that may follow the early retirement years, many people settle into a more predictable post-work routine. As a result, spending becomes more predictable.

The Later Years – Eventually, many retirees find that they're ready to take things more leisurely. They may spend less on travel, hobbies and other activities, but they're probably spending more on healthcare.

The Bottom Line: As retirement lifestyles change and evolve, so do retirement income needs. Be sure to factor into your retirement budget the ways in which your spending and income needs may fluctuate throughout your retirement years.



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How Long Will Your Savings Last



Budgeting in Retirement

Budgeting is likely to be a top priority in your retirement years. You'll probably still have monthly financial obligations, but your income may be lower than when you were working. In most cases, you'll see a trade off among your expenses. For example, you may not fill up your gas tank as much without a daily commute, but with additional free time, you may spend more on travel or hobbies.

The key to knowing how long your retirement savings will last is knowing how much you may spend in retirement. The answer is different for everyone, but you may want to consider how the following will affect your retirement budget.



Inflation

Although you don't know how much you'll be spending in the future, you do know that inflation will increase the cost of the basics—historically at a rate of about 3 to 4 percent. What that means is that something that costs \$100 today may cost about \$219 twenty years from now.

Housing

If you're one of the lucky ones who have paid off your mortgage, you still face the costs of property taxes, insurance and upkeep. If you don't own your home, you'll still have rent to take into account. A large portion of retirees carry a significant amount of mortgage debt (63 percent of seniors owe at least \$50,000, according to one study).¹

Healthcare and Long-Term Care

As we get older, we tend to need more healthcare. Some of us may need to look into long-term care. As expensive as these needs can be right now, they'll probably cost you even more in the future. In 2007, total national health expenditures were expected to rise 6.9 percent, which was two times the rate of inflation. It is expected to increase at similar levels for the next decade.²

When you think about how much of your savings may need to be spent on healthcare costs, consider the results of a study conducted by the Employee Benefit Research Institute. It estimates that an individual who retires at age 65 and lives to age 90 will need \$214,000 or more in savings to pay for Medicare part B premiums, Medicare supplement insurance and other out-of-pocket health expenses.³

Debt

While seniors ranked avoiding debt as their top saving strategy during retirement, a surprising 27% expect to have debt in retirement. And 59% of seniors with debt have at least \$15,000 and 12% have more than \$100,000. Debt is an unavoidable reality for many people, and any debt you have should factor into your retirement budgeting.¹

Social Security

Social Security was never intended to replace your entire working income. As it exists today, Social Security benefits may only provide between 20 and 55 percent of pre-retirement income. And if you have a higher income, your benefits could replace only as little as 10 percent. So while Social Security can certainly help, it likely will not be enough by itself.

Life Expectancy

As you begin to determine how much you'll need to withdraw each month to support your retirement lifestyle, an important consideration to factor in is how long your money needs to last. With advances in medicine, life expectancy continues to increase. For example, a man who is 65 years old today can expect to live for about 17 more years and a woman who is 65 today can expect to live 20 more years. So your savings will likely have to last for a while.⁴

¹ <http://seniorjournal.com/NEWS/ReverseMortgage/2007/7-09-10-MoreSeniorCitizens.htm>

² "Savings Needed to Fund Health Insurance and Healthcare Expenses in Retirement." July 2006, EBRI Issue Brief #295

³ <http://www.nchc.org/facts/cost.shtml>

⁴ <http://www.cdc.gov/nchs/data/hus/hus07.pdf#027>

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The Monthly Formula

A good rule of thumb is that you'll need approximately 80 to 90 percent of your working income to maintain a similar lifestyle in retirement. If you made \$40,000 your last year of work, you should plan on needing at least \$32,000 to \$36,000 your first year in retirement. How does that break down on a monthly basis? How much of that will need to come from your MNDCP account and other personal savings? Complete the following worksheet to find out.

This exercise does not take into account sudden unexpected increases in spending (for example, due to a family or medical emergency) or the way inflation, taxes or investment performance may affect your expenses and income needs over the long term.

Monthly working income		
Retirement income need (80 to 90 percent of monthly working income)	x	%
Total amount needed each month	=	
Monthly pension benefit	-	
Monthly Social Security benefit*	-	
Other income sources	-	
Total monthly amount needed from MNDCP and other personal savings	=	

For illustrative purposes only.

*If you're not sure what to expect as your Social Security benefit, use the Social Security Administration's Benefit calculator at www.ssa.gov/planners/calculators.htm⁵.





Let's assume that the amount you need from MNDCP and other personal savings equals \$125 a month. That amount in and of itself may not seem like much, but let's look at how much you'll need to accumulate to reach that goal:

Monthly Pre-Tax Withdrawal Amount	\$125
Sample Tax Rate During Retirement	20 Percent
Monthly After-Tax Withdrawal Amount	\$100
Number of Withdrawals Per Year	12
Number of Years Taking the Monthly Withdrawal	20
Average Annual Rate of Return	6 Percent
Total Amount Needed	\$17,673

For illustrative purposes only. This hypothetical example assumes monthly pre-tax withdrawals of \$125 for 20 years with an average annual rate of return of 6 percent.

As you can see, you'll need to save nearly \$18,000 in order to be able to withdraw \$125 per month for 20 years. And keep in mind that inflation may reduce the purchasing power of your money if it raises 3 to 4 percent each year, as it has historically done.

The Long-Term View

Knowing how much you need each month is a great first step. The next question you may have is how long your MNDCP savings and other personal savings will last.

This hypothetical example provides a glimpse of how much you may need to fund the many years you could spend in retirement. If you've accumulated \$150,000 in savings, here are a few examples of how many years that money will last based on taking the following after-tax monthly withdrawals:

\$800/Month	\$1,000/Month	\$1,200/Month
22.5 Years	15.1 Years	11.4 Years

Of course, each person's monthly income needs are different, and depending on the earnings and tax rates, your money could last a longer or shorter period of time. The important thing is to consider the "what if" scenarios.

For illustrative purposes only. This hypothetical example assumes monthly pre-tax withdrawals of \$125 for 20 years with an average annual rate of return of 6 percent.

Withdrawal Considerations

Flexibility

You have an idea how much retirement income you'll need. You've determined how much you'll need from MNDCP. Now it's time to decide how you'll use your MNDCP account to help you meet your retirement income needs. You have several choices, including:

- Leave all or some of your assets in your MNDCP account
- Roll over assets to another eligible plan
- Select a single withdrawal option or a combination of withdrawal options that meet your needs

No IRS early Withdrawal Tax Penalty

Let's assume that you want to begin taking withdrawals. One advantage of MNDCP over other types of plans is that your withdrawals are not subject to the IRS 10 percent tax penalty usually assessed on early withdrawals (withdrawals made before age 59 ½). This is true as long as you withdraw funds directly from MNDCP. If you roll over MNDCP funds into other plans, the early withdrawal tax penalty may apply.

Don't Forget Taxes

Remember that you'll also pay taxes on the withdrawals you take. By law, MNDCP withholds a mandatory 20 percent Federal income tax on most withdrawal schedules spanning less than 10 years. Tax withholding is an important factor as you plan your retirement income needs. Don't forget that state tax withholding may also apply to your MNDCP payments. Consult your accountant or tax advisor for more information.

Impact on Retirement Benefits

Withdrawals from your MNDCP account will not directly reduce your Social Security and pension benefits. However, your MNDCP payout in combination with other retirement income may raise your taxable income to a point where a portion of your Social Security payment may become taxable. You may wish to consult a tax advisor for more information.



Let MNDCP continue to work for you

If you're happy with the service and features you get with your MNDCP account, consider keeping your account in the MNDCP Plan. Your MNDCP account represents years of saving and investing. It's your money, and it's your choice. And you will continue to enjoy competitive fees that result from MNDCP's economies of scale.

Required Minimum Distribution Beginning at Age 70 ½

Maybe you want to keep the retirement savings in your MNDCP account for a rainy day or keep the account as an inheritance for your heirs after your death. You're certainly free to do that. It may be a wise choice, given the MNDCP's competitive fees and flexibility. But eventually, the IRS requires you to withdraw at least some of your savings from your account each year. This mandatory withdrawal is called a Required Minimum Distribution (RMD).



Simplify your RMD Payment

Minimum distributions can be confusing — MNDCP can help. Each year, we will calculate your RMD and send you a reminder explaining your options. For more information about automating your RMD payment and the forms you'll need, call an MSRS Representative toll-free at 1-800-657-5757, option 3.

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Beginning April 1 following the year you reach age 70 ½ or leave employment (whichever is later), you must withdraw at least the required amount. The specific amount varies from year to year, depending on the balance in your account on December 31 of the previous year divided by a life expectancy factor. Your withdrawals are subject to ordinary income tax. What happens if you don't make a withdrawal? You may pay a significant penalty — 50 percent of the required distribution that you didn't take.

While it is your responsibility to take the RMD, it doesn't mean you have to spend it. You can put that money into savings or invest it in another way.

Ask About Fees

All investments come with fees. Investment options and services that claim no fees will probably charge for commissions and other services. After all, investment companies and brokers are in business to make money. Sometimes, these fees will take the form of lower investment returns. The old adage that there's no such thing as a free lunch still applies.

Rollovers

A rollover allows you to consolidate all your pre-tax retirement plans into one account to make it easier to monitor and manage your investments.

You can roll money into your MNDCP account from another eligible governmental 457(b), 401(k), 403(b), 401(a), or IRA to take advantage of the competitive fees offered by MNDCP. If applicable, these assets may continue to be subject to the 10 percent early withdrawal tax penalty (assessed on withdrawals before age 59 ½).

When you transfer money from MNDCP to a different type of plan, those assets will take on the features of the new plan and may be subject to the early withdrawal tax penalty. If you decide you'd like to roll over assets from your account to another eligible plan, MNDCP gives you that option, provided the receiving plan accepts rollovers.

Contact an MSRS Representative for more information on rollovers.

Withdrawal Eligibility

If you leave employment (whether by retirement, resignation, permanent disability, or termination), you are eligible to begin taking payments from your MNDCP account. Withdrawals can begin as soon as 30 days after you leave employment.

Think Direct Deposit

Whichever withdrawal option you choose, your money can go directly into your financial institution checking or savings account. Contact an MSRS Representative for help in setting up this option or go online to www.msrs.state.mn.us to download a complete a *Direct Deposit* form.

Withdrawal Options at-a-Glance

Option	Description	Consideration
Full (Lump Sum) Withdrawal	<ul style="list-style-type: none"> • Withdraw your entire account balance. 	<ul style="list-style-type: none"> • Entire withdrawal will be immediately taxable and subject to 20% Federal income tax withholding.
Partial Withdrawals	<ul style="list-style-type: none"> • A one-time withdrawal of a portion of your account balance. • Even If you are receiving a periodic payment (see below) you may still request a partial withdrawal(s). • If your partial withdrawals become more frequent, consider periodic payments. 	<ul style="list-style-type: none"> • The amount withdrawn will be immediately taxable and subject to 20% Federal income tax withholding. • Not available to those who have elected a fixed annuity payment of their entire account balance (see next page).
Periodic Payments	<ul style="list-style-type: none"> • A series of scheduled withdrawals from your account. • Allows you to select a payment schedule and frequency (monthly, quarterly, semi-annually, or annually) that fit your needs. • Payments can be structured as a fixed amount (e.g., \$500 per month) or over a fixed period of time (e.g., over 15 years). • This option can be used in conjunction with partial withdrawals and a fixed annuity. 	<ul style="list-style-type: none"> • Periodic Payments from your MNDCP account may be stopped, restarted, increased or decreased at any time. • Payment schedules lasting less than 10 years are subject to 20% Federal income tax withholding. • You may select your Federal income tax withholding amount for payment schedules lasting 10 years or longer.



Option	Description	Consideration
Fixed Annuity Payments	<ul style="list-style-type: none"> • A fixed annuity provides you with a guaranteed income payments for your life and if you choose, your survivors life.* • Only insurance companies offer annuities. The MNDCP has many fixed annuity providers from which to choose. • You may use all or a portion of your MNDCP assets to purchase a fixed annuity. • Payments can be set up for either a specified period of time or for your lifetime, with a guaranteed payment period. If you die before receiving all the guaranteed payments, your beneficiary receives the remaining payments. • Joint and Survivor Fixed Annuity option available, which provides guaranteed income to you and your designated survivor as long as you both live. 	<ul style="list-style-type: none"> • A less flexible payout option that cannot be altered once begun. • Inflation could have an affect on your purchasing power since your payments are guaranteed for the remainder of the selected time and will not change.* • If you use all your MNDCP assets to purchase a fixed annuity, no additional withdrawals can be made.
Combination	<ul style="list-style-type: none"> • You can use a combination of options (partial, periodic payment, partial fixed annuity) to meet your specific retirement income needs. Contact MSRS for more details. 	<ul style="list-style-type: none"> • Combines flexibility and stability of payments.

* Guarantees are based on the claims paying ability of the issuing insurance company.



Survivor Benefits

Your MNDCP represents years of planning and saving. You'll want to make sure that, in the event of your death, the assets in your account are directed to the surviving beneficiary(ies) you have designated.

When it's time to settle your estate, your beneficiary, executor, or a family member should notify MSRS to discuss survivor benefits and the withdrawal options chosen:

1. If you have not started a distribution, your beneficiary(ies) can contact an MSRS Representative at 1-800-657-5757, option 3 to be advised of withdrawal options and taxation issues. The rules may vary based on your age at time of death and the beneficiary(ies) you designated.
2. If you are receiving a fixed annuity payment, your beneficiary(ies) can contact the appropriate annuity provider for survivor benefit information.

Forms/Documents Needed for Processing Survivor Benefits

The forms your beneficiary(ies) will need to complete will vary depending on the circumstances of your account. MNDCP will provide the appropriate forms to your beneficiary(ies) upon notification of your death and verification of beneficiary records. In all cases, MNDCP requires a certified death certificate for processing.

Retirement Planning To-Do List

It is important to map out a retirement income strategy well in advance of your retirement date, but it's never too late to start planning or saving. Advanced planning can help preserve your personal assets. This, supplemented by your Social Security and other sources of retirement income, may be sufficient for your lifetime.

Mid-Career

Retirement is getting closer, which means it's time to start planning your transition into retirement.

- Review your savings rate more often to ensure you're still on track to retire within your desired time frame.

- To better determine whether you're saving enough, define the aspects of your retirement lifestyle.
- Residence — Where do you want to live? Will you be a “snowbird”? Have a summer cabin? Will you rent or own?
- Travel/Hobbies — What do you see yourself doing for fun and recreation?
- Major purchases you might want to make after retirement.
- Current health and family life expectancy.
- If you're age 50 or older, consider maximizing your contribution amount. The IRS permits you to contribute more than the standard contribution amount.
- Reevaluate your investment allocation to make sure you carry the right amount of risk.

Late Career

Retirement is in sight. You'll have a more realistic understanding of your retirement income needs and expenses, which can help you plan more effectively.

- Determine Catch-Up eligibility. The Catch-Up Provision allows you to contribute up to double the standard maximum contribution limit for three consecutive calendar years prior to reaching your normal retirement age (the age you are eligible for an unreduced pension benefit). Contact an MSRS Representative to see if you are eligible.
- Start thinking about your retirement budget. Calculate your expected Social Security income (visit <http://www.ssa.gov/planners/calculators.htm> to calculate your expected benefits).
- Adjust your investment allocation to make sure you don't carry too much risk.

Pre-Retirement: one year before retirement

Believe it or not, retirement is right around the corner. You'll want to solidify your plans for how your different retirement income sources — pension, Social Security, and personal savings (including your MNDCP account) — will work together.

- Contact your retirement system to find out more about your pension benefits.
- Start thinking about your various MNDCP withdrawal options.
- If you're age 70 or older, start planning for your Required Minimum Distribution (RMD).
- Explore your retirement expenses, such as healthcare costs, in more detail.



Beneficiary Updated?

Remember to always keep your beneficiary information up-to-date. This is especially important the closer you get to retirement. Your beneficiary designation is online at www.msrs.state.mn.us and listed on your quarterly statement.





What makes the MNDCP a smart option for your retirement years

Investment options — The MNDCP features many investment options suited to the lower risk profiles of retired investors. The Plan provides a mix of investments for you to choose from to help you meet your investment goals.

Easy account management — You can track your investments, reallocate your portfolio, and access online planning tools and investment information at www.mndcplan.com

Flexible withdrawal options — Upon separation from service or retirement, you can access the money in your MNDCP account in the way that best fits your retirement income needs — a little at a time, on a regular schedule, or in bigger amounts. It's your choice.

Competitive Fees — The MNDCP offers a competitive fee structure that can help you realize the most from your lifetime of saving and investing:

An annual administrative fee of 0.07% for recordkeeping, communications, counseling, customer service and other services is kept competitive through the economies of scale MNDCP receives as a large government entity.

No withdrawal charges or surrender fees, trading fees, or account maintenance fees.

No surprises! All fees are disclosed. Investment management fees may apply. Refer to the *Fund Fact Sheets* brochure for additional information.

Tax-deferred benefit — You haven't paid income taxes on your contributions or any earnings that may have accumulated. You pay taxes when you take a withdrawal, which for many people is in their retirement years when they may be in a lower taxable income bracket compared to the years they were working.

Stay on Course with MNDCP

These important MNDCP benefits can help you remain committed to save for your future.

- **Matching contributions** — Some employers and bargaining units match a portion of your contributions to MNDCP.
- **Pre-tax savings** — You don't pay taxes on your contributions or on any earnings they accumulate until you make a withdrawal — which for many people is when they retire and in a lower tax bracket than when they made the original contributions*.
**Withdrawals are subject to ordinary income tax.*
- **Pay yourself first** — Your contributions are automatically deducted from your paycheck so you make saving for retirement a priority by paying yourself first.
- **Compound growth potential** — Any earnings on your contributions are reinvested in your account, helping you build savings momentum.
- **Many investment options** — The Plan offers many investment options that can help you meet your specific goals.
- **Additional contributions allowed** — If you're 50 or older, or within three years of your normal retirement age, you may be able to contribute additional money beyond the standard IRS limit. Participants cannot use both catch-up provisions in the same calendar year. If eligible, utilize the catch-up provision that provides the greater amount.
- **Easy account management** — Go to www.msrs.state.mn.us to track your investments, reallocate your portfolio, and access online planning tools and investment information.

Contact Us

If you have any questions about your MNDCP account in your retirement years, contact an MSRS representative:

By Phone: 1-800-657-5757

By Email: mndcp.msrs@state.mn.us

In Person: **St. Paul Office**

60 Empire Drive, Suite 300
St. Paul, MN 55103-3000



Get the Answers You Need

For more information about increasing your contributions, obtaining investment information or rebalancing your account, call MSRS weekdays from 8:00 a.m. to 4:30 p.m. Central Time at 1-800-657-5757.

Plan administrative services provided by ING Institutional Plan Services, LLC, a member of the ING family of companies, 1 Heritage Drive, North Quincy, MA 02171. Securities, if offered, are distributed by or offered through ING Investment Advisors, LLC (member SIPC) or other broker-dealers with which it has a selling agreement.

The Minnesota State Retirement System (MSRS) administers the Minnesota Deferred Compensation Plan (MNDCP) — a voluntary tax-deferred savings plan, the Health Care Savings Plan (HCSP) — a tax free medical expenses and premiums savings plan. MSRS also administers various retirement, survivor and disability benefit plans for state employees.

MSRS Representatives are registered representatives of ING Investment Advisors, LLC (Member SIPC).



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