RETIREMENT GUIDE

Wise Options For Retirement

MNDCP Minnesota Deferred Compensation Plan

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Retire Today

You've worked hard to save for your future. Now, your careful preparation is about to be rewarded as you begin to think about transitioning into retirement.

With the Minnesota Deferred Compensation Plan (MNDCP), the same account that helped you build your retirement savings can help you manage your retirement income over the long-term.

After you separate from service or retire, you will have a lot of flexible payout options. You'll need to understand all your options in order to choose what best fits your needs.

What Makes MNDCP a Wise Option For Your Retirement?

Personal attention

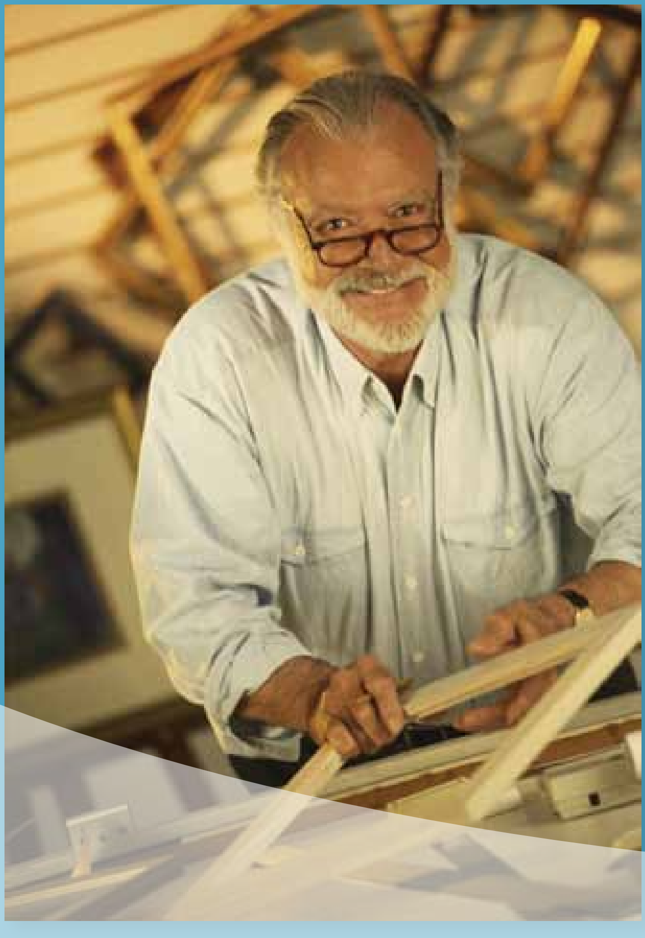
Even after you separate from service or retire, you still have access to personalized account attention. MSRS counselors are available for consultation up to and throughout your retirement.

Investment options

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 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.msrs.state.mn.us.



Flexible withdrawal options

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

Competitive fees

No surprises! All fees are disclosed. MNDCP offers a fee structure that can help you realize the most from your lifetime of saving and investing. Refer to the *Plan Now* brochure or the monthly *Investment Options Performance Report* for additional information.

A low annual administrative fee of 0.07% for record keeping, communications, counseling, and customer service is kept competitive using the economies of scale MNDCP receives as a large government entity. The administrative fee is not charged on account assets over $100,000 and is deducted from your account balance each month.

All investment options have operating expenses. These fees pay for trading and management expenses of the investment company. The fee is deducted from each investment option's management company (not MNDCP) before the calculation of the daily price per share. Operating expenses on MNDCP investment options range from 0.01% – 0.98%, or an average fee of 0.32%.

Also, there are no withdrawal charges or surrender fees, trading fees, or account maintenance fees. Redemption fees may apply to some investment options.

Retirement Phases and Income Needs

Retirement needs tend to change over time. Year one will probably be different than year ten. 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

Your retirement expenses will depend mostly on the lifestyle choices you make. Regardless of your personal situation, it's interesting to note that recent polls suggest most retirees tend to underestimate their income needs. No matter what lifestyle you choose, you'll want to be financially secure.

Retirement Planning Considerations

Picture yourself retired and living the good life. What does "the good life" look like to you? Whether you plan to retire early or wait until your full retirement age, here are some considerations to take into account when planning your savings goals and 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. Over the past 30 years, inflation has hovered around 3 percent a year. It may look like you'll have enough retirement income, but inflation may erode the power of your savings.

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 maintenance. If you don't own your home, you may still need to consider monthly rental costs in your planning. Many 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

Research indicates that retirees will need substantial savings to cover their health care expenses in retirement. The uncertainty related to health care use, prescription drug use, and longevity play a major role in planning for retiree healthcare. A study conducted by the Employee Benefit Research Institute (EBRI) provides estimates for savings needed to cover health insurance to supplement Medicare and out-of-pocket expenses for healthcare services in retirement. EBRI found that a 65-year-old man would need anywhere from $65,000 to $109,000 in savings and a 65-year-old woman would need anywhere from $88,000 to $146,000 if they want an average (50 percent) chance of having enough money to cover healthcare expenses in retirement.[2]

Debt

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

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 to 55 percent of pre-retirement income. And if you have a higher income, your benefits could replace less than 20 percent. So while Social Security can certainly help, it is unlikely to be enough by itself.

Life expectancy

A big part of retirement planning is to make sure you don't outlive your savings. With continued advances in medical care, you can look forward to a longer life than previous generations. According to the Centers for Disease Control & Prevention, 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.[3]

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

2 *"Funding Savings Need for Health Expenses for Persons Eligible for Medicare." December 2010, EBRI Issue Brief #351 or http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=4711*

3 *http://www.cdc.gov/nchs/data/hus/hus10.pdf#022*

How Much Will You Need To Save?

The Monthly Formula

A good rule of thumb is that you'll need approximately 80 to 100 percent of your current working income to maintain a similar lifestyle 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, a family or medical emergency) or the way inflation, taxes, or investment performance may affect your long-term expenses and income.

		Example:
Annual working income:		
Current annual income		$40,000
Your expected income replacement ratio (80% - 100%)	x %	x 90%
Estimated annual retirement income need **(A)**	=	= $36,000
Annual retirement income you expect to receive from:		
Social Security	+	+ $14,000
Employer's pension	+	+ $16,000
Other income	+	+ $0
Total expected annual retirement income **(B)**	=	= $30,000
Annual retirement income needed from personal savings (Subtract (B) from (A))		$6,000
	÷ 12 mos.	÷ 12 mos.
Monthly retirement income needed from MNDCP or other personal savings	=	= $500

For illustrative purposes only.

How Long Will Your Savings Last?

Savings Requirement

Knowing how much you need each month is a critical first step.

Let's assume the amount you need from your MNDCP account or other personal savings is $500 a month. That amount may not seem like much, but let's look at how much savings you'll need to accumulate to reach that goal.

Monthly gross withdrawal amount	$500
Number of withdrawals per year	12
Number of years taking monthly withdrawal	20
Average annual rate of return	5%
Total personal savings needed	$76,600

As you can see, you'll need to accumulate nearly $77,000 in order to withdraw $500 per month for 20 years. And this $500 monthly withdrawal is before the deduction of any income taxation or inflation.

The Long-Term View

The next question you may have is:
How long can I expect my savings to last?

The hypothetical examples below provide a glimpse of how many years to expect your savings to last based on accumulated savings. The important thing is to consider the "what if" scenarios.

	Accumulated Savings	
Monthly Withdrawal	$50,000	$100,000
$500	10 years; 9 months	34 years; 3 months
$1,000	4 years; 8 months	10 years; 9 months
$1,500	3 years	6 years; 6 months

Use our online *Withdrawal Quote Simulator* at http://mp1.newkirkone.com/MNDCP/Control.aspx to estimate how long your accumulated savings will last.

For illustrative purposes only. *These hypothetical examples assume gross monthly withdrawals with an average annual rate of return of 5 percent. Withdrawals are gross of any required income taxes.*

Withdrawal Considerations

Flexibility

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

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

LET MNDCP CONTINUE TO WORK FOR YOU

If you're happy with the service and features you get with your MNDCP account, there's no need to roll over your account assets to another retirement account or IRA. You will continue to enjoy competitive fees that result from MNDCP's economies of scale.

Withdrawal eligibility

If you leave employment (whether by retirement, resignation, permanent disability, or termination), you may begin receiving payments from your MNDCP account 30 days after your termination date.

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 withdrawals made before age 59½. 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.

Withdrawing pre-tax money from your account

With pre-tax contributions, every dollar you contributed lowered your federal taxable income for that year. Reducing your taxable income means lower taxes paid to the IRS at that time. It's that simple.

Of course, your tax liability wasn't eliminated. You merely postponed the taxation of your money. Withdrawals from your pre-tax balance are taxed as ordinary income. By law, MNDCP must withhold 20 percent federal income tax on withdrawals, except for periodic withdrawal schedules that last more than 10 years.

Withdrawing Roth after-tax money from your account

When you contributed to your Roth after-tax account, the most likely reason was because the idea of tax-free withdrawals in retirement appealed to you. With after-tax contributions, you paid taxes before you contributed to the Plan.

Withdrawals from your Roth after-tax balance are classified as "qualified" or "non-qualified."

A qualified withdrawal from your Roth after-tax balance is entirely tax free if the withdrawal is made:

1) on or after age 59½ (or upon your death or disability),

AND

2) you have had money in your Roth account for at least five tax years.

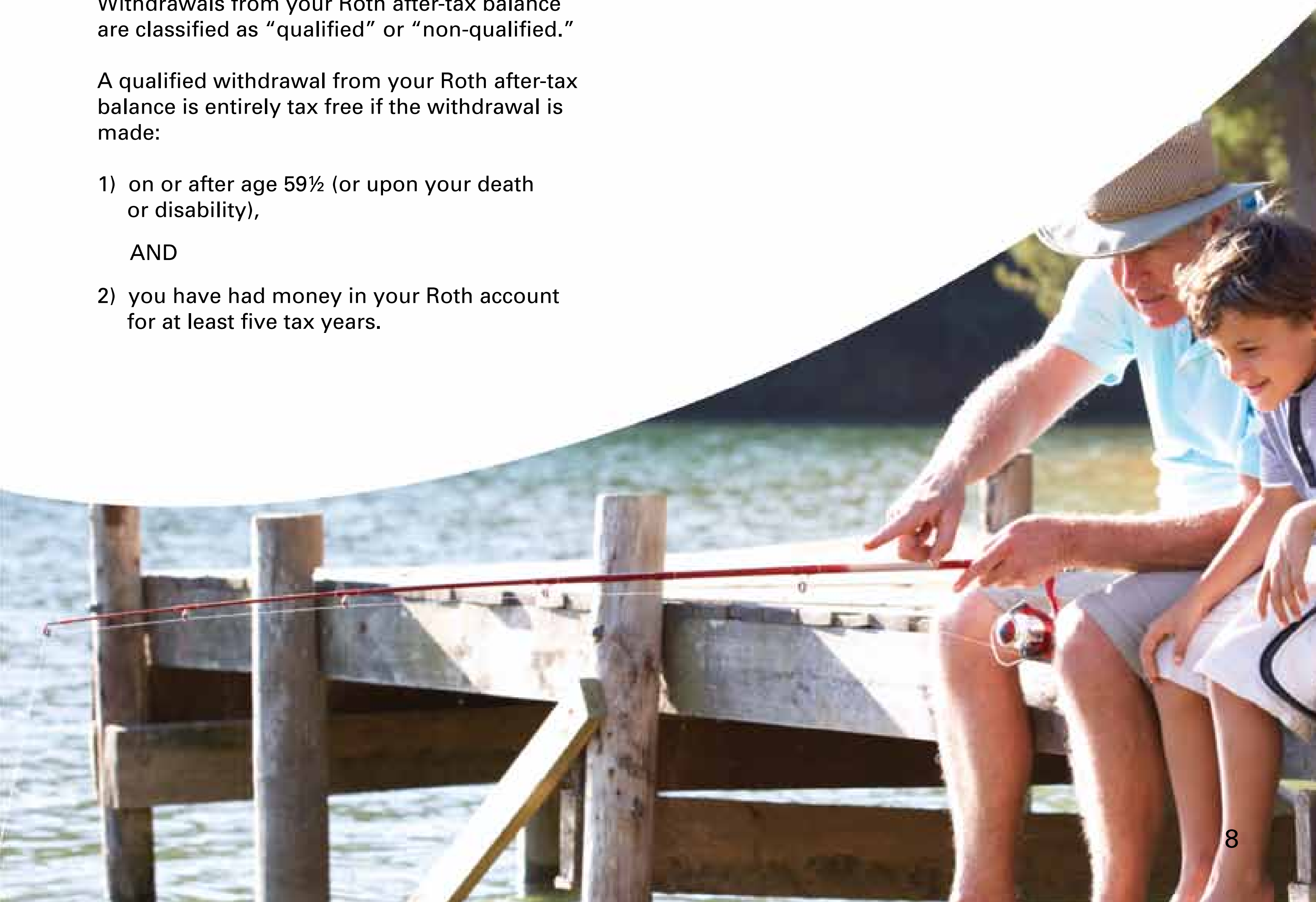
If you do not meet both requirements, then a withdrawal from your Roth after-tax balance is considered "non-qualified." Non-qualified withdrawals are subject to 20 percent federal income tax withholding on the portion of the withdrawal that represents earnings only. The contribution portion of the withdrawal is tax free since taxes were already paid.

Impact on other 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 subject to federal income tax. Consult your tax professional for more information.

Think direct deposit

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



More Withdrawal Considerations

Required Minimum Distributions begin at age 70½

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

Required minimum distributions can be confusing — MNDCP can help. Each year we will calculate your RMD based on your prior year-end account balance and life expectancy factor. For more information about your RMD payment options and the forms you'll need to complete, call a MSRS representative toll-free at 1-800-657-5757, option 3.

Rollovers

A rollover allows you to consolidate your retirement plan accounts 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 Traditional IRA to take advantage of the competitive fees offered by MNDCP. Federal regulations do not permit rollovers from a Roth IRA. If applicable, these assets may continue to be subject to the 10 percent early withdrawal tax penalty (assessed on withdrawals before age 59½).

Upon severance from Minnesota public employment, you may roll over your MNDCP account to another retirement plan or IRA that accepts rollovers. However, it might not be beneficial to roll your MNDCP assets if you intend on withdrawing funds prior to age 59½, as there is no early 10 percent early withdrawal penalty in the MNDCP. When you roll assets to other types of retirement plans (e.g., 401(k), 403(b)) or IRA's, those assets take on the features of the new plan and may be subject to the 10 percent early withdrawal tax penalty.

Contact a MSRS representative for more information on rollovers.

Converting pre-tax savings to Roth after-tax savings

Thirty days following retirement or termination of employment (or upon your disability or death), federal regulations allow you to convert all or a portion of your existing pre-tax balance to Roth after-tax amounts.

If you choose to convert your pre-tax savings to a Roth, the conversion amount is subject to income taxes in the year of the conversion. Such taxes must be paid outside of your MNDCP account. Also, once a conversion is processed, federal law does not allow it to be reversed.

CONSIDERING ROLLING OVER YOUR MNDCP ACCOUNT?

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.

Withdrawal Options At-a-Glance

<table>
<tr><th>Option</th><th>Description</th><th colspan="2">Consideration</th></tr>
<tr><th></th><th></th><th>Pre-Tax Account Withdrawal</th><th>Roth After-Tax Account Withdrawal</th></tr>
<tr><td>Full (Lump Sum) Withdrawal</td><td>● Withdraw your entire account balance.</td><td rowspan="2">The entire withdrawal amount is immediately taxable and subject to 20% federal income tax withholding.</td><td rowspan="2">Qualified Roth Withdrawal
Entire withdrawal amount is tax-free.

Non-Qualified Roth Withdrawal
The portion of the with-drawal that represents earnings only is taxable and subject to 20% federal income tax withholding.

See page 8 for more details.</td></tr>
<tr><td>Partial Withdrawals</td><td>● 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 partial withdrawals.
● If your partial withdrawals become more frequent, consider periodic payments.</td></tr>
<tr><td>Periodic Payments</td><td>● A series of scheduled with-drawals from your account.
● Allows you to select a payment schedule and frequency (month-ly, 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., 15 years).
● This option can be used in conjunction with partial with-drawals and a fixed annuity.</td><td colspan="2">● 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 from pre-tax account balances or 20% withholding on earnings only if payment represents a non-qualified Roth.
● You may select your federal income tax withholding amount for payment schedules lasting 10 years or longer.</td></tr>
</table>

Option	Description	Consideration
Fixed Annuity Payments	● A fixed annuity provides you with guaranteed income payments for your life and, if you choose, your survivor's 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 guaranteed payments, your beneficiary receives the remaining payments. ● Joint and Survivor Fixed Annuity option is available, which provides guaranteed income to you and your designated survivor as long as you both live.	● A less flexible payout option that cannot be altered once begun. ● Inflation could affect 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	● 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.	● 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 your surviving designated beneficiary(ies).

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

Forms/documents needed for processing survivor benefits

MSRS will provide the appropriate forms to your beneficiary(ies) upon notification of your death and verification of beneficiary records. In all cases, MSRS requires a death certificate for processing.

BENEFICIARY UPDATED?

Remember to always keep your beneficiary information up to date. There are two ways to name or change your beneficiary:

1. Complete the *Beneficiary Designation* form, which can be obtained online at www.msrs.state.mn.us or by calling the MSRS Service Center at 1-800-657-5757.
2. Log in to your account at www.msrs.state.mn.us. Go to *Personal Information > Beneficiary Information* to view, add, or edit your beneficiary designation.

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, pension, 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 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?"
Will you have a summer cabin?
Will you own or rent?
  - 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.
- Re-evaluate your investment allocation to ensure 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 a MSRS representative to see if you are eligible.
- Start thinking about your retirement budget. Calculate your expected Social Security income at http://www.ssa.gov/planners/calculators.htm.
- Adjust your investment allocation to make sure you aren't exposed to too much investment 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 MNDCP account) – will work together.

- Contact your retirement plan provider to learn 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.
- Attend a free, half-day MSRS pre-retirement seminar.

Contact Us

If you have any questions about your MNDCP account, contact a MSRS representative:

By phone: 1-800-657-5757

By email: info@msrs.us

In person: St. Paul Office
60 Empire Drive, Suite 300
St. Paul, MN 55103-3000

Contact us to make an appointment at one of our greater Minnesota locations in Duluth, Mankato, Detroit Lakes or St. Cloud.

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

Plan administrative services provided by ING Institutional Plan Services, LLC, a member of the ING family of companies.

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MSRS Minnesota State Retirement System
MNDCP Minnesota Deferred Compensation Plan
HCSP Health Care Savings Plan

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