



# Distribution Options

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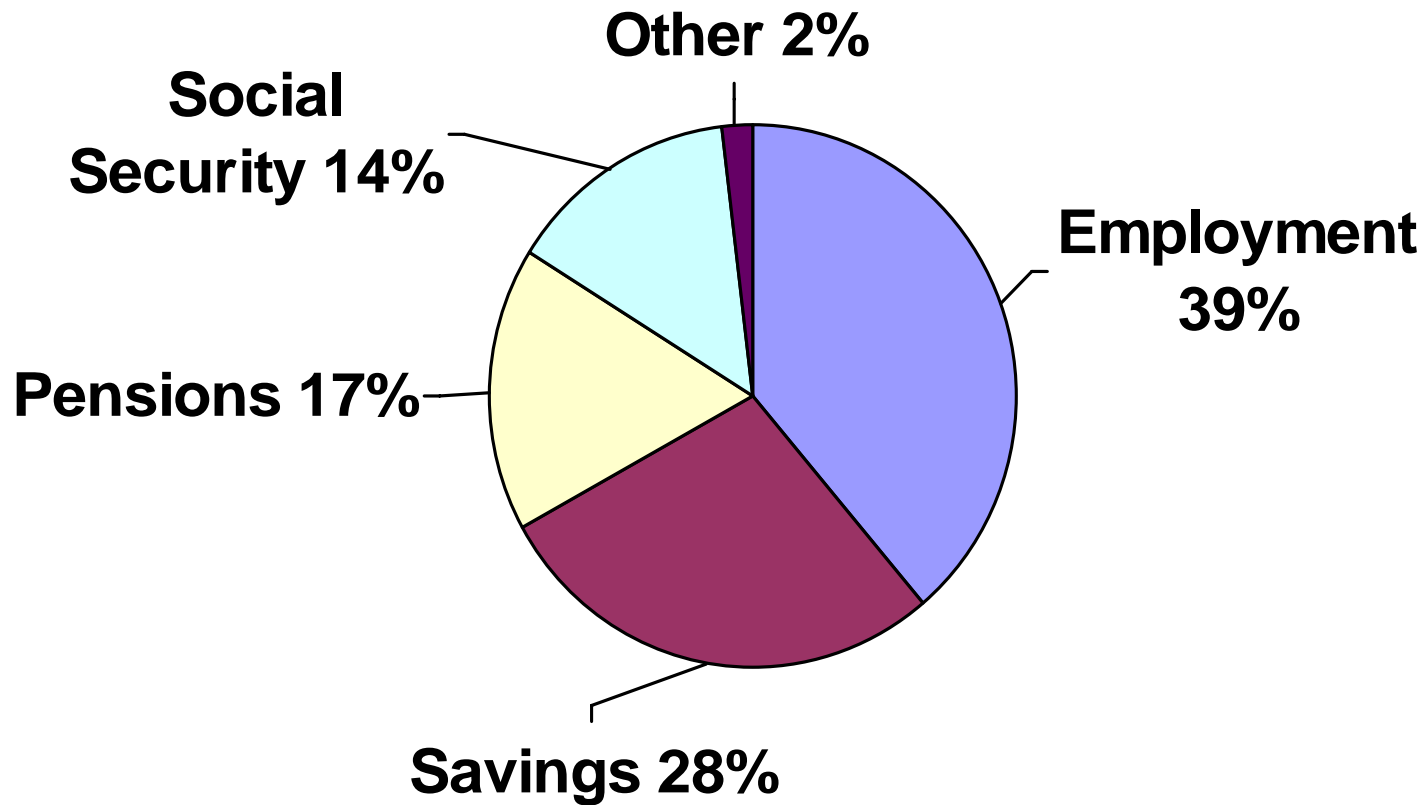
MIT Supplemental 401(k) Plan

Thursday, 8 September 2005

MIT Human Resources Benefits Office



# Reported Sources of Retirement Income





# Sources of Income in Retirement

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- Sources of Income
  - Social Security
  - MIT Basic Retirement Plan
  - Partner's income
  - 401(k)
  - Tax-deferred annuities (TDA)
  - Other retirement savings
  - Work



# Budget

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- How much do you spend?
- How will it change?
- Will you work?



# Income Strategy

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- Start with
  - Social Security
  - Basic Plan Benefit
- How much more do you need to live on?
  - Budget workbook
  - Planning tools
- How do you get this money?
  - Other sources



# 401(k) Options

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- Leave in plan
- Systematic withdrawal
- Annuity
- Full withdrawal
- Rollover
- Partial withdrawal
- Combination



# Leave in Plan

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## Advantages

- Time to plan
- Money continues tax deferred (value of your account will depend upon investment performance)
- All other plan options are still available
- Not required to take a distribution until later of: the year in which you turn 70½ or the April 1<sup>st</sup> following the year in which you no longer work at MIT
- You don't have to take any action



# Systematic Withdrawal Plan

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- Control over income payments
- Change or stop payments at any time
- Balance goes to heirs
  
- Methods of Payment:
  - Specific Period Method
  - Specific Dollar Method
  - Life expectancy/MRDs
  - Monthly
  - Quarterly
  - Annually



# Systematic Withdrawals

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- Specific Dollar Method: Specified dollar payments are made on a monthly, quarterly, semiannual or annual basis until your balance is reduced to zero. (The number of payments will vary depending on the value of your account and the performance of your investment elections.
- Specific Period Method: A specific number of payments are made regularly , the value of which fluctuates based on the total market value of your account, the performance of your investment elections, and the payment frequency you select.



# Systematic Withdrawal Plan

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- Advantages:
  - Supplement income
  - Continued access to same investment options
  - May be used to fulfill Minimum Required Distributions
  - Flexibility
- Tax Considerations:
  - Continued tax deferral on remaining balance
  - Taxes owed on amount withdrawn
  - Elect tax withholding



# Annuity

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- Purchase an annuity with all or part of your balance in the 401(k)
- What is an annuity?
  - Qualified vs. Non-Qualified
  - Immediate vs. Deferred
  - Fixed vs. Variable



# Payment Options

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- Single Life
- Contingent Life  
50%, 66.6%, 75%, 100%
- Guaranteed Period  
5, 10, 15, or 20 years



# Things to Consider

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- Single Life Annuity provides maximum income
- Contingent Life Annuity reduces your income, but provides a stream of income to contingent annuitant
- Can combine with other options
  - Systematic withdrawals
  - Partial withdrawals
- Taxed on payments only
- Future Purchase may increase monthly amount
- Heirs



# Why Choose a Lifetime Annuity?

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- Never “outlive” your income
- Income for life in addition to Social Security and the MIT Basic Plan
- May meet Minimum Required Distributions
- Elect tax withholding
- Works with other options



# Possible Risks

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- No longer have lump sum available
- Investment Risk (Variable)
- Inflation Risk (Fixed)



# MIT Annuity Providers

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- Fixed Annuity:
  - Travelers
  - Hartford Life
  
- Variable Annuity:
  - Hartford Life
  - TIAA-CREF



# Fixed vs. Variable

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- Fixed Annuities provide a level fixed income
- Variable Annuities provide an income based on investment performance



# Fixed Annuity

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- For people who:
  - Need stable income
  - Risk adverse
  - Less concerned about inflation
  - Want a guaranteed lifetime income



# Variable Annuity

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- For people who:
  - Can tolerate payment fluctuations
  - Not adverse to market risk
  - Looking for long-term inflation protection
  - Would like control over their investment mix



# How a Variable Annuity Works

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- You choose:
  - Investment mix (change anytime)
  - Payment frequency
  - How often payments are revalued
  - Payments adjust based on performance



# Variable Annuity

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- 1) You choose your investment mix
- 2) The first year payments are based on amount transferred (plus any applicable subsidy), your age(s), form of payment, and the assumed interest rate (AIR) (4%)
- 3) You select frequency of payments and future adjustments
- 4) Payment X rate of return (ROR) (net of fees and expenses)/AIR=new payment
- Example: Starting monthly payment is \$1,000. You opted for annual adjustments. You earned a 10% ROR for the year.  
( $1.10/1.04=1.058$ )  
New Monthly Payment = \$1,058/mo



# Variable Annuity Investment Options: TIAA-CREF

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- CREF Stock
- CREF Global Equities
- CREF Equity Index
- CREF Growth
- TIAA Real Estate
- CREF Social Choice
- CREF Bond Market
- CREF Inflation-Linked Bond



# Variable Annuity Investment Options: Hartford

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- Hartford Global Health
- Hartford Global Technology
- Hartford Small Company
- Hartford Capital Appreciation
- Hartford International Opportunities
- Hartford Global Leaders
- Hartford Stock
- Hartford Growth and Income
- Hartford Index
- Hartford Dividend and Growth
- Hartford Global Advisers
- Hartford Advisers
- Hartford High Yield
- Hartford Bond
- Hartford Mortgage Securities



# Variable Annuity Payouts

1973	\$1,000	1984	\$1,265	1995	\$3,386
1974	\$847	1985	\$1,660	1996	\$3,602
1975	\$602	1986	\$1,874	1997	\$4,308
1976	\$707	1987	\$1,934	1998	\$5,280
1977	\$792	1988	\$2,080	1999	\$6,160
1978	\$699	1989	\$2,613	2000	\$7,432
1979	\$714	1990	\$2,419	2001	\$7,027
1980	\$808	1991	\$2,419	2002	\$5,921
1981	\$1027	1992	\$3,100	2003	\$4,463
1982	\$960	1993	\$3,264	2004	\$5,546
1983	\$1,119	1994	\$3,417	2005	\$5,757



# MIT Variable Annuity

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- Prior to July 1, 2008, if you terminate or attain age 65 and work 50% or less of a regular full-time work schedule, MIT will increase the balance used to purchase a variable annuity.
- The increase, which is based on age and the calendar quarter that the variable annuity commences, is a percentage of the 401(k) dollars transferred to the annuity provider.
- For the calendar quarter beginning Oct. 1, 2005, the increase is:

Under Age 60	7%
Age 60 or over and under 65	12%
Age 65 or over and under 70	17%
Age 70 or over	22%
- These percentages are reduced each calendar quarter by 1%.



# Annuity vs. Systematic Withdrawal Plan (SWP)

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## Annuity

- Lifetime Payments
  - Fixed
  - Variable
- Irrevocable
- No balance for heirs at death

## SWP

- Can run out of money
- Must manage investments
- Flexible
- May leave balance at death



# Direct Rollover to IRA or Qualified Plan

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- Non-taxable event
- No longer part of the MIT plan
- Other investment options may be available
- Consolidate
- Professional management



# Partial Withdrawal

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- Allows immediate access to a portion of your money
- Time to plan
- Taxes owed on only the portion distributed
- Federal 20% withholding required
- State and Local taxes may apply
- Balance in plan remains tax-deferred



# Full Withdrawal

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- Provides immediate access to your money
- Can have costly tax consequences
- Actual taxes owed may be more or less depending upon other income
- Required 20% Federal tax withheld
- Other State and Local taxes may apply



# Income Strategy

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- Individual consultation
- Develop the best income plan for you
- Help put it all together



## Remember...

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Everyone's situation is different and retirement options can be tailored to fit your individual needs.



For more information...

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Please contact your MIT Retirement Counselor:

Lynne Perry (781) 981-7052 or email  
[lperry@ll.mit.edu](mailto:lperry@ll.mit.edu)



# Future of the Plans and Benefits

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- MIT expects to continue the plans or benefits discussed above, but reserves the right to change or terminate them in whole or in part, at any time without limitation, by a written instrument signed by an officer of MIT.
- No vested rights of any nature are provided under the plans or benefits discussed above.