



## **Make the Most of Your Financial Future**

The North Dakota Public Employees Retirement System  
457 Deferred Compensation Companion Plan



# Today's Agenda

- **We want to help you answer the following questions:**
- What Is the 457 Deferred Compensation Plan?
- Eligibility?
- Contribution Limits?
- Investment Options?
- What is the NDPERS Companion Plan?
- What are the advantages of participation?
- What is the Portability Enhancement Provision (PEP)?
- How do I get started?
- The Value of Starting Now?
- The Basics of Investing.



# What Is The 457 Deferred Compensation Plan?

**A terrific Opportunity To Supplement Your Retirement Savings With Tax-Deferred Contributions!**

It is a voluntary, supplemental retirement plan for eligible employees of participating governmental agencies.



# What Is The 457 Deferred Compensation Plan?

The program permits you to defer a portion of your salary on a pretax basis through convenient payroll deductions.

## **PAY YOURSELF FIRST!**

You can't miss what you don't see.

You won't spend what you don't take home.

The amount deferred to your investment account and the income or gains on those investments are not taxable until you begin to withdraw money from the account, generally at retirement, at which time the withdrawals are taxed as ordinary income.



# Pre-tax Savings Through Payroll Deduction Means...

If you put in \$100.00 per pay period:

TAX BRACKET	\$100 WILL COST YOU
15%	\$85.00
25%	\$75.00
28%	\$72.00

Don't miss out on the tax savings!



# Eligibility

Who is eligible to contribute:

Employees of the State of North Dakota and employees of participating political subdivisions are eligible to participate in the plan.

To be eligible, you must be a permanent employee working at least 20 or more hours a week for 20 or more weeks in a calendar year and filling a position that is regularly funded and is not of limited duration.

Legislators are eligible to participate in the plan.

Temporary employees and independent contractors are not eligible to participate in the plan.



# Contribution Limits

## Contributions Limits:

The minimum contribution is \$25.00 per month.

The maximum regular annual contribution limit is:

2013: The lesser of 100% of compensation or \$17,500

(adjusted for cost-of-living in subsequent years).

You may change your contribution amount at any time or suspend contributions and start again at a later date.



# Additional Contribution Options

## Catch-Up Contributions

If you are close to retirement or over age 50, you may be able to contribute more than the regular contribution limit. There are two catch-up options available:

- **50+ Catch-Up**—Participants age 50 or older may contribute the maximum annual limit referenced above plus an additional \$5,500 in 2013 (for a total of \$23,000 in 2013, adjusted for cost-of-living in subsequent years). This election may be made using the NDPERS 457 Deferred Compensation Plan Enrollment/Change form SFN 3803.
- **3-Year Catch-Up**—Participants within 3 years of normal retirement date may contribute the regular maximum annual limit plus missed contributions from previous years up to \$35,000 in 2013 (adjusted for cost-of-living in subsequent years). You may apply for this option by completing the Catch-Up Worksheet/Certification, SFN 51501 and submitting it to the NDPERS office.



# Investment Options

There are eight (8) companies approved to provide investment services under the deferred compensation plan as follows:

American Trust Center

AXA Equitable

Bank of North Dakota

Mass Mutual

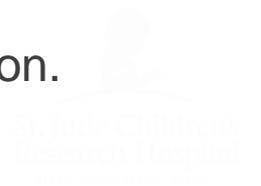
Jackson National Life

Nationwide Life

VALIC

Waddell & Reed Financial Services

In addition to the above, the NDPERS Companion is also an option.



# What is the NDPERS Companion Plan?

- An investment option under the plan that is set up as a trust under the NDPERS Board.
- The board selects and monitors the investments offered under the Companion Plan.
- The Plan has no annual account fees or sales loads.
- The Companion Plan investment portfolio includes Life Cycle funds, active and passively managed funds, as well as access to a self-directed brokerage account. Funds information is available on our web site at [www.tiaa--cref.org/ndpers](http://www.tiaa--cref.org/ndpers).
- TIAA-CREF Financial Services is the record-keeper for the Companion Plan and provides both group and individual consulting services to participants at no additional cost.
- Has a convenient “Expedited Enrollment” option.



# What is the Expedited Enrollment Option?

## Makes Saving As Convenient As Possible!

- You do not have to make any decisions about contribution amount, investment allocation, or selecting a provider company/agent.
- Complete SFN 54362, 457 Deferred Compensation Plan Expedited Enrollment form.
- Enrolls you for minimum contribution of \$25/month and invests it in the NDPERS Companion Plan age appropriate life cycle funds administered by TIAA-CREF.
- You are automatically enrolled in the Portability Enhancement Provision (PEP).
- You also have option to specify a larger monthly contribution.
- You may change your contribution or investment allocation at any time.



# What Are The Advantages Of Participating In A Deferred Compensation Plan?

- You supplement your retirement savings through tax-deferred contributions into an account in your name.
- You may select the investment provider(s) of your choice from the approved list.
- You are in control of your account and investment allocation.
- You may begin or suspend participation or increase or decrease your contributions at any time.
- You may be eligible for the Saver's Tax Credit



# What is the Saver's Credit?

A Saver's credit is a tax credit that can help offset the cost of the first \$2,000 you voluntarily contribute to a 457 deferred compensation account.

## Adjusted Gross Income

Saver Credit Rate	Single Filers	Head of Household	Joint Filers	Tax Credit for 1 <sup>st</sup> \$2,000 Contribution
50%	0 - \$17,750	0 - \$26,625	0 - \$35,500	\$1,000
20%	\$17,751 - \$19,250	\$26,626 - \$28,875	\$35,501 - \$38,500	\$400
10%	\$19,251 - \$29,500	\$28,876 - \$44,250	\$38,501 - \$59,000	\$200



# What Are The Advantages Of Participating In A Deferred Compensation Plan?

- You may transfer your account to another approved investment provider at any time.
- Upon termination, you have several options available for distribution of your account:
  - Lump sum
  - Periodic payment (annual, quarterly, monthly, etc.)
  - Defer to a later time
  - Rollover to another eligible plan
- Your funds may be used to purchase service in the defined benefit retirement plan.
- You can take advantage of the incentives offered through the Portability Enhancement Provision (PEP)\*



# What is the Portability Enhancement Provision (PEP)?

**PEP\* allows you to vest in a portion of the employer contribution!**

Must be an active member in the NDPERS Defined Benefit Pension plan.

Requires participation in an eligible 457 Deferred Compensation Plan.

Employer contributions are added to your member account balance in the defined benefit retirement plan according to the vesting schedule.

Results in accelerated accrual of member's account balance in the defined benefit plan.

\*PEP is not available in the Judges or Defined Contribution Plan.

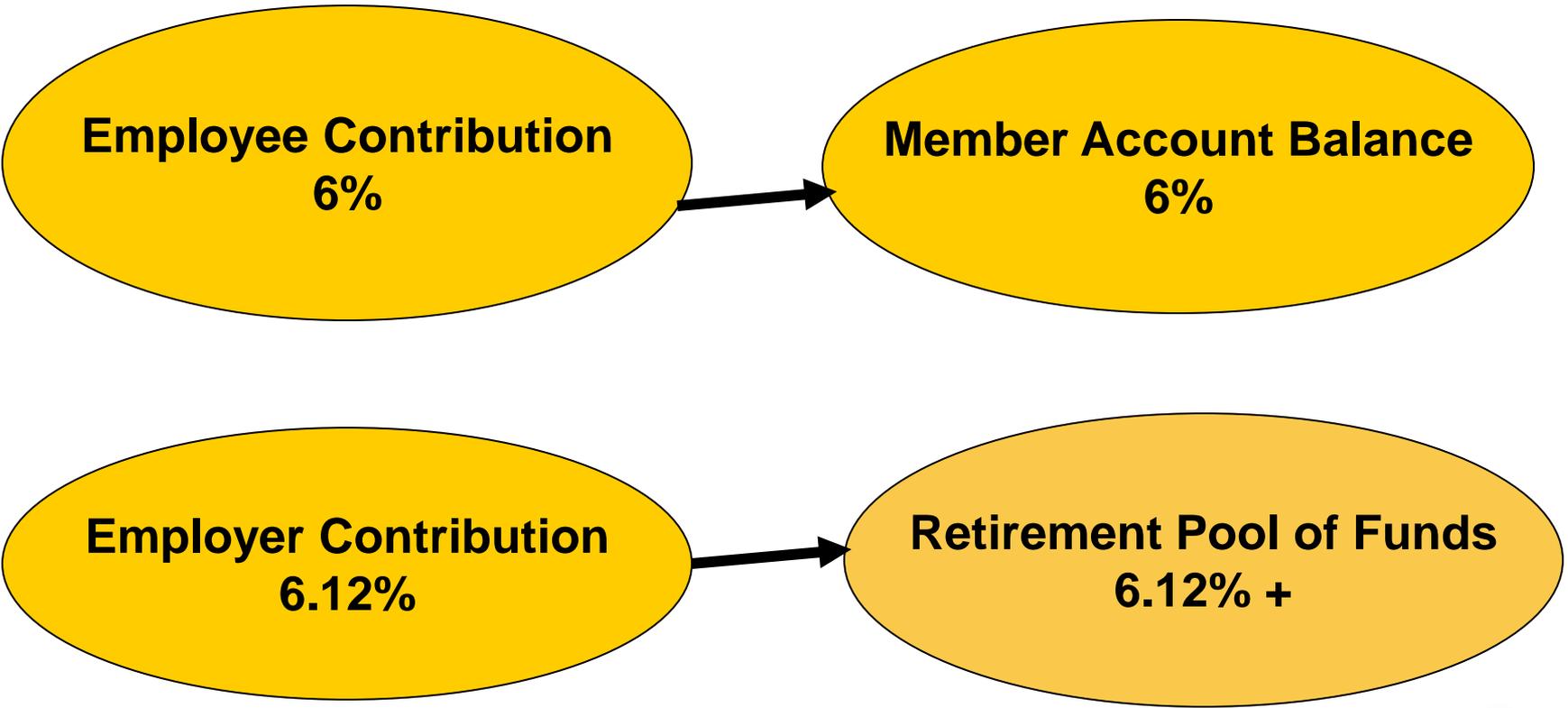


# Employer Contribution Vesting Schedule (PEP\*)

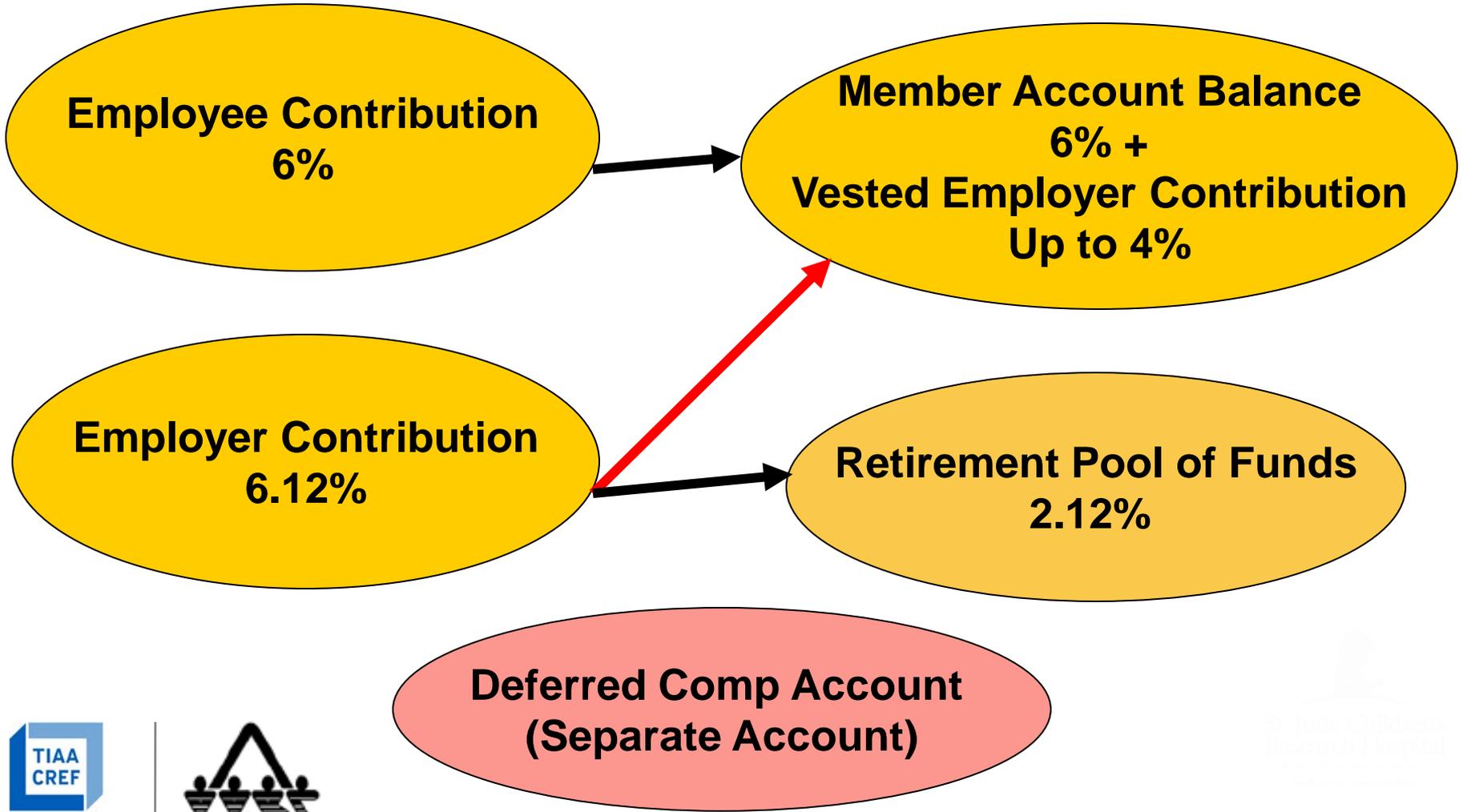
<b>Service Credit</b>	<b>Minimum</b>	<b>Maximum</b>
<b>0-12 Months</b>	<b>\$25</b>	<b>1%</b>
<b>13-24 Months</b>	<b>\$25</b>	<b>2%</b>
<b>25-36 Months</b>	<b>\$25</b>	<b>3%</b>
<b>37+ Months</b>	<b>\$25</b>	<b>4%</b>



# Contribution Allocation Without PEP\*



# Contribution Allocation With PEP\*



# PEP\*- DETAILED EXAMPLE

Service Credit	Annual Salary	Employee Contribution 5%	Vested Employer Contributions		Member Account Balance (Cash Value)	
			No PEP	With PEP	No PEP	With PEP
0 - 12	\$20,000	\$1,000	\$0.00	\$300 (1%)	\$1,042	\$1,330
12 - 24	\$21,000	\$1,050	\$0.00	\$420 (2%)	\$2,226	\$2,976
25 - 36	\$21,630	\$1,081	\$0.00	\$649 (3%)	\$3,543	\$5,033
37 - 48	\$22,279	\$1,114	\$0.00	\$894 (4%)	\$4,981	\$7,554
39 - 60	\$22,974	\$1,147	\$0.00	\$918 (4%)	<b>\$6,604</b>	<b>\$10,353</b>



# PEP\* & Your Annual Statement

Member's Account:

Previous Balance, June 30, XXXX	\$ 5,033
Member Contributions	\$ 1,114
<b>Vested Employer Contributions (PEP*)</b>	<b>\$ 894</b>
Interest (through July, XXXX)	<u>\$ 322</u>
Balance as of June 30, XXXX	\$ 7,363



# How Do I Get Started?

If enrolled in an eligible deferred compensation plan, PEP\* is automatic.

If not enrolled in an eligible deferred compensation, contact an approved Deferred Compensation provider representative to enroll.

Enrollment forms are available on the NDPERS website at <http://www.nd.gov/ndpers/deferred-comp/index.html>.



# THE VALUE OF STARTING NOW

	Age 40-70	Age 35-70	Age 30-70	Age 25-70
Annual \$4,800 Contributions	\$144,000	\$168,000	\$192,000	\$216,000
Earnings	\$247,703	\$384,116	\$574,785	\$838,061
Total Accumulation	\$391,703	\$552,116	\$766,785	\$1,054,061

**Hypothetical Illustration. Based on a 6% Annualized Rate of Return. By paying less taxes, you'll have more money to save. This graph shows how your extra savings can grow over time with potentially compounded earnings. Of course, investments carry risks, including the risk of loss. These returns are for illustrative purposes only and do not reflect actual product performance.**



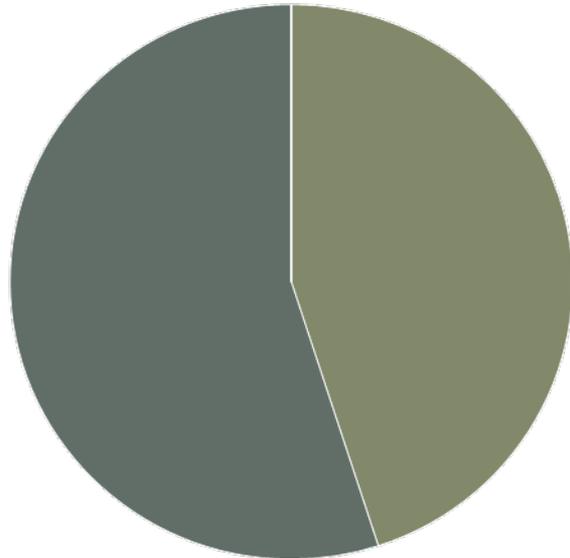


# **THE BASICS OF INVESTING:**

## **DIVERSIFY YOUR PORTFOLIO**

Spreading your risk across  
different asset classes

# WHAT IS DIVERSIFICATION?



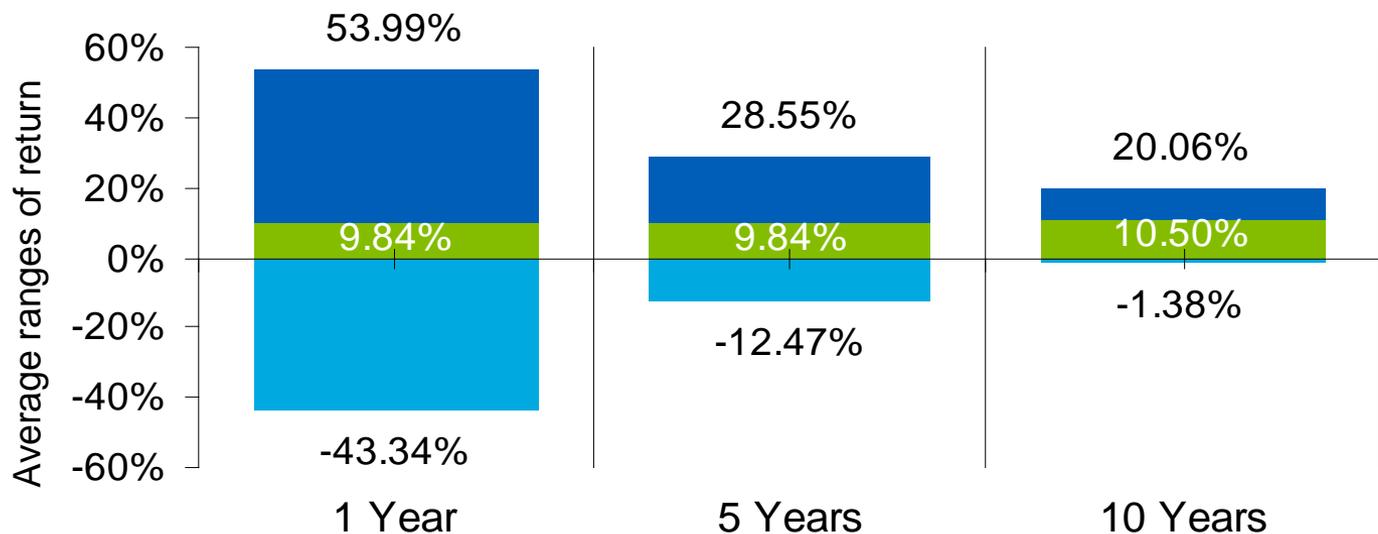
■ Non-Equities  
■ Equities

- Spreads risk among different asset classes
- May reduce overall portfolio volatility\*
- Asset class performance varies
- Diversify...
  - Across Asset Classes
  - Within Asset Classes

\* Diversification is a technique to help reduce risk. There is no absolute guarantee that diversification will protect against a loss of income. Please keep in mind that there are risks associated with investing in securities including loss of principal.



# How time helps manage risk



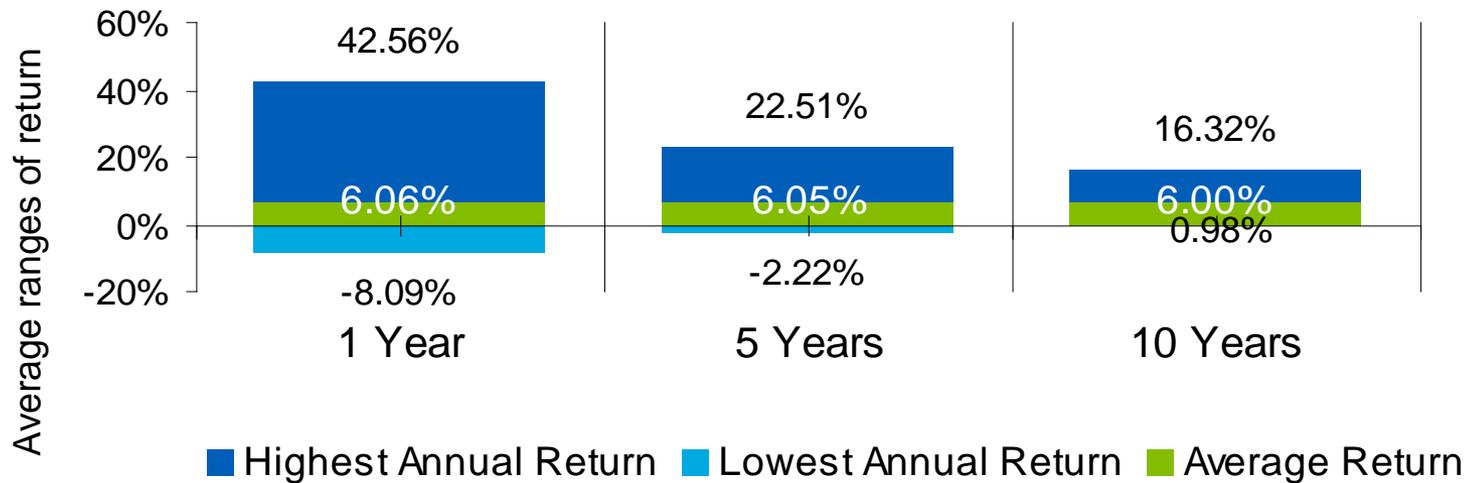
■ Highest Annual Return ■ Lowest Annual Return ■ Average Return



Chart illustrates returns from 1/1/1926 – 12/31/2012. Source: © Ibbotson Associates, a wholly owned subsidiary of Morningstar, Inc. These returns are illustrative only and do not reflect TIAA-CREF performance; past performance isn't indicative of future results. Benchmark: Ibbotson Associates, Inc., S&P 500 Index. You cannot invest directly into an index.



# How time helps manage risk



# UNDERSTANDING ASSET CLASSES

A group of investments that share common characteristics

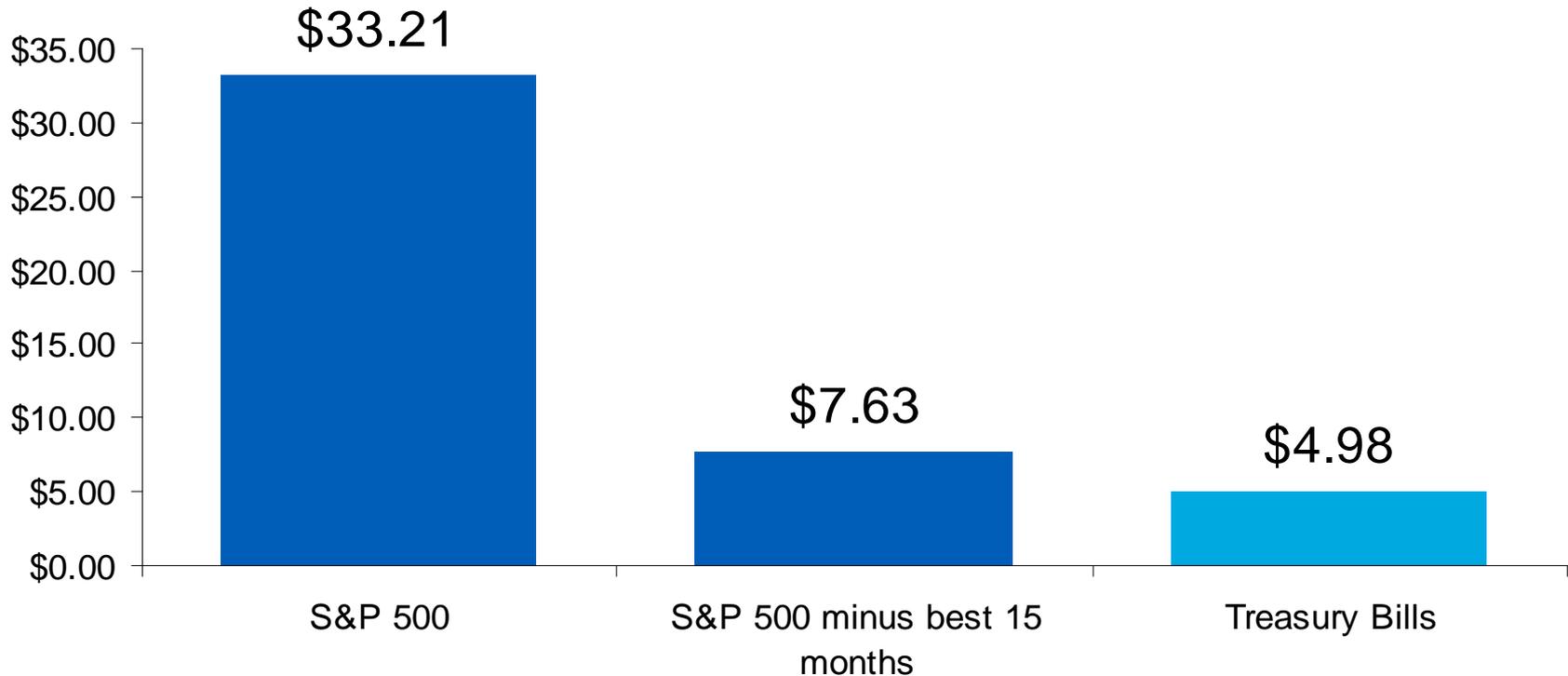
Risk may decrease as the number of asset classes increases

Help manage risk by diversifying holdings among different asset classes



# Market timing can be dangerous

Hypothetical value of \$1 invested from 1980-2012



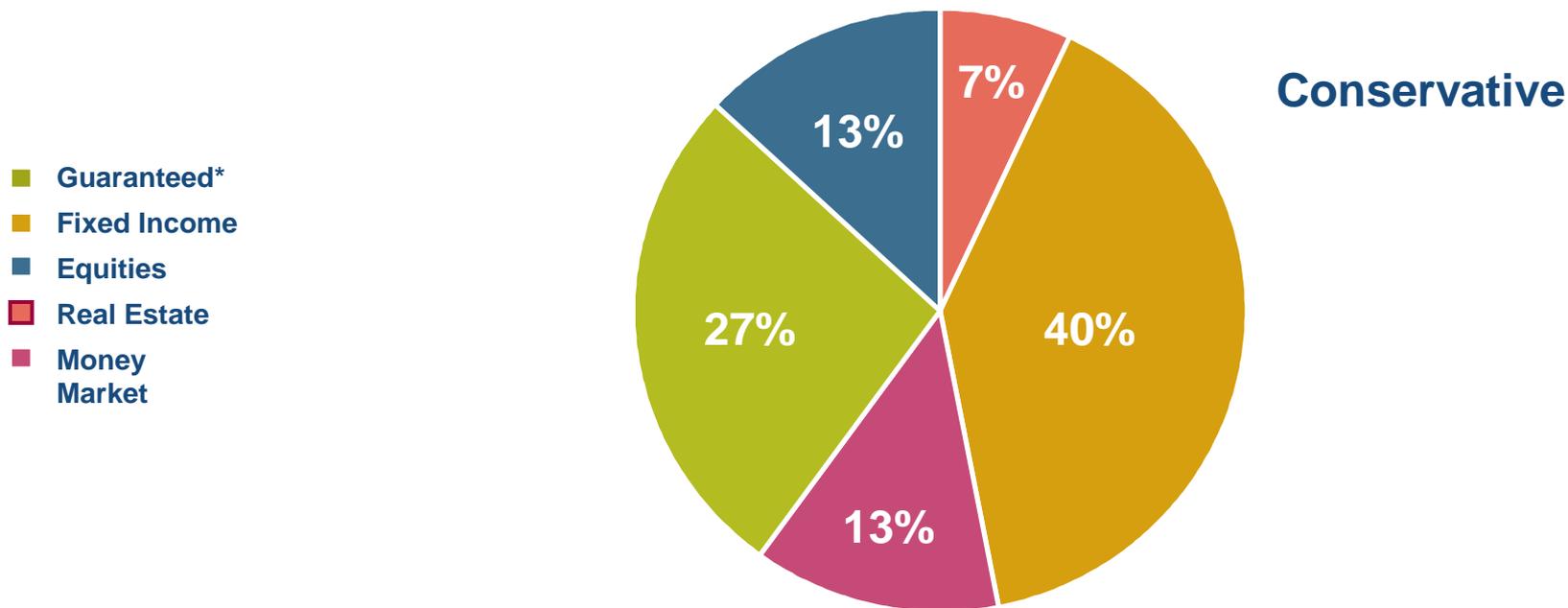
# WHAT'S THE BEST ASSET ALLOCATION MIX FOR YOU?

Based on your risk tolerance,  
what category of investor are you?



## THE BASICS OF INVESTING:

# ASSET ALLOCATION IS IMPORTANT



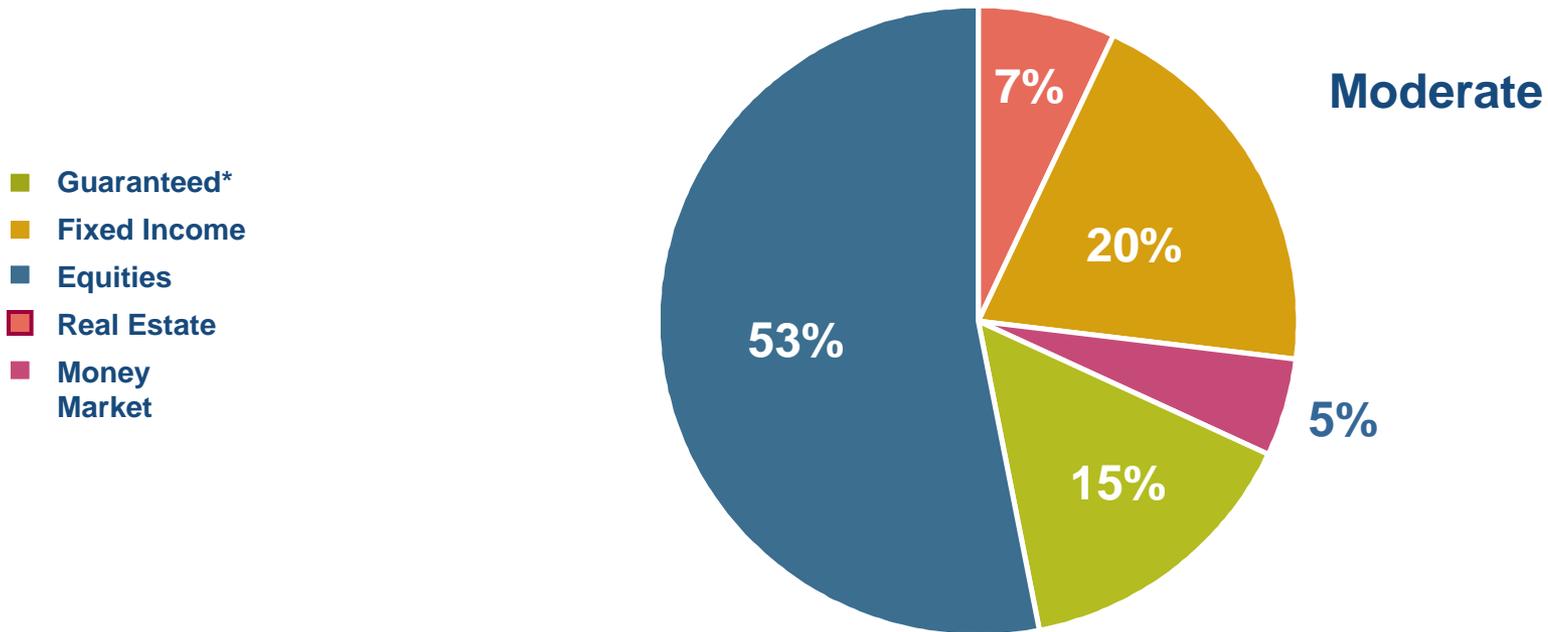
\*Based on the claims-paying ability of TIAA.

The specific asset allocations shown in the model portfolios were generated by Ibbotson Associates, one of the nation's leading financial advisors. They are based on well-known optimization techniques, using historical return, volatility and correlation data from indices like the Russell 1000 stock index. This optimization procedure is based on assumptions about historical market data, and future market conditions may vary from these assumptions.



## THE BASICS OF INVESTING:

# ASSET ALLOCATION IS IMPORTANT



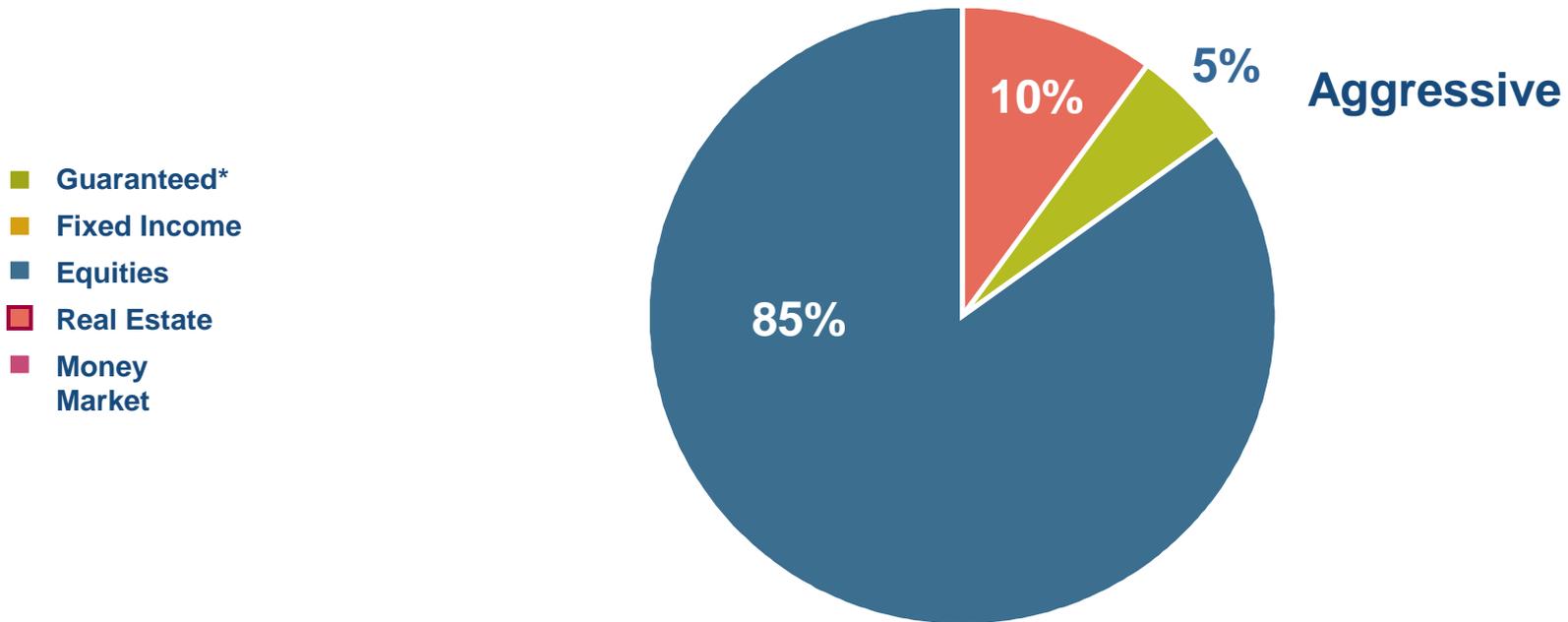
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## THE BASICS OF RETIREMENT:

# ASSET ALLOCATION IS IMPORTANT



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## THE BASICS OF INVESTING:

# PORTFOLIO ADJUSTMENTS ARE NOT TIMING OF THE MARKET

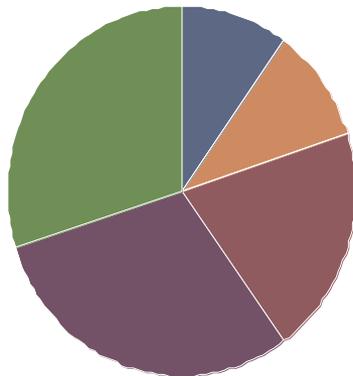
**Rebalancing and Reallocation** are asset allocation strategies used to methodically restore your portfolio targets



# WHAT IS REALLOCATION?

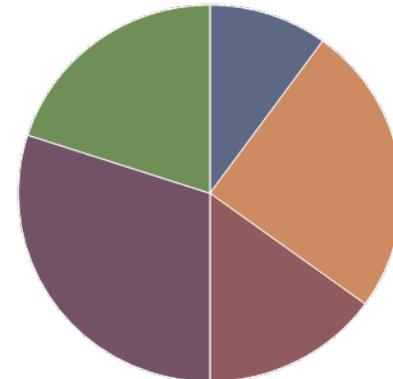
Making **new** contributions to accounts that are different from those you originally selected.

ORIGINAL ALLOCATION\*

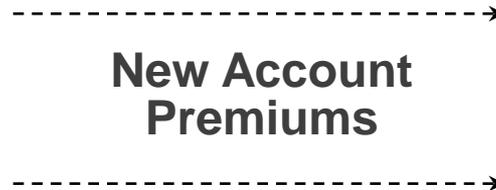


20% Fixed  
80% Equity

NEW ALLOCATION\*



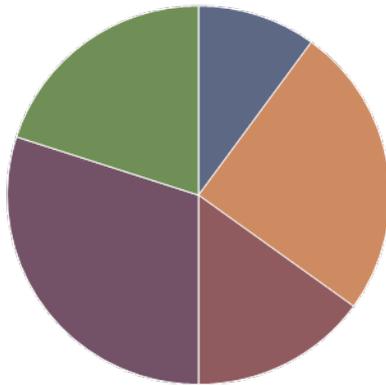
35% Fixed  
65% Equity



# WHAT IS REBALANCING?

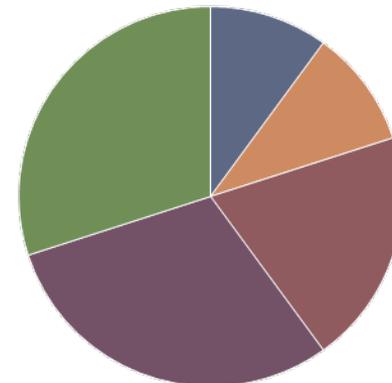
Adjusting the **current** assets in your portfolio to restore your original target

ORIGINAL ALLOCATION\*



35% Fixed  
65% Equity

NEW ALLOCATION\*



20% Fixed  
80% Equity

New Account  
Premiums

Rebalance  
Your Accounts



## ASSET ALLOCATION SUMMARY

Avoid market timing

Include several different asset classes

Rebalance your portfolio

Reallocate your contributions when needed



## Questions and Answers



# Important Information

Investment, insurance and annuity products are not FDIC insured, are not bank guaranteed, are not bank deposits, are not insured by any federal government agency, are not a condition to any banking service or activity and may lose value.

Investment products may be subject to market and other risk factors. See the applicable product literature or visit [www.tiaa-cref.org/ndpers](http://www.tiaa-cref.org/ndpers) for details.

***You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or visit [www.tiaa-cref.org/ndpers](http://www.tiaa-cref.org/ndpers) for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.***

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