

UNIVERSITY OF MICHIGAN

# 457(b) **Deferred Compensation Plan**



## Benefits Information

The U-M Shared Services Center (SSC) Contact Center can answer many of your benefits questions. Call 734-615-2000 or toll free 1-866-647-7657. If you are on the Ann Arbor campus, call 5-2000. Representatives are available Monday–Friday, 8:00 a.m.–5:00 p.m. Have your UMID number available when you call.

## Telecommunications Relay Service

Dial 711 for access to Telecommunications Relay Service (TRS) and ask the operator to connect you to the SSC Contact Center at 734-615-2000 or 866-647-7657 (toll free). Service Center representatives will be happy to assist you.

## Benefits Information on the Web

For benefits plan information, visit [hr.umich.edu/benefits/wellness](http://hr.umich.edu/benefits/wellness).

For U-M Retirement Savings Plan information, visit [hr.umich.edu/retirement-savings-plans](http://hr.umich.edu/retirement-savings-plans).

## Limitations

The University of Michigan in its sole discretion may modify, amend, or terminate the plan. Nothing in these materials gives any individuals the right to continued plan benefits beyond those accrued at the time the university modifies, amends, or terminates the plan. Anyone seeking or accepting any of the benefits provided will be deemed to have accepted the terms of the plan and the university's right to modify, amend, or terminate the plan.

## Statement of Intent

This booklet describes the University of Michigan 457(b) Deferred Compensation Plan. It is intended to provide information to U-M faculty and staff about participating in the plan. Every effort has been made to ensure the accuracy of information in this booklet. However, if statements in this booklet differ from applicable contracts, certificates or riders, then the terms and conditions of those documents, as interpreted by the Benefits Office, prevail. Possession of this booklet does not constitute eligibility for the plan. IRC regulations, as well as university and investment company policies, are subject to change and/or correction without notice. Information is based on the university's current understanding of highly complex Internal Revenue Code (IRC) and U.S. Treasury Department regulations and is provided for general informational purposes only. The University of Michigan does not provide tax or investment advice. Questions or concerns should be addressed to a qualified tax advisor.

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## Plan Administrator

University of Michigan Benefits Office  
Wolverine Tower G405  
3003 S. State Street  
Ann Arbor, MI 48109  
734-615-2000

[hr.umich.edu/457b-deferred-compensation-plan](http://hr.umich.edu/457b-deferred-compensation-plan)

# Ask the Experts

## Have a question? Need help?

### Contact TIAA and Fidelity Investments for these inquiries and services:

- Questions/help choosing your investment funds
- Account and income information
- Brochures and booklets on services and financial planning
- Change of address or beneficiary
- Divorce, Qualified Domestic Relations Order (QDRO)
- Rollovers into the U-M 457(b) Plan
- Forms for cash withdrawals and distributions, rollovers, transfers, loans, and income options
- Changing your investment funds
- Transferring accumulations between funds and between TIAA and Fidelity Investments
- Income and payment methods (lifetime annuity, cash withdrawals, etc.)
- Tax questions (withdrawal penalty, minimum distribution, federal withholding)
- Schedule individual counseling; register for workshops
- Information on fund management fees

## TIAA

730 Third Avenue  
New York, NY 10017

[tiaa.org/umich](http://tiaa.org/umich)

### Local Office:

TIAA  
777 E. Eisenhower Parkway, Suite 100  
Ann Arbor, MI 48108 (734) 332-3500

Telephone counseling: (800) 842-2252, Monday - Friday, 8:00 a.m. – 10:00 p.m. ET

Schedule a personal counseling appointment:  
(800) 732-8353, Monday - Friday, 8:00 a.m. – 8:00 p.m. ET

## Fidelity Investments

P.O. Box 770002  
Cincinnati, OH 45277-0090

[netbenefits.com/uofm](http://netbenefits.com/uofm)

24-Hour Automated Phone Center  
1-800-343-0860

Fidelity Retirement Specialists  
1-800-343-0860  
M - F, 8:00 a.m. to midnight, Eastern time

Schedule an individual counseling session  
1-800-642-7131

## Visit TIAA and Fidelity Investments Online

TIAA and Fidelity Investments websites provide a variety of tools and information, including:

- Current information on fund descriptions, performance, and investment strategy to assist you choose your investment funds.
- Interactive worksheets and calculators.
- Check your account balance, change the funds you invest in, and transfer accumulations between funds.
- Request forms and many free publications.
- Information about other available products and services.

# The U-M 457(b) Plan at a Glance

<b>Type of Plan</b>	457(b) governmental deferred compensation plan
<b>Investment Companies</b>	TIAA and Fidelity Investments
<b>Enrollment</b>	Voluntary
<b>Enrollment Deadline</b>	Enrollment may occur at any time and is generally effective no earlier than the month <b>following</b> the date your applications or elections are filed with the Benefits Office.
<b>Vesting Schedule</b>	All contributions are immediately vested.
<b>Eligibility</b>	All faculty and staff members with an appointment effort of 1% or greater, and university funding for 4 continuous months or longer. Temporary staff are not eligible to participate.
<b>Tax Treatment</b>	You have two options: <ul style="list-style-type: none"> <li>▪ Contributions and earnings tax-deferred until distribution. Subject to FICA withholding, but not state or federal taxation at time of contribution. Taxed as ordinary income at distribution.</li> <li>▪ After-tax Roth contributions with tax-free qualified distributions.</li> </ul>
<b>Contribution Rate</b>	<ul style="list-style-type: none"> <li>▪ You elect to contribute a fixed dollar amount per pay period.</li> <li>▪ There is no university contribution.</li> </ul>
<b>Changing Your Contribution</b>	You may increase, decrease, or cancel your contribution at any time; all such changes are effective the month <b>following</b> the date your forms or elections are filed with the Benefits Office.
<b>Changing Investment Funds</b>	You may change your investment funds at TIAA and Fidelity anytime.
<b>Transfers Between TIAA and Fidelity Investments</b>	You may transfer accumulations between TIAA and Fidelity at any time. Contact the company that will receive the transfer for assistance.
<b>Eligible Compensation</b>	You may make contributions on earned compensation that is paid to you as a U-M faculty or staff member, subject to federal income tax withholding through the university, and reported on a W-2 issued by the university.
<b>Your Contribution Limit</b>	<p>The Internal Revenue Code limits the total amount you may contribute to all 457(b) plans you have across all employers. The limit may change annually.</p> <p>View how much you may contribute to the 457(b) by logging into <a href="#">Wolverine Access</a> Employee Self Service. Select <b>Benefits</b> and then choose <b>Calculate Ret. Contribution</b> under Retirement Self Service to view your 457(b) contribution limit for the current year and the following year.</p> <p>Contributions made to another plan, except another 457(b) plan, <b>will not</b> reduce your limit for making contributions to the U-M 457(b) plan. Consult with a qualified tax advisor to ensure your total contributions to all plan types do not exceed Internal Revenue Code limits.</p>

## The U-M 457(b) Plan at a Glance *(continued)*

<b>Cash Withdrawal</b> <ul style="list-style-type: none"> <li>▪ Current Faculty or Staff Member</li> </ul>	<ul style="list-style-type: none"> <li>▪ One-time withdrawal if your account balance is no more than \$5,000 and you have made no contributions to the plan for two years prior to the date of distribution.</li> <li>▪ At age 70½ or older.</li> </ul>
<b>Cash Withdrawal</b> <ul style="list-style-type: none"> <li>▪ Former Faculty or Staff Member<sup>1</sup></li> </ul>	At any age.
<b>Rollovers</b>	You may rollover your U-M 457(b) to another eligible retirement plan at any age once you have retired or terminated employment.
<b>IRS 10% Penalty Applies?</b>	No
<b>Minimum Distribution at 70½?</b>	Yes, once you have retired or terminated employment <sup>1</sup> .
<b>Loans</b>	Yes
<b>Options When You Leave U-M</b>	<ul style="list-style-type: none"> <li>▪ Lifetime or fixed-period annuity</li> <li>▪ Cash withdrawal (partial, total, systematic)</li> <li>▪ Minimum distribution at 70½</li> <li>▪ Rollover to another eligible retirement plan</li> <li>▪ Leave the accumulations until a later date.</li> </ul>

### ***Enroll Online Using Self Service > Benefits***

1. Go to the Wolverine Access Gateway at <http://wolverineaccess.umich.edu>
2. Select the **Faculty & Staff** tab
3. Select **Employee Self-Service**
4. Enter your unqiusername and password if you are not already logged in
5. Select **Benefits**
6. Under Retirement Self Service, Select **Initiate Ret Savings Elections**
7. Click the radio button to Enroll/Change/Cancel your 457(b) Deferred Compensation Plan
8. Click the Next button to proceed and follow the online instructions to designate your per pay period contribution and choice of investment carrier(s).
9. You must **Submit** and **Finalize** your elections in order to complete the enrollment process.
10. Select your investment funds and designate your beneficiary directly with TIAA and Fidelity Investments. See pages 19 and 20 for more information.

<sup>1</sup> A former faculty or staff member is someone who has retired or terminated employment with the University of Michigan. Termination of employment does not include being on a layoff (RIF), leave of absence, phased retirement, furlough, long-term disability, 0% effort appointment, or periods of non-appointment.

# How Does the 457(b) Plan Work?

## What is a 457(b) Plan?

A 457(b) is a non-qualified deferred compensation plan. You have two options for the type of contributions you make to the plan, which determine whether you pay income tax on contributions to the plan or on distributions from the plan at a later date.

- You authorize a pre-tax payroll contribution (called a *Salary Deferral Amount*) that is invested with mutual funds and annuities through TIAA and/or Fidelity Investments. Contributions and earnings are tax-deferred until you take a distribution. You do not pay state or federal income taxes on your contributions at the time they are made. However, you still pay the 7.65% FICA (Medicare and Social Security) tax.
- Or, you can choose to make after-tax Roth contributions with tax-free qualified distributions.

## What is the purpose of a 457(b)?

The purpose of a 457(b) is to allow a person to postpone or defer receiving earned compensation and the associated tax liability until a future date, typically in retirement. After-tax Roth contributions with tax-free qualified distributions are also an option.

## Who may sponsor a 457(b)?

These plans can only be offered by state or local governments and non-church nongovernment tax-exempt organizations. Any agency or instrumentality of a state may offer a 457(b), including a public college or university.

## Who contributes?

You contribute a fixed dollar amount with each paycheck; there is no university contribution.

## What is the 457(b) contribution limit?

The Internal Revenue Code limits the total amount you may contribute to all 457(b) plans you have across all employers. The limit may change annually.

View how much you may contribute to the 457(b) by logging into [Wolverine Access](#) Employee Self Service. Select **Benefits** and then choose **Calculate Ret. Contribution** under Retirement Self Service to view your 457(b) contribution limit for the current year and the following year.

## May I contribute to both the U-M 457(b) and the Retirement Plan?

Yes. Contributions made to one plan do not offset the amount you may contribute to the other. This allows you to essentially double your pre-tax contributions by participating with both plans.

### **What are my income options?**

You can select a variety of payment methods at any age once you have terminated employment or retired, such as a lifetime or fixed-period annuity, cash withdrawals, or minimum distribution at 70½.

### **Is a 457(b) plan subject to IRS Minimum Distribution?**

Yes. You must begin taking distributions by April 1 following the calendar year in which you reach age 70½, or retire or terminate employment, whichever is later.

### **May I rollover a 457(b)?**

Yes. Once you have terminated employment or retired, you may rollover your accumulations into an IRA, 401(k), 401(a), 403(b), or another governmental 457(b). You may also elect a rollover at age 70½ as a current member of the faculty or staff. You lose an important tax benefit if you elect a rollover, see page 28 for details.

### **Are 457(b) withdrawals made prior to age 59½ subject to the IRS 10% penalty?**

No. The withdrawal penalty does not apply to contributions and earnings in a 457(b) plan. However, withdrawals of amounts you have rolled into the U-M 457(b) from another type of plan are generally still subject to the penalty. Your ability to take a withdrawal from the U-M 457(b) while a current member of the faculty or staff is **very limited**. See page 25 for details.

### **Enrolling in the 457(b) does not enroll you in the Retirement Plan.**

The 457(b) allows you to save on a tax-deferred basis. However, it is not the retirement plan for university faculty and staff. The 457(b) is a separate plan that can help you reach your savings goals, but remember to enroll in the U-M Basic Retirement Plan, if you are eligible.

# 457(b) or a 403(b) SRA?

The University of Michigan sponsors a 457(b) Deferred Compensation Plan and a 403(b) Supplemental Retirement Account (SRA) to save tax-deferred for retirement. What's the difference between the two?

## How are the 457(b) and the SRA similar?

Both plans have the following in common:

- You can make tax-deferred contributions that are taxed upon distribution.
- You can make after-tax Roth contributions with tax-free distributions.
- The same investment fund options.
- The same income options at any age once terminated or retired.
- The ability to take a loan.
- Cash withdrawals and rollovers at any age once terminated or retired.

## How are the 457(b) and the SRA different?

- The IRS 10% penalty on withdrawals made prior to age 59½ does not apply to the 457(b), but it does apply to the SRA.
- The SRA allows cash withdrawals as a current member of the faculty or staff if you become disabled, in the event of financial hardship, or at age 59½ or older. These options are not available under the 457(b).
- The 457(b) allows cash withdrawals as a current member of the faculty or staff at 70½ or older, or as a one-time withdrawal if your account balance is no more than \$5,000 and you have made no contributions to the plan during the two years prior to the distribution.

## Can I contribute to the 457(b) and later transfer it to an SRA in order to get access to the SRA cash withdrawal options?

No. Federal regulations do not permit direct transfers between a 457(b) and an SRA. However, once you have retired or terminated employment, you may rollover the 457(b) to another eligible retirement plan or an IRA.

## The SRA may be of interest if:

You want the flexibility to cash out the SRA before you retire or terminate employment due to:

- Disability
- Financial hardship
- At age 59½ or older

## The 457(b) may be of interest if:

- You already contribute the maximum allowable to the 403(b) SRA and want to save more.
- You **do not** need to cash out the accumulations before you retire, terminate employment or reach age 70½.
- You anticipate taking a cash withdrawal before age 59½ (because you retire, terminate, or take the one-time withdrawal) and you want to avoid the IRS 10% penalty.

457(b) vs. SRA		
Plan Feature	457(b)	SRA
In-service disability withdrawal?	No	Yes
In-service hardship withdrawal?	No	Yes
In-service withdrawal at age 59½?	No	Yes
In-service withdrawal at age 70½?	Yes	Already available at 59 ½
Subject to minimum distribution at 70½?	Yes	Yes
Subject to IRS early withdrawal penalty?	No	Yes
Loans	Yes	Yes

Income tax is due on withdrawals. An IRS 10% penalty generally applies to withdrawals made prior to age 59½ on the SRA but not the 457(b). Consult with a qualified tax advisor for information on taxation of distributions and the IRS early withdrawal penalty. If you default on the loan, income taxes are due, and an IRS early withdrawal penalty may apply if you are under age 59½ on the SRA loan.



# After-Tax Roth 457(b)

Tax-deferred contributions to a retirement plan are not subject to income tax when deducted from your paycheck, but they are taxed when you take a distribution at a later time.

As another option, you may make after-tax Roth contributions to the 457(b) Deferred Compensation Plan. When you contribute after-tax dollars to the plan, qualified distributions you take a later time are tax-free. However, the entire contribution amount is included in your gross income so there is no tax savings during the year it is deducted from your paycheck.

The after-tax Roth does not increase the annual contribution limits for the plan. It just means that you may designate some or all of your contributions to these plans as after-tax Roth.

## No Income Limits on U-M Roth Plans

You cannot contribute to a Roth IRA if your income exceeds a certain threshold. These restrictions do not apply to the U-M Roth retirement savings plan options. These options may be of particular interest to individuals whose income is above the limit to qualify for a Roth IRA through a bank and financial institution.

## Roth Highlights

You may make your 457(b) contributions as tax-deferred, after-tax Roth, or any combination of both.

If you already make tax-deferred contributions to a 457(b) account, you are not issued a new account with TIAA or Fidelity if you decide to make after-tax Roth contributions. Any Roth contributions you make go into your existing account and are tracked separately from your tax-deferred amounts.

An after-tax Roth contribution will reduce your take-home pay more than if you made an equivalent tax-deferred contribution to the 457(b) because the Roth contribution is subject to income tax when it is deducted from your paycheck.

Roth qualified distributions are tax-free when made after a 5-taxable-year period of participation and is either made on or after the date you attain age 59½, made after your death, or attributable to your being disabled.

After-tax Roth accumulations are still subject to the same eligibility criteria to elect a distribution, rollover or loan as tax-deferred contributions.

You may postpone distributions from the Roth 457(b) indefinitely during your lifetime (requires rollover to a Roth IRA) and even pass assets tax-free to heirs.

Once you make an election to make a contribution as after-tax Roth it is irrevocable. You may change future contributions to be tax-deferred but once the election has been made to designate a contribution as after-tax Roth you cannot change it to tax-deferred retroactively.

## After-Tax Roth vs Tax-Deferred

Which is better, tax-deferred or after-tax Roth? If your tax rate in retirement:

- Stays the same as it is now – both yield about the same benefit.
- Is higher than your current tax rate – after-tax Roth yields a higher benefit.
- Is lower than your current tax rate – tax-deferred products yield a higher benefit.

Topic	Tax-Deferred	After-Tax Roth
Contributions when deducted from your paycheck	Not subject to income tax; can reduce your current taxable income.	Subject to income tax; will not reduce your current taxable income.
Distribution of contributions	Taxable	Tax-free
Distribution of earnings	Taxable	Tax-free, if qualified
Subject to income tax to beneficiaries in the event of death?	Yes	Tax-free if the deceased started making Roth contributions more than five tax years prior to distribution.
Estate tax	May apply	May apply
Subject to required minimum distributions at age 70½ once retired or terminated from U-M?	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70½ once you have retired or terminated from U-M. If you are already over age 70½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year.	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70½ once you have retired or terminated from U-M. If you are already over age 70½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year.  If the Roth 457(b) is rolled over to a Roth IRA before the calendar year in which you reach age 70½ you can delay distributions indefinitely during your lifetime.
Subject to IRS 10% penalty for distributions prior to age 59½?	No	After-tax contributions: no Earnings: no
Rollovers	To another tax-deferred 403(b), 457(b), 401(k), 401(a), Traditional IRA and Roth IRA.	To another after-tax Roth 457(b), Roth 403(b), Roth 401(k), Roth 401(a) or Roth IRA.

## **You might want to make after-tax Roth contributions if you:**

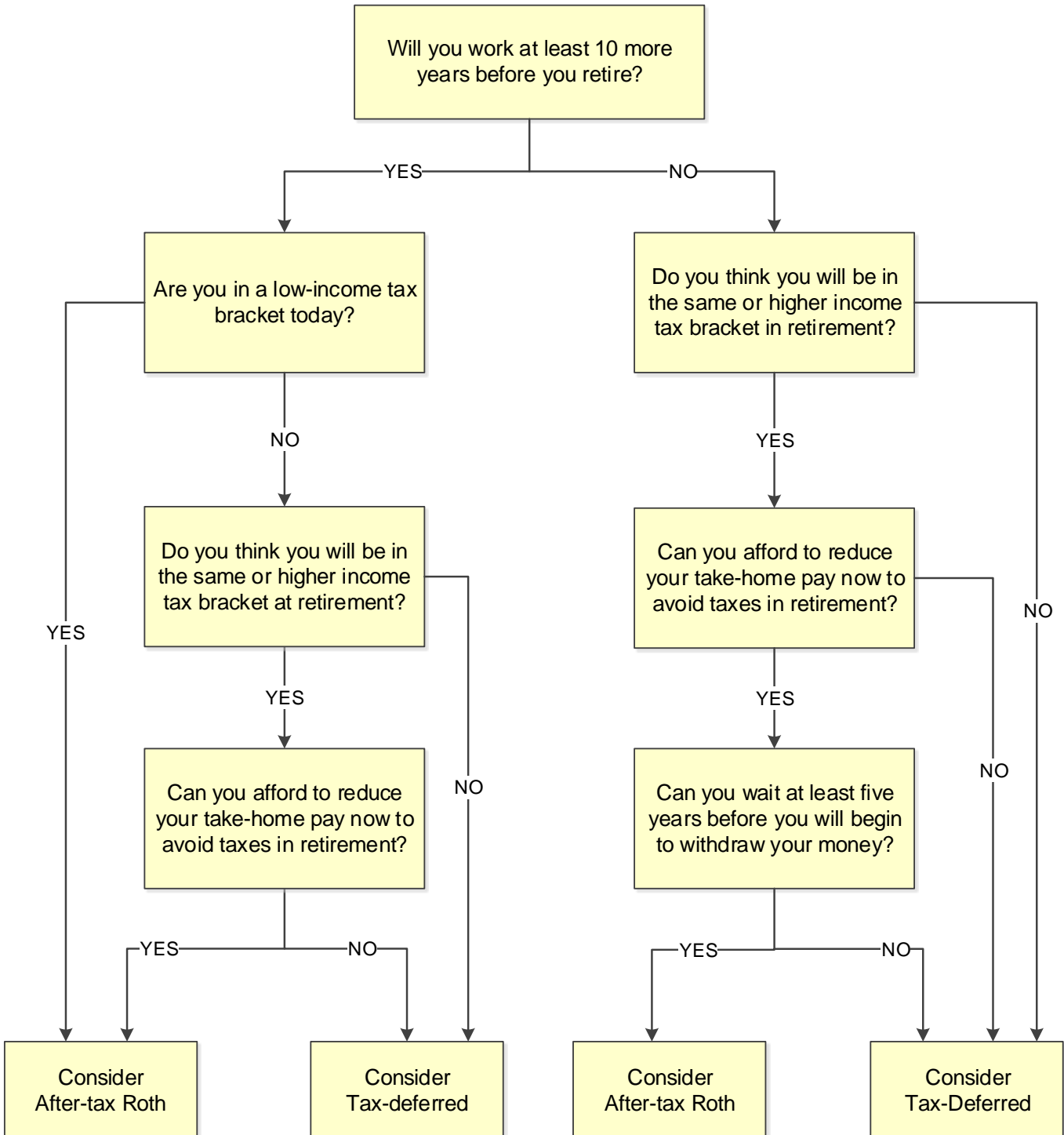
- Expect to be in a higher tax bracket in retirement.
- Want qualified tax-free distributions in retirement.
- Want the option to postpone required minimum distributions at age 70½ (requires rollover to a Roth IRA).
- Cannot contribute to a Roth IRA due to IRS income restrictions.
- Want to pass assets tax-free to heirs.
- Want to make after-tax Roth contributions in excess of Roth IRA limits.
- Have a long retirement horizon that will allow time to accumulate significant tax-free earnings which can be withdrawn tax-free.
- Want tax diversification of having both after-tax and tax-deferred assets as a hedge against potential tax increases.
- Want to achieve the maximum benefit. A qualified Roth distribution may provide more income in retirement than an equivalent distribution from a tax-deferred 457(b) since Roth earnings are tax-free instead of just tax-deferred.

## **You might want to make tax-deferred contributions if you:**

- Expect to be in a lower tax bracket in retirement.
- Want to lower your current taxes.
- Don't want to pay taxes now with Roth contributions. It can take several years of investment earnings to recoup the amount lost to pay taxes on Roth contributions when deducted from your paycheck.
- Are close to retirement, expect to start taking distributions, and don't have several years to wait for compounding of after-tax Roth contribution earnings to make up for the tax liability paid when Roth contributions are deducted from your paycheck.
- Don't think you will meet the criteria for Roth distributions to be tax-free (for example, if the account won't be open for at least 5 years and you won't be at least age 59½ or disabled or deceased when a distribution is taken, then the earnings will not be tax-free).

## What Makes Sense for You: After-tax Roth or Tax Deferred?

The chart below can help you evaluate the choice to pay taxes today or in retirement. It assumes you contribute the same amount while working, whether as after-tax Roth (paying income taxes now with tax-free withdrawals for qualified distributions) or traditional tax-deferred (which can reduce your taxable income today but you pay taxes on distributions). The University of Michigan does not provide (nor is this intended to constitute) tax, legal, accounting, estate planning or investment advice. Your specific circumstances may not be addressed by this chart. It is the responsibility of the individual to address questions or concerns to a qualified professional.



## Roth Distributions

The same events that allow a distribution on the tax-deferred 457(b) Deferred Compensation Plan (termination or in-service starting at age 70½) apply to the after-tax Roth.

You can take a loan from Roth accumulations in your 457(b) account with Fidelity Investments. Roth accumulations may be used to calculate the amount available for a loan from TIAA; however, the Roth amounts cannot be taken as a loan from TIAA.

### When Roth Distributions Are Tax-Free

Distributions of after-tax Roth contributions to the 403(b) SRA and 457(b) are tax-free since taxes were paid when taken from your paycheck. Earnings on after-tax Roth contributions are tax-free when they are a qualified distribution. A qualified distribution is generally a distribution that is made after a 5-taxable-year period of participation and is either:

1. made on or after the date you attain age 59½; or,
2. made after your death; or,
3. attributable to your being disabled, as defined by IRC Section 72(m)(7).

If a distribution is made to your alternate payee (in the case of a divorce) or beneficiary, then your age, death or disability is used to determine whether the distribution is qualified. However, when the alternate payee or a surviving spouse rolls over the distribution to his or her own employer's designated Roth account their own age, death or disability is used to determine if the distribution is qualified.

If a Roth distribution is nonqualified the contribution portion of the distribution is tax-free since taxes were paid when it was deducted from your paycheck. However, earnings will be taxed as ordinary income.

### Calculation of the 5-taxable-year Period of Participation

The 5-taxable-year period of participation begins on the first day of your taxable year for which you first made designated Roth contributions to the plan. It ends when five consecutive taxable years have passed. Once the period does begin, it continues to run even if you do not make any additional contributions. In the absence of information to the contrary, it is assumed that a participant's taxable year is the calendar year.

There is also a special provision for reemployed veterans who perform qualified military service as defined by Internal Revenue Code Section 414(u). Their Roth contributions generally are treated as made in the year of qualified military service to which the contributions relate, even if the contribution is actually made when the veteran later returns to employment.

If you make a direct rollover from a designated Roth account under another plan, the 5-taxable-year period for the recipient plan begins on the first day of the taxable year that you made designated Roth contributions to the other plan, if earlier.

### Distributions that Cannot be Qualified

The following types of distributions from a designated Roth account are not qualified distributions and must be included in gross income subject to taxation:

- Corrective distributions of elective deferrals in excess of the Internal Revenue Code limits.
- Corrective distributions of excess contributions or excess aggregate contributions.
- Deemed distributions under §72(p) (where you default on repayment of a plan loan).

### If You Take a Distribution Before the End of the 5-taxable-year Period

If you take a distribution from your designated Roth account before the end of the 5-taxable-year period, it is a nonqualified distribution. Termination of employment (whether voluntary or involuntary) does not constitute a qualified distribution. In addition, disability, death or attainment of age 59½ is not a qualified distribution if the account has not also been held for at least 5 years. Therefore, the earnings portion of the nonqualified distribution in gross income and will be subject to income tax. However, the basis (or after-tax contributions) portion of the nonqualified distribution is not included in gross income since taxes were already paid when deducted from your paycheck.

## Roth Rollovers

You can roll over distributions from your U-M Roth 403(b) SRA or Roth 457(b) to another employer's designated Roth 401(k)/403(b)/governmental 457(b) or into a Roth IRA. However, because a distribution from a designated Roth account consists of both tax-deferred accumulations (earnings on the after-tax Roth contributions) and after-tax Roth contributions, it must be rolled over into a designated Roth account in another plan through a direct rollover.

If the distribution is made directly to you and then you roll it over within 60 days, the after-tax Roth contribution portion cannot be rolled over to another designated Roth 401(k)/403(b)/governmental 457(b) account, but can be rolled over into a Roth IRA.

If only a portion of the distribution is rolled over, the rolled over portion is treated as consisting first of the amount of the distribution that is includible in gross income. Alternatively, you may roll over the taxable portion of the distribution to a 401(a) or 403(b) plan's designated Roth account within 60 days of receipt. However, your period of participation under the distributing plan is not carried over to the recipient plan for purposes of measuring the 5-taxable-year period under the recipient plan.

### Rollovers and the 5-taxable-year Period

When you roll over a distribution from your U-M designated Roth 403(b) or Roth 457(b) to a Roth IRA the period that the rolled-over funds were in the U-M Roth 403(b) SRA and/or Roth 457(b) does not count toward the 5-taxable-year period for determining qualified distributions from the Roth IRA.

However, if you had contributed to any Roth IRA in a prior year, the 5-taxable-year period for determining qualified distributions from a Roth IRA is measured from the earlier contribution. Therefore, if the earlier contribution was made more than 5 years ago and you are over 59½ a distribution of amounts attributable to a rollover contribution from a designated Roth account would be a qualified distribution from the Roth IRA.

### How the 5-taxable-year Period is Calculated with Regards to a Rollover

- Direct rollovers from one Roth 401(k)/403(b)/governmental 457(b) account to another Roth 401(k)/403(b)/governmental 457(b) account: the participant receives credit in the recipient plan for their period of participation in the distributing plan. In other words, the five-year period is measured from the earliest year in which the participant made contributions to either plan.
- 60-day rollovers from one Roth 401(k)/403(b)/governmental 457(b) account to another Roth 401(k)/403(b)/governmental 457(b) account: the participant does not receive credit in the recipient plan for their period of participation in the distributing plan.
- Any type of rollover to a Roth IRA: the participant does not receive credit in the Roth IRA for their period of participation in the distributing plan. If an individual had already established a Roth IRA, the start of the five-year period for the Roth IRA would apply to any distributions from that account, including any rollover amounts.
- Direct rollover from a participant's Roth 401(k)/403(b)/governmental 457(b) account to an alternate payee or to a spousal beneficiary's Roth account in a plan maintained by the alternate payee's employer: the five-year period under the recipient plan begins on the earlier of 1) the date of the individual's period of participation under the distributing plan, or 2) the date the alternate payee or beneficiary's Roth account began under the recipient plan. However, the alternate payee's or spousal beneficiary's own age, death or disability is used to determine whether a distribution from the recipient plan is qualified.

## **Roth Minimum Distribution and Passing Assets to Heirs**

Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70½ once you have retired or terminated from the university. If you are already over age 70½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year.

If you roll over the balance in your U-M Roth 457(b) to a Roth IRA before the calendar year in which you reach age 70½, the minimum distributions are not required. You are then able to postpone distributions from the Roth IRA indefinitely during your lifetime. You can also pass Roth assets to your heirs, who can then take qualified distributions without paying income taxes.

Roth assets may be subject to estate taxes, but can be mitigated with proper estate planning. Please note that this is different than Roth assets being subject to income taxes.

# IRS Saver's Credit

## What is the Saver's Credit?

This is a nonrefundable tax credit available to eligible individuals who make elective contributions to certain types of retirement plans. Its purpose is to encourage people to save for retirement. Consult with a qualified tax advisor for more information and to see if you qualify.

## Eligible Contributions

You may be eligible for a credit of up to \$1,000 for combined voluntary contributions you make to the following types of plans:

- Employer-sponsored 401(k) or 403(b) plans, a governmental 457(b) plan, SIMPLEs, and SEPs.
- Individual or spousal contributions to an IRA, (both traditional and Roth).
- After-tax contributions you make to a qualified retirement plan.

## Maximum Contribution and Credit

Annual contributions of up to \$2,000 may be considered for this credit. Depending on your adjusted gross income, you may be eligible to take the credit for up to 50% of the contribution, with a maximum credit of \$1,000.

## Who is Not Eligible

You are not eligible for the credit if any of the following conditions apply to you:

- Your adjusted gross income for the year is more than the IRS limit.
- You are under age 18.
- You are claimed as a dependent on another taxpayer's tax return, or are a full-time student.

## The Amount of the Credit

If you are eligible, the amount of the saver's credit is based on the adjusted gross income (AGI) of you and your spouse. See the chart below for more specific information.

## Other Considerations

The credit is reduced by taxable distributions taken from an employer-sponsored retirement plan or IRA by you or your spouse during the year the credit is claimed, during the two preceding years, or during the time between the end of the year the credit is claimed and the due date for the taxpayer's income tax return. The reduction also applies to any Roth IRA distribution that is not rolled over, regardless of whether it is taxable.

Visit the IRS website for details on the Saver's Credit:

[irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit](https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit)



# TIAA

## **What is TIAA?**

TIAA is the nationwide retirement and financial services system for people who work at more than 15,000 colleges, universities, independent schools, and other nonprofit education, hospital and health care, and research institutions throughout the United States. In fact, the University of Michigan was the first in the nation to offer TIAA in 1919.

TIAA received the highest ranking for trust in the financial services and insurance industries by The Harris Poll (2010).

## **What are my investment choices?**

The investment fund is automatically defaulted to an age-appropriate TIAA Lifecycle Index Fund. You may change this at any time. TIAA offers more than 40 fund choices, including mutual funds, and fixed and variable annuities. Domestic and international stock funds, bond funds, money market funds and real estate funds are available, along with a guaranteed fixed annuity and socially responsible funds.

Several Vanguard funds are also available through TIAA.

For a complete list of available investment funds visit: [tiaa.org/umich](http://tiaa.org/umich)

## **TIAA Institutional Class Mutual Funds**

All TIAA mutual funds available through the University of Michigan plans are offered under the Institutional share class. The Institutional Class is the share class with the lowest management fees and expenses TIAA offers and charges 25 basis point ( $\frac{1}{4}$  of a percent) less in expenses than the Retirement share class that is typically offered through most employers. The low fees mean more of your money remains in your account, working toward your financial future, and your retirement account balances have more earning potential.

## **Where can I find more information?**

You can meet with a TIAA investment professional by calling 1-800-732-8353.

**[tiaa.org/umich](http://tiaa.org/umich)**

TIAA Telephone Counseling Center

1-800-842-2252

# Fidelity Investments

## What is Fidelity Investments?

Fidelity Investments was founded in 1946 by Edward C. Johnson II and today is the largest mutual fund company in the world. Fidelity is one of the nation's top providers of 403(b) retirement savings plans for not-for-profit organizations, including colleges and universities, healthcare institutions, foundations, and charitable organizations. The University of Michigan added Fidelity Investments to its retirement plan in 1989.

## What are my investment choices with Fidelity?

The investment fund is automatically defaulted to an age-appropriate Freedom Index Fund. You may change this at any time. Fidelity Investments offers over 200 mutual funds, including domestic and international stock funds, bond funds, money market funds and real estate funds. In addition, the Select Portfolio Funds allow you to invest in highly specialized sectors of the economy. Several Vanguard funds are also available through Fidelity.

For a complete list of available investment funds visit: [netbenefits.com/uofm](https://netbenefits.com/uofm)

## Fidelity Freedom Index Funds: Class W

The Fidelity Freedom Index Funds available through the University of Michigan plans are offered as Class W shares. Class K is the share class with the lowest management fees Fidelity offers for the Freedom Funds. The low fees mean that more of your money goes to purchasing investments and you keep a higher percentage of the potential returns generated, which can help you reach your retirement goals faster.

## Where can I find more information?

You can meet with a Fidelity Investments professional by calling: 1-800-642-7131.

[netbenefits.com/uofm](https://netbenefits.com/uofm)

Fidelity Retirement Specialists

1-800-343-0860

# Eligible Compensation

## Eligible compensation defined

Not everything you receive in a paycheck can be put into the 457(b) plan. Compensation must meet federal requirements in order to be deferred. It must be earned compensation that is paid to you as a University of Michigan faculty or staff member for services performed, subject to federal income tax withholding through the university, and reported on a W-2 issued by the university.

## Federal income tax withholding

Certain forms of compensation may be subject to federal income tax but cannot have withholding taken by the university. In these cases, you may not make a pre-tax contribution to the 457(b) plan because the university cannot provide a pre-tax benefit on compensation that is not subject to tax withholding. A fellowship is an example of compensation not subject to tax withholding through the university.

## No after-tax payments; it must be taken pretax from your paycheck

Salary deferrals must be made as a pre-tax contribution from your paycheck. For example, you cannot write a check to the University of Michigan to have it sent to TIAA or Fidelity Investments.

*Visit the Payroll Office website for a complete list of the types of compensation that may be deferred. Generally, compensation that may be contributed to the retirement plan may also be deferred into the 457(b).*

<http://www.finops.umich.edu/payroll>

Eligible Compensation	Ineligible Compensation
<p>Examples of compensation that are eligible to be deferred under the University of Michigan 457(b) Plan include:</p>	<p>Examples of compensation and payments that <b>are not</b> eligible to be deferred under the University of Michigan 457(b) Plan include:</p>
<ul style="list-style-type: none"> <li>▪ Base salary and wages</li> <li>▪ Overtime</li> <li>▪ Shift differential</li> <li>▪ Administrative differential</li> <li>▪ Incentive payments (Risk Pay) under the Medical Service Plan</li> <li>▪ Longevity pay</li> <li>▪ Summer salary for university-year appointees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fellowship, scholarship, and stipends</li> <li>▪ Flex credits for opting out of benefit plans</li> <li>▪ Allowances for housing, uniforms, and travel</li> <li>▪ Royalty payments</li> <li>▪ Long-term disability plan benefit payments</li> <li>▪ Temporary employee earnings</li> <li>▪ Worker's Compensation</li> </ul>

# Enroll Online Using Self Service > Benefits

1. Go to the Wolverine Access Gateway at <http://wolverineaccess.umich.edu>
2. Select the **Faculty & Staff** tab
3. Enter your unickname and password
4. Select **Benefits**
5. Select **Initiate Ret Savings Election** under Retirement Self Service
6. Select the **457(b)** radio button and follow the online instructions to designate your per pay period contribution amount and choice of investment carrier(s).
7. You must **Submit** and **Finalize** your elections in order to complete the enrollment process.
8. Select your investment funds and designate your beneficiary directly with TIAA and Fidelity Investments. See pages 19 and 20 for more information.

You will receive a follow-up confirmation of your enrollment by email after you have submitted and finalized your elections. If you do not receive the confirmation email, you have not completed the enrollment process.

## Effective Date

**Per IRS regulations, enrollment and any elections to change your deferral amount in the 457(b) plan is generally effective no earlier than the month following the date your applications or elections are filed with the Benefits Office.**

**Please note that this is different from the Basic Retirement Plan and SRA, which can be effective in the same month that you submit your enrollment or election to change your contribution amount.**

## Canceling, Increasing or Decreasing Your Salary Deferral

Use Self Service > Benefits on Wolverine Access anytime during the year to cancel, increase, or reduce your existing salary deferral contribution. All changes are effective no earlier than the month **following** the date you submit and finalize your elections.

Please note that you may make only one election using Self Service > Benefits per month.

## Designate your beneficiary and choice of funds directly with TIAA and/or Fidelity Investments

- There are no paper applications to open your account with TIAA and/or Fidelity Investments.
- Once you have completed and finalized the online enrollment process, the Benefits Office will send an enrollment notice to your chosen investment carrier(s) to establish your account.
- TIAA and/or Fidelity Investments will mail you a packet with information on how to designate your beneficiary.
- The investment fund will automatically be a TIAA Lifecycle or Fidelity Investments Freedom fund, based on your date of birth. You may change this at any time.

# Enrolling with TIAA and Fidelity Investments

## Default Investment Fund

The investment fund default is an age-appropriate Lifecycle Index Fund if you select TIAA and a Freedom Index Fund if you select Fidelity Investments. If you do not have a U.S. street mailing address, the default investment fund for TIAA will be CREF Money Market.

## Default Beneficiary

Designating a beneficiary is critical to ensure that your retirement account is paid to the person you choose in the event of your death, and it helps avoid legal disputes over your account. If you don't designate a beneficiary for the retirement savings plans, for both TIAA and Fidelity the account will be paid according to person or persons surviving you in the following order: spouse, children, parents, siblings, personal representative (executor or administrator).

**Important:** Your beneficiary designations do not carry over between plans, between investment companies, or from life insurance to the retirement savings plans. In addition, enrolling in Wolverine Access does not automatically declare your beneficiary to TIAA or Fidelity. You need to make your fund and beneficiary designations for each type of plan in which you enroll and for each investment company you select. For example, if you enroll in the Basic Retirement Plan and the 403(b) SRA with TIAA you need to designate your fund choices and beneficiary for each plan even though both are with the same company.

## TIAA

You can create your account, select your investment funds and designate your beneficiary online at any time instead of waiting for your welcome packet by going to: [tiaa.org/umich](http://tiaa.org/umich)

- Select “**Enroll Now**”
- Click on the type of plan for which you are creating an account: Basic Retirement Plan, 403(b) SRA, 457(b).
- Follow the online prompts and enter your selections.

Call TIAA at 1-800-842-2252, Monday through Friday from 7 a.m. to 9 p.m. and Saturday from 8 a.m. to 5 p.m. (CT). A consultant will help you make the appropriate beneficiary designations for your retirement planning needs and record your investment fund selections.

## Fidelity Investments

You can create your account, select your investment funds and designate your beneficiary online at any time instead of waiting for your welcome packet by going to: [netbenefits.com/uofm](http://netbenefits.com/uofm)

- Select “**Enroll**”
- Click on the type of plan for which you are creating an account: Basic Retirement Plan, 403(b) SRA, 457(b).
  - **NOTE:** *You will need to open an account under two different plans for the Basic Retirement Plan. Open an account under **401(a) Base Plan 86503** for the U-M contribution and open an account under **403(b) Base Plan 72104** for your contribution.*
- Follow the online prompts and enter your selections.

Contact a Fidelity Retirement Services Specialist by calling 800-343-0860, Monday through Friday, 8:00 a.m. to midnight, Eastern Time if you have questions or need assistance.

# Two Ways to Invest

## 1. Use the Default Investment Fund

When you enroll in the Basic Retirement Plan, 403(b) SRA and/or 457(b) the investment fund will automatically be a default to an age-appropriate Lifecycle Index Fund if you select TIAA and a Freedom Index Fund if you select Fidelity Investments. If you do not have a U.S. street mailing address, the default investment fund for TIAA will be CREF Money Market.

A TIAA Lifecycle Index Fund or Fidelity Investments Freedom Index Fund is a mutual fund that is a diversified portfolio of other mutual funds offered by that company; essentially a fund of other funds. This includes domestic and international stock funds, bond funds, and money market funds. Each Lifecycle Index or Freedom Index Fund automatically selects the allocation of stock, bond, and money market funds that are appropriate for a target retirement date of approximately age 65.

The Lifecycle Index and Freedom Index Funds gradually adjust over time to become more conservative by decreasing the underlying equity holdings and increasing the fixed income holdings as the fund's target retirement date nears. The gradual shift into fixed income from equities provides the potential for growth while reduces volatility as the retirement date approaches.

TIAA Lifecycle Index and Fidelity Freedom Index Funds are actively managed; however, the underlying mutual funds within each portfolio are index mutual funds. An index fund is a passive investment strategy that aims to replicate the movements of a specific benchmark that are held constant, regardless of market conditions. Using underlying index funds are a lower cost option to meet your retirement savings goals.

Your date of birth will be included in the enrollment notice sent to your chosen investment company. This will determine the specific Lifecycle Index or Freedom Index Fund into which you will be enrolled.

Lifecycle Index and Freedom Index Funds provide a simple solution if you lack the time, confidence, or investment knowledge to create and manage a well-diversified portfolio. Each fund is professionally managed and provides you with a simple, single investment fund.

## 2. Create a Custom Portfolio

You can create your own custom-made portfolio by allocating your contributions among the various funds offered by TIAA and Fidelity to your own specifications. You may also select among the Vanguard funds offered through the TIAA and Fidelity record keeping platforms as well as use the brokerage link to access other mutual funds. You will receive a welcome packet after you have been enrolled with TIAA and/or Fidelity with information on the many investment choices available if you do not wish to stay in the default selection. You can also visit [tiaa.org/umich](http://tiaa.org/umich) or [netbenefits.com/uofm](http://netbenefits.com/uofm).

# How Much Can I Contribute?

## General Limit of \$19,000

The Internal Revenue Code limits the total amount you may contribute to all 457(b) plans you have across all employers. The limit may change annually.

View how much you may contribute to the 457(b) by logging into Wolverine Access Employee Self Service. Select Benefits and then choose Calculate Ret. Contribution under Retirement Self Service or view your 457(b) contribution limit for the current year and the following year.

Contributions made to another plan, except another 457(b) plan, will not reduce your limit for making contributions to the U-M 457(b) plan. Consult with a qualified tax advisor to ensure your total contributions to all plan types do not exceed Internal Revenue Code limits.

## Age 50 or Older Limit

If you are age 50 or older by the end of the calendar year, you have an increased limit.

## Your Per Paycheck Contribution

After you determine your annual limit, subtract any contributions made during the same calendar year to another employer's 457(b) plan. Divide the remaining amount by the number of pay periods left in the calendar year to determine your per paycheck contribution or salary deferral amount.

Your 457(b) salary deferral amount will continue until you change or cancel it using Self Service > Benefits through the Wolverine Access gateway. If you reach the annual limit before the end of the calendar year, the contributions will be suspended for the balance of the year. It will generally resume automatically the following January.

## If You Retire or Terminate

Your limit for the year does not change because you retire, terminate employment, take a leave of absence, or are placed on a layoff (RIF). You may reach your limit by increasing your 457(b) contribution before the event occurs.

You have one 457(b) limit no matter how many employers or plans you have. If you have reached the IRC 457(b) limit while at U-M and then go to work for another employer, you may not be able to contribute to their 457(b) plan until the following calendar year. You will need to carefully coordinate your elective deferrals if you plan to work for another employer and want to contribute to their 457(b) plan.

## Vacation Payoff

If you are eligible to accrue vacation, any unused accrual at termination of employment or retirement will be paid to you. This payment **will not** have the 457(b) contribution taken if you are enrolled in the plan.

## Do Not Exceed the Limit

The M-Pathways payroll system monitors your year-to-date contributions and will automatically suspend them for the rest of the calendar year if you reach the IRC limit.

***This only tracks your 457(b) deferrals at U-M. If you contribute to another employer's 457(b) during the same calendar year, you will need to carefully monitor your combined deferrals so they do not exceed IRC limits.***

Elective deferrals to other types of plans that **do not** reduce your U-M 457(b) limit include:

- 403(b)
- 401(k)
- 408(k)(6) Salary Reduction Simplified Employee Pension Plans (SARSEPs)
- SIMPLEs (Savings Incentive Match Plans for Employees)

Consult with a tax advisor if you have questions about the need to aggregate your combined elective deferrals so you do not exceed IRC limits.

**It is your responsibility to make sure your combined contributions to all plan types do not exceed IRC limits.**

# Rollovers into the U-M 457(b) Plan

## ***Will the U-M 457(b) Plan accept rollovers?***

Yes. You can rollover accumulations from another eligible retirement plan into the University of Michigan 457(b) Plan at any time.

## ***What kind of rollovers can the U-M 457(b) Plan accept?***

The following types of pre-tax eligible rollover distributions can be accepted into the U-M Plan:

- 401(a)
- 403(a)
- 401(k)
- 403(b)
- Governmental 457(b)
- IRA

The ability to accept after-tax rollovers from these plans is severely limited. Contact TIAA and Fidelity Investments for more information on the specific types of after-tax rollovers that can be accepted.

## ***Does the IRS 10% penalty apply to amounts I rollover into the U-M 457(b) Plan?***

Yes. Amounts you rollover into a 457(b) from another type of plan, including an IRA, 403(b), 401(k), 403(a), or 401(a), are tracked separately. A subsequent distribution prior to age 59 ½ of these amounts are generally still subject to the IRS withdrawal penalty.

## ***How do I arrange for a rollover of assets into the U-M 457(b) Plan?***

1. Contact the investment carrier who has the accumulations you want to rollover, or your previous employer who sponsored the plan, to determine if you are allowed to take a rollover.
2. Enroll in the U-M 457(b) Plan and set up your account with TIAA and/or Fidelity Investments so the rollover will have a destination account established.
3. Obtain a rollover application from TIAA and/or Fidelity Investments. You may also need to obtain a rollover application from the investment carrier that currently has the amounts you wish to rollover. Some carriers will allow you to use the TIAA and Fidelity Investments forms; others will want you to also complete their own forms.

## ***Who can I talk to if I have questions?***

You can speak with a consultant with TIAA and Fidelity Investments for questions and to request forms for a rollover. You can also meet with a consultant from TIAA and Fidelity Investments for questions or help on completing the applications.



# Military Leave of Absence

## ***How does taking a military leave of absence affect my 457(b)?***

After you return from a military leave of absence, you are allowed to make extra contributions to the plan to make up for those you missed during the leave. This option is provided under the Uniformed Services Employment and Reemployment Rights Act (USERRA).

## ***How do you calculate the contributions that were missed during the leave?***

The salary deferral amount in effect prior to your leave is used to determine the amount you were contributing before your leave of absence.

These per-paycheck amounts are multiplied by the number of pay periods missed, according to the start and end dates of your leave of absence. This determines the total amount eligible to be made up.

When you return from the leave to an active appointment at the university, you may choose to have extra contributions taken over several pay periods to make up for those that were missed during the military leave.

## ***Am I required to make up the missed contributions?***

No, this is completely voluntary. You may choose to make up the total amount, a portion of it, or none at all.

## ***How long do I have to make up the missed contributions?***

You have up to three times the length of the leave to make the extra contributions, capped at five years. You may make up the missed contributions in a shorter length of time if you prefer.

## ***If I make extra contributions to the plan, won't that count against the IRS limit and reduce the amount I can tax-defer into the plan?***

No. USERRA grants a special exemption that allows you to exceed the IRS limit that normally caps 457(b) contributions. This permits you to make extra contributions to make up for those missed during the leave in addition to the contributions you will make on your salary after returning from your leave.

## ***Can I make up contributions if I wasn't enrolled in the Plan prior to the leave?***

No. This option is only available if you were participating in the plan before you took the military leave of absence.

## ***Can I make up missed contributions due to other types of leaves of absence?***

No. This make up feature only applies in cases of a military leave of absence.

## ***How do I start the process to make up the missed contributions?***

Contact the Shared Services Center at 734-615-2000 upon your return from your military leave of absence.

## Direct Transfers

### ***What is a direct transfer?***

A direct transfer is a tax-free transfer made directly between investment carriers. You can move your accumulations between TIAA and Fidelity Investments, as long as they remain in a U-M 457(b) Plan account. This can be done at any time, regardless of whether you are a current, former, or retired faculty or staff member. However, you cannot transfer your 457(b) to the SRA in order to gain access to the SRA cash withdrawal options.

### ***How does a transfer differ from a rollover?***

A transfer is used to move accumulations between investment carriers within an employer's 457(b) plan. A rollover is a distribution that moves the accumulations into another investment vehicle, such as another employer's retirement plan or an IRA.

### ***Are direct transfers allowed to companies other than TIAA and Fidelity?***

No. TIAA and Fidelity Investments are the two companies for the University of Michigan 457(b) Plan.

### **How to make a direct transfer**

Contact TIAA-CREF or Fidelity Investments and request a direct transfer application. Complete and return the form to the investment company.

If you do not have an account with the company that you would like to receive the transfer, you will need to complete an application to set up the account before the transfer can be processed.

Submitting the direct transfer and account applications only move accumulations already on deposit; **it does not change where your current and future contributions are sent.** To change which carrier receives future contributions, use Self Service > Benefits on Wolverine Access.

## Transfers for Purchase of Service Credit

If you participate in a defined benefit governmental plan (as defined in Internal Revenue Code Section 414(d)), you may request a direct transfer from this plan to the defined benefit governmental plan if the transferred assets are used for the following purposes:

- The purchase of service credit (as defined in Code Section 415(n)(3)(A)) under the defined benefit governmental plan; or
- The repayment of contributions and earnings related to a previous forfeiture of service credit under the defined benefit governmental plan.

# Cash Withdrawals:

## *Current Faculty and Staff*

### Age 70½ Withdrawal

#### ***How much can I withdraw?***

You may withdraw any portion or your entire accumulations while you are a current member of the faculty or staff at age 70½ or older for any reason.

#### ***Is there a tax penalty for doing so?***

No, but you will have to pay income tax on the amount you withdraw.

#### ***Is this a minimum distribution withdrawal?***

No. The IRS requires you to take a withdrawal by April 1 **after** the year you retire or terminate. If you are over 70½ when you retire or terminate, the withdrawal must occur by the following April 1. In contrast, this withdrawal option is available to you while you are still working at 70½ or older and is not considered to be a minimum distribution but merely an in-service cash withdrawal.

#### ***Can I rollover this withdrawal?***

Yes. Contact TIAA and/or Fidelity Investments for assistance.

#### ***How do I arrange for a withdrawal?***

Contact TIAA and/or Fidelity Investments to request a withdrawal application and complete your sections of the form. Return the form to the appropriate investment carrier for processing. There is no employer authorization required for this type of withdrawal.

### One-Time Withdrawal

#### ***What is the one-time withdrawal?***

You may withdraw your entire accumulations under a special provision while you are a current member of the faculty or staff if the following conditions are met:

1. The total account balance (not counting rollovers you made into the plan) is no more than \$5,000;
2. No amount has been deferred under the plan during the two-year period that ends on the date of distribution; and
3. No previous distribution was taken under this special provision.

#### ***Is there a tax penalty for doing so?***

No, but you will have to pay income tax on the amount you withdraw.

#### ***How do I arrange for a withdrawal?***

Contact TIAA and/or Fidelity Investments to request a withdrawal application and complete your sections of the form. Return the form to the appropriate investment carrier for processing. There is no employer authorization required for this type of withdrawal.

#### ***Can I rollover this withdrawal?***

Yes. Contact TIAA and/or Fidelity Investments for assistance.

# Loans

## ***What is a 457(b) loan?***

You may borrow from your 457(b) account at any time, for any reason, regardless of whether your employment is active or terminated.

## ***How much can I borrow?***

Generally, you may borrow up to 45% of your TIAA accumulation or 50% of your Fidelity accumulation. The minimum loan amount is \$1,000 and the maximum is \$50,000. Contact TIAA or Fidelity for details. This is a combined loan limit and applies to all of your U-M SRA and 457(b) accounts with both vendors.

## ***Are there any fees for taking a loan?***

No.

## ***Do I pay income tax for taking a loan?***

No. The loan is not treated as a cash withdrawal, so there is no income tax due. However, if you default on the loan, then it is deemed to be a withdrawal and taxes are due. Keep in mind that you are using after-tax dollars to repay your loan that was funded with tax-deferred contributions.

## ***How long do I have to repay the loan?***

You may choose the length of the repayment period, from one to five years. You may choose a longer repayment period if the loan is used solely for the purchase of your principal residence.

## ***How do I repay the loan?***

Payments are made directly to your investment carrier. Payroll deductions are not available through the university; however, you can arrange an automatic debit from your checking or savings account.

## ***Will I be charged interest for the loan?***

Yes. The rate is variable; contact TIAA and/or Fidelity Investments for the current interest rates. The interest you pay is not tax-deductible.

## ***Can I prepay my loan?***

Yes. You can pay off your loan early with no penalties.

## ***Does taking a loan affect my participation in the U-M plan?***

No. You may continue to participate in the U-M 457(b) Plan if you take a loan.

## ***How do I arrange for a loan?***

Contact your investment carrier and request a loan application. Employer authorization for a loan is not needed. Return the loan application to your investment carrier after you have completed the form.

# What Are My Options When I Leave U-M?

## 1. Leave your money where it is.

By leaving the accumulations in the University of Michigan 457(b) Plan, you postpone paying taxes on the contributions and earnings until you decide to take a distribution at a later date. The accumulations will continue to experience the investment performance of your chosen funds. In addition:

- You will have access to the many services TIAA and Fidelity Investments offer to participants such as free publications, workshops, individual counseling, and their expert investment of your funds.
- You can transfer your money between funds within TIAA or Fidelity Investments.
- You can transfer money between TIAA and Fidelity Investments.

## 2. Rollover your accumulations.

You may rollover your contributions and earnings to an IRA or to another eligible retirement plan at any age once you have retired or terminated employment. However, you may lose important tax benefits, such as the exemption to the IRS early withdrawal penalty. Consult with a qualified tax advisor.

## 3. Take a cash withdrawal.

Partial, total, and systematic cash withdrawals allow you to receive income only as you need it and provide a high degree of flexibility. Your remaining accumulations continue to be tax-deferred until you take a distribution, and will continue to experience the investment performance of your chosen funds. Keep in mind the following:

- Income tax is due on cash withdrawals.
- Your contributions and earnings are available for cash withdrawal at any age once you have terminated employment with the university.

## 4. Start a lifetime or fixed-period annuity with TIAA.

There is absolutely no requirement that you must choose an annuity from TIAA. However, when you leave your employment with the university, you may choose to receive a lifetime or fixed-period annuity from TIAA at any age. The amount of the annuity will be calculated based on variables such as your life expectancy, your age at the time the annuity option is taken, and whether a spouse-survivor option is chosen. Ask TIAA to calculate various scenarios for you; they will prepare the income projections at no charge. Alternatively, you may create your own custom income illustrations at the TIAA website.

## 5. Minimum distribution at 70½

TIAA and Fidelity Investments pay you the minimum amount of income you are legally required to take each year by the IRS under this payment program. The balance of your accumulations remains tax-deferred and continues to experience the investment returns of your chosen funds.

# Rollovers Out of the U-M Plan

## ***May a distribution from the U-M 457(b) plan be rolled over into another eligible retirement plan?***

Yes.

## ***What is an eligible retirement plan?***

An eligible retirement plan includes the following:

- 401(a)
- 403(a)
- 401(k)
- 403(b)
- Governmental 457(b)
- IRA

## ***What kinds of distributions can I rollover?***

- Cash withdrawals
- Fixed period annuities of less than 10 years

## ***What kinds of distributions cannot be rolled over?***

- Minimum distribution payments
- Lifetime annuities
- Fixed period annuities of 10 years or longer

## ***When am I eligible to take a rollover as a current faculty or staff member?***

You may rollover your accumulations if you take the one-time withdrawal (see page 29) or at age 70½ or older.

## ***When am I eligible to take a rollover as a former faculty or staff member?***

At any age. A former faculty or staff member is someone who has terminated employment with the University of Michigan. Termination of employment does not include being on a leave of absence, layoff (RIF), period of non-appointment, 0% appointment effort, phased retirement, retirement furlough, or being on long-term disability.

## ***How do I arrange for a rollover?***

Contact TIAA and/or Fidelity Investments and request a rollover application. Return the investment carrier's application to them after you have completed the form.

## **Rollovers May Result in the Loss of an Important Tax Benefit!**

If you rollover your U-M 457(b) accumulations to another eligible retirement plan, you may lose the exemption to the IRS 10% penalty on withdrawals made prior to age 59½.

The exemption to the IRS 10% early withdrawal penalty only applies to a 457(b) plan. Once you roll it over to another eligible retirement plan, like an IRA or 403(b), it generally becomes subject to the 10% penalty if you cash it out before 59½.

Consult with a qualified tax advisor.

## Cash Withdrawals: *Former Faculty and Staff Members*

Former employees who have terminated employment with the University of Michigan may take a cash withdrawal at any age. Termination of employment **does not** include being on a leave of absence, layoff (RIF), period of non-appointment, 0% appointment effort, phased retirement, retirement furlough, or being on long-term disability.

## Federal Income Tax

Contributions that were made with tax-deferred dollars will be subject to Federal income tax requirements when you take a distribution from your account. Many people find it advantageous to postpone withdrawals until they retire because their income tax bracket is generally lower.

TIAA and Fidelity Investments are required by federal regulations to withhold 20% from certain types of distributions. This is not a penalty; it is a federal income tax withholding at the time of distribution. When you file your taxes for the year, you may owe more or less, depending on your final tax liability.

The following types of distributions are subject to the mandatory 20% withholding:

- Cash withdrawals (single sum, lump sum and systematic).
- Fixed-period annuities of less than 10 years.

The following types of distributions are **not** subject to the mandatory 20% withholding:

- TIAA lifetime annuities.
- Fixed-period annuities of 10 years or longer.
- Minimum distribution payments.

This information is based on the university's current understanding of highly complex Internal Revenue Code (IRC) and U.S. Treasury Department regulations. It is provided for general informational purposes only. The University of Michigan does not provide tax advice. It is the responsibility of the plan participant to comply with federal tax regulations. Questions or concerns should be addressed to a qualified tax advisor.

# TIAA Income Options

## One-Life Annuity

With a one-life annuity, you receive an income for as long as you live. No further payments are made after your death, except under a guaranteed period. The amount you receive from a one-life annuity depends on the size of your accumulation and your age at the time you start receiving income. The more money you “annuitize” (use to buy a lifetime annuity), the larger your individual payments will be. The longer your life expectancy at the time you annuitize, the smaller your individual payments will be, since your accumulation will have to stretch further. If you live beyond your life expectancy, payments will continue as long as you live.

## Two-Life Annuity

A two-life annuity guarantees lifetime income not only for yourself but also for the lifetime of a second person (called your annuity partner). Your age and your annuity partner’s age will affect the amount of income you receive from a two-life annuity. The younger you and your annuity partner are, the smaller the annuity payments will be based on a given accumulation, because your *joint* life expectancy is longer. Furthermore, once you start receiving income under a two-life annuity, you can’t change your annuity partner.

TIAA offers three kinds of two-life annuities. All three are available to you if your spouse is your annuity partner; otherwise, your annuity partner’s age might restrict the use of some options. The best type of annuity option will depend on the difference in ages, level of financial dependence and health.

- **Full Benefits to Survivor.** You and your annuity partner receive lifetime income. The income to your survivor doesn’t change at your death. This is the only option that doesn’t reduce income for the survivor when the annuitant dies. However, since it pays more to the surviving partner than the other two options listed below, the income payments are smaller.

- **Half Benefit to Second Annuitant.** You and your annuity partner receive lifetime income. If your annuity partner dies first, your income remains the same. If you die first, payments to your annuity partner continue at half the amount.
- **Two-Thirds Benefit to Survivor.** You and your annuity partner receive lifetime income. At the time of your death or your annuity partner’s death, income drops to two-thirds of the amount to the survivor. This is the only two-life annuity option that reduces your monthly income if your annuity partner dies first.

## Guaranteed Periods

With a guaranteed period, if you die (under the one-life option) or both you and your annuity partner die (under the two-life option) during the guaranteed period, income continues to your beneficiary for the remainder of the period. If you and your partner both outlive the guaranteed period, no payments will be made to your beneficiaries when you and your annuity partner die.

TIAA offers guaranteed periods of 10, 15, or 20 years. In some cases, federal tax law affects your choice of a guaranteed period. You are generally not allowed to select a period that would continue payments beyond your life expectancy, based on the Internal Revenue Service’s (IRS) mortality tables.

## Fixed-Period Annuity

A fixed-period annuity makes regular payments over a specific number of years (5-30 years), which you choose in advance. By the end of the period, you will have received *all* of your principal and any earnings. If you live beyond this period, your annuity payments will not continue. If you die during the payment period, payments continue to your beneficiary. Fixed-period annuity payments of less than 10 years are subject to 20% federal tax withholding and may also be rolled over.



# TIAA and Fidelity Investments Income Options

## Cash Withdrawals

You may elect a cash withdrawal at any age once you have retired or terminated employment. There are three types of cash withdrawals: single-sum, lump sum, and systematic.

### ***Single-sum (partial) cash withdrawal***

You withdraw a portion of your accumulations and allow the balance to remain in the account to preserve its tax-deferred status. You may take further withdrawals as your needs indicate or convert the balance into one of the other income options.

### ***Lump sum (total) cash withdrawal***

You may elect to receive your entire account balance in a single, lump sum payment. However, this may dramatically increase your tax liability and there will be no further income benefits available to you from the plan.

### ***Systematic Cash Withdrawals***

This allows you to create your own income plan by specifying the amount and frequency of payment (monthly, quarterly, annually, etc.). Payments continue until:

- You tell TIAA or Fidelity Investments to stop;
- You change the amount of the payments;
- You convert the remaining accumulation to a lifetime annuity or to another income option such as minimum distribution;
- Your money (including earnings) runs out;
- You die (if you die while receiving systematic withdrawals, the remainder goes to your beneficiary).

You can change your request at any time, and there's no limit as to the number of times you can change a systematic withdrawal that's already under way. Plus, your remaining accumulations remain tax-deferred and continue to experience the investment returns of your chosen funds. It also allows you to postpone final decisions about annuitization.

## Minimum Distribution at 70½

The IRS requires that you begin receiving distributions by April 1 of the calendar year following the calendar year you reach age 70½ once retired or terminated. If you are already over age 70½ when you retire or terminate, then you must take a distribution by April 1 of the following year.

When you elect this option, TIAA and Fidelity Investments will calculate and pay you the minimum amount of income you are legally required to take each year. The balance of your accumulations remains tax-deferred and continues to experience the investment returns of your chosen funds.

This plan allows you to meet federal minimum distribution requirements without having to request payments each year or start a lifetime annuity. This may be an appropriate income plan if you want to preserve your accumulations as long as possible and maximize benefits for your beneficiary(ies).

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### **SSC Contact Center**

Representatives are available by phone Monday – Friday 8 a.m. – 5 p.m. at 734-615-2000 locally, 5-2000 from the U-M Ann Arbor campus, or 866-647-7657 (toll-free for off-campus long-distance calling).

*The Benefits Office is a unit of University Human Resources (UHR).*

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