YOUR RETIREMENT PLANS AT DUKE
Your Retirement Plans at Duke

**Employees paid monthly:**

- 403(b) Plan: Faculty and Staff Retirement Plan

**Employees paid biweekly:**

- 403(b) Plan: Faculty and Staff Retirement Plan
- Defined Benefit Plan: Employees’ Retirement Plan (ERP)
Agenda

- Employees’ Retirement Plan (ERP)
  - When can I access my pension plan?

- Duke 403(b) Plan: Faculty & Staff Retirement Plan
  - What is the Faculty and Staff Retirement Plan?
  - Why should I participate?
Retirement Income Sources

- Your Contributions
- Duke’s Contributions
- Social Security
What is the Employees’ Retirement Plan (ERP)?

- The benefit is **defined**
- Duke makes **all** contributions
- You are not required to make any contributions to the plan
- You may supplement your retirement savings through the Faculty and Staff Retirement Plan – a 403(b) plan that allows you to make voluntary contributions.
Eligibility

- You automatically become a plan member, if you:
  - Have reached age 21, and
  - Have worked at least 1,000 hours during your first year of employment or in any future fiscal year. (July 1 to June 30)

You are entitled to a benefit from the Plan after 5 years of continuous service. This is called vesting.
ERP Formula

1.25% of average final compensation

TIMES

years of credited service up to 20 years

PLUS

1.66% of average final compensation

TIMES

years of credited service over 20

- This calculation takes into consideration your average earnings (5 highest consecutive years of last 10 fiscal years), your age and years of credited service
What are my payment options?

- Single Life Annuity
- Joint and Survivor Annuity (50%, 75% or 100%)
- Level Income age 62 or 65
- If lump sum value is less than $10,000 you may be eligible for a lump sum payment

*Payments under the Employees’ Retirement Plan are considered taxable income*

*Discrepancy in age between you and your beneficiary will make a difference in benefit*
When can I start to receive a benefit?

- **Normal Retirement**
  - Age 65 - full benefit

- **Early Retirement**
  - Age 45 or older and 15 years of credited service
    - reduced based on age at time benefit starts

- **Deferred Retirement**
  (working at Duke past age 65)
  - Additional 10% for extra credited service over age 65
ERP Income: Normal Retirement

Example – Employee Retiring at Age 65
Annual Salary $30,000 ($2,500 / month)

- Average final compensation - $27,478

- 30 Years of credited service
  - 1.25% x 20 x $27,478 = $6,870
  - 1.66% x 10 x $27,478 = $4,561
  - Annual benefit = $11,431
  - Monthly benefit = $953

- Total Monthly Income $2,594
- Replacement Ratio 104%

Age 65 ERP

<table>
<thead>
<tr>
<th>ERP Income: Normal Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>3% Optional Savings</td>
</tr>
<tr>
<td>Duke ERP</td>
</tr>
<tr>
<td>Social Security</td>
</tr>
</tbody>
</table>

- $0
- $500
- $1,000
- $1,500
- $2,000
- $2,500
- $3,000

- Age 65 ERP

- $1,397
- $953
- $244
Early Retirement Benefits

- Early reduction factors are less for employees age 55 with at least 20 years of credited service

- Early reduction examples:

<table>
<thead>
<tr>
<th>Age</th>
<th>≥20 Years</th>
<th>&lt;20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>70%</td>
<td>45.2%</td>
</tr>
<tr>
<td>58</td>
<td>79%</td>
<td>56.2%</td>
</tr>
<tr>
<td>60</td>
<td>85%</td>
<td>65.6%</td>
</tr>
<tr>
<td>62</td>
<td>91%</td>
<td>91%</td>
</tr>
</tbody>
</table>
ERP Income: Early Retirement

Example – Employee Retiring at Age 62
Annual Salary $30,000 ($2,500 / month)

- Annual benefit at age 65 = $11,431
- Less: 3% reduction for each year between age 62 & 65:
  \[ 9\% \times $11,431 = -$1,029 \]
  Total Annual benefit = $10,402
  Total Monthly benefit = $867

- Total Monthly Income $2,118
- Replacement Ratio 85%
Have you ever transferred from one payroll to another at Duke?

- You may be entitled to a benefit under the Employees’ Retirement Plan (ERP) for employees paid biweekly.

- If you are entitled to a benefit, this frozen benefit is calculated using your years of service and compensation while you were paid biweekly.

- This frozen benefit will appear on your annual benefits statement.
What is the Faculty and Staff Retirement Plan?

- Also known as the 403(b) plan
- A way for you to set aside money today for your retirement on a pre-tax basis or Roth after-tax basis.
Why should you participate in the Faculty and Staff Retirement Plan?

- This is the plan that allows you to control how much you save for retirement.

- A little saved today can mean a lot at retirement.

- Duke offers you access to best in class investment options and investment carriers.
Decisions to make

How Much?

Which Investment Carrier?

Which Funds?

You will need to make some decisions but we have some tools to help you.
Things to Consider in Your Decision…

- How much will you need in retirement?
- Time horizon
- Tolerance for risk
- Tax and Fund Diversification
- Asset Allocation
How much are you going to contribute?

• You can contribute a flat dollar amount or a percent of pay on a pre-tax basis, Roth after-tax basis or a combination of both.

- **Minimum:**
  - Employees paid biweekly: 1% of pay.
  - Employees paid monthly: 1% of pay.

- **Maximum contribution is 80% per pay period or up to IRS Limit $18,000 for 2017 ($24,000 for employees over age 50).**
## Pre-tax contributions vs. Roth After-tax contributions

<table>
<thead>
<tr>
<th></th>
<th>Pre-tax contributions</th>
<th>Roth after-tax contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>Deducted from pre-tax pay</td>
<td>Deducted from after-tax pay</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>Taxed at withdrawal</td>
<td>Tax free at withdrawal if qualifying conditions are met*</td>
</tr>
<tr>
<td>Contributions are taxed…</td>
<td>Upon distribution</td>
<td>Upon contribution</td>
</tr>
<tr>
<td>Required Minimum Distributions apply?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* You can make tax-free withdrawals of your contributions—and any earnings—provided you are at least age 59 1/2 and made your first Roth contribution at least five years earlier.
### Pre-tax contributions vs. Roth After-tax contributions (Cont.)

#### Example

<table>
<thead>
<tr>
<th></th>
<th>Pre-tax Contributions</th>
<th>Roth After-tax Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Salary</td>
<td>$40,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Annual Pre-tax</td>
<td>- $4,000</td>
<td>$0</td>
</tr>
<tr>
<td>Contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$36,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Federal Taxes (25%)</td>
<td>- $9,000</td>
<td>- $10,000</td>
</tr>
<tr>
<td>Annual Roth</td>
<td>$0</td>
<td>- $4,000</td>
</tr>
<tr>
<td>Contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take Home Pay</td>
<td>$27,000</td>
<td>$26,000</td>
</tr>
</tbody>
</table>

- If you would like to estimate the impact of pre-tax contributions or Roth contributions on your take-home pay, please visit: www.hr.duke.edu/compensation/takehome.
Who might benefit from Roth?

Participants who:

- Expect to be in a higher income tax bracket when they retire.

- Want to hedge against the uncertainty of future tax rates by having both pre-tax and after-tax assets in their retirement account.

- Earn too much to contribute to a Roth IRA.

- Would like to make greater contributions than are possible with a Roth IRA.

- Wish to pass on tax-free income to their heirs.
Who might not benefit from Roth?

Participants who:

- Expect to be in a lower income tax bracket when they retire.
- Expect Social Security to be the mainstay of their retirement.
- Have a spike in pay due to bonuses or supplemental pay which results in their tax rate being higher than in retirement.
- Have children and a family income between $20,000 and $50,000, and receive the earned income tax credit or the additional child tax credit.
Duke contribution for eligible employees* paid monthly

The 2017 formula:

8.9% of the first $61,850 of salary and
13.2% of annual salary in excess of $61,850,
up to a statutory salary limit of $270,000

Example with $65,000 salary:

<table>
<thead>
<tr>
<th>Duke Contribution Percent</th>
<th>Multiplied by Salary</th>
<th>EQUALS: Annualized Duke Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.9%</td>
<td>First $61,850 of salary</td>
<td>$5,504.65</td>
</tr>
<tr>
<td>13.2%</td>
<td>Remaining $3,150</td>
<td>$415.80</td>
</tr>
<tr>
<td>Total in 2017</td>
<td>$65,000</td>
<td>$5,920.45</td>
</tr>
</tbody>
</table>

*In general, salaried employees paid monthly are eligible for the Duke contribution after completing one year of service and reaching age 21; however, vesting rules apply. Also, the one year waiting period can be waived.
Vesting

Employees hired before Jan. 1, 2012

- You are 100% vested in both your employee voluntary contribution and Duke contribution.

- If you are subsequently rehired by Duke, you will continue to be 100% vested.
Vesting

Employees hired on Jan. 1, 2012 or thereafter

- You are 100% vested in your employee voluntary contribution.

- You will be 100% vested in Duke’s contribution upon:
  - Completion of three years of service
  - Attainment of age 65 while employed by Duke
  - Hired after age 65
  - Death while employed by Duke
  - Approval for long term disability under the Duke LTD Plan
Each of Duke’s retirement plan investment carriers offer investment options in the same tiered structure. You can build a diversified investment portfolio without having to spread your investments over multiple providers.
Which Funds?

- To make it easier to navigate your choices, Duke has divided all investments into three tiers.

  Tier 1: **Asset Allocation Funds** for a “ready made” portfolio.

  Tier 2: **Core Funds** – build your own portfolio from best in class funds

  Tier 3: **Other Funds** – for experienced investors seeking diversification

- The Investment Advisory Committee has chosen a group of funds that will be regularly monitored to ensure they remain appropriate investment options for the retirement plan. Funds in Tier 1 and Tier 2 are monitored by the IAC.

- Review the fee disclosure information which includes fees and services associated with the plan before investing at: hr.duke.edu/performance.
Tier 1: Target Retirement Funds

- The Vanguard Target Retirement Funds offer a way to make a single choice for your retirement needs based on your expected years to retirement.
  - **Each Fund** includes a diversified mix of stocks, bonds and short-term instruments that change automatically over time.
These funds represent the primary asset classes and have been chosen based on their suitability for inclusion in a customized retirement portfolio.

This option may be good if you are more comfortable diversifying your own investments.

The investment carriers have financial consultants to help you build a solid financial plan for your future.
Default Investment Option

- Where do your contributions go if you do not choose a retirement plan vendor?
  - Investment Carrier: Vanguard
  - Investment Option: Vanguard Target Retirement Fund closest to your 65th birthday

- Where do your contributions go if you select an investment carrier but do not select investment funds/investment options?
  - Investment Carrier: Your preferred Investment Carrier
  - Investment Option: Vanguard Target Retirement Fund closest to your 65th birthday

Please note: The Vanguard Target Retirement Fund series is available at each investment carrier.
Important Plan Changes:
Investment Changes

As a result of a recent review, Duke’s Investment Advisory Committee has decided to make the following changes effective May 9, 2017:

- Replace existing target date fund series at Fidelity, TIAA and VALIC with the Vanguard Institutional Target Retirement Fund series
  - Account balances in the Fidelity Freedom Funds (Fidelity), TIAA-CREF Lifecycle funds (TIAA) or T.Rowe Price Retirement Funds (VALIC) were transferred to the corresponding Vanguard Target Retirement Fund.
  - Account balances will remain with your preferred investment carrier.

- Redirect future contributions from the CREF Money Market Account to the Vanguard Federal Money Market Fund at TIAA
  - TIAA has announced they will end the voluntary expense waiver on the CREF Money Market Account effective April 14, 2017. Due to the potential of additional fees to the CREF Money Market Account, Duke’s Investment Advisory Committee has recommended redirecting future contributions to the Vanguard Federal Money Market Fund (VMFXX) effective May 9, 2017.
Important Plan Changes: Fee Changes

- Change Vanguard Target Retirement Fund to lower cost share class at Vanguard
- Change to a lower cost share class for 50 other Vanguard funds
- Separate the cost of operating the plan from fund expenses at Vanguard:
  - All Vanguard plan participants will have an administration fee deducted from their plan account each quarter to cover the cost of operating the plan.
  - If your plan balance is below $5,000, a $6.25 fee per quarter ($25 annually) will apply.
  - If your plan balance is over $5,000, a $13.50 fee per quarter ($54 annually) will apply.

Example,

<table>
<thead>
<tr>
<th>Fund</th>
<th>Expense Ratio</th>
<th>Savings per $10,000 invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Vanguard Target Retirement 2025 Fund</td>
<td>0.15%</td>
<td>$5.00</td>
</tr>
<tr>
<td>After Vanguard Institutional Target Retirement 2025 Fund</td>
<td>0.10%</td>
<td></td>
</tr>
</tbody>
</table>
Why is Vanguard now charging a flat administrative fee?

- The flat administrative fee will allow the plans to offer lower-cost investment options at Vanguard.

- This is not a new charge. All investment carriers charge administrative fees.

- Administrative fees cover expenses such as recordkeeping, account management and customer service call center support.

- The cost to operate the plans is, normally, offset by the use of expense ratios or by the use of flat dollar amounts to cover the cost of administrating the account.

- An expense ratio is a percentage of a participant’s investments.

- Duke University's plans operate by using an expense ratio to offset administrative fees at Fidelity, TIAA and VALIC.
If You Leave Duke...

Your vested 403(b) funds can:

- Remain in plan until age 70 ½
- Be rolled over into your new employer’s 403(a), 403(b), 401(k), governmental 457 plan
- Be rolled over into an IRA
- Be withdrawn as cash (IRS penalties may apply)
Action Items

- Enroll now! Start contributing towards your voluntary employer sponsored 403b retirement plan
  - Visit Retirement Manager at: hr.duke.edu/retirementmanager
- Meet with a Financial Advisor
- Review your investment allocation every year
- Review the fee disclosure materials (hr.duke.edu/performance)
- Update your beneficiaries
- Save, save and save!!!
# 403b Investment Carriers Information

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Contact</th>
<th>Local Phone</th>
<th>National Phone</th>
<th>Web Site</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fidelity</strong></td>
<td>Chris Mann / Alan Collins</td>
<td>(800) 642-7131</td>
<td>(800) 343-0860</td>
<td><a href="http://www.fidelity.com/duke">www.fidelity.com/duke</a></td>
</tr>
<tr>
<td><strong>TIAA</strong></td>
<td>Marilyn Brennan / Joshua Scott / Rodney Pettus</td>
<td>(919) 687-5202</td>
<td>(800) 842-2776</td>
<td><a href="http://www.tiaa.org/duke">www.tiaa.org/duke</a></td>
</tr>
<tr>
<td><strong>VALIC</strong></td>
<td>Tom Overcash</td>
<td>(919) 401-3252</td>
<td>(877) 375-2424</td>
<td><a href="http://www.valic.com/duke">www.valic.com/duke</a></td>
</tr>
<tr>
<td><strong>Vanguard</strong></td>
<td></td>
<td></td>
<td>(800) 523-1188</td>
<td>duke.vanguard-education.com</td>
</tr>
</tbody>
</table>

For additional information contact: Duke Human Resource Information Center at 684-5600