

## An **annuity** can offer a **sustainable retirement income**



Most individuals are more focused on their total retirement account balance versus managing that money as income in retirement. To assure that retirement income will last until death, managing that income during retirement is equally if not more important than accumulated investment growth over one's career. For this reason, new higher education faculty selecting a defined contribution plan should be evaluating that plan's ability to provide a sustainable retirement income in addition to evaluating investment options and fees.

Annuitizing is the best option to ensure a lifetime income in retirement for the retiree, as well as for a beneficiary upon the retiree's death. However, some individuals focus more on the lump sum available. For example, looking at an investment account balance of \$500,000 versus a lifetime monthly amount of \$2,200 can cause confusion for retirees who don't understand the future effects of their decision. A survey conducted for the American College of Financial Services further demonstrates this point. The survey found that Americans ages 60–75 with at least \$100,000 are the least informed about how to use annuities as an income strategy. Of the 1,000 surveyed, fewer than half agreed taking an annuity was a better choice over a lump sum to meet living expenses.

The STRS Ohio Defined Contribution Plan has two payout options at retirement: a monthly lifetime annuity for the retiree and

a beneficiary or a lump-sum withdrawal. The monthly annuity can begin as early as age 50, or the retiree can leave the account with STRS Ohio for an annuity or withdrawal at a later date. A monthly lifetime annuity from STRS Ohio has the following advantages:

- STRS Ohio does not have to support broker commissions or profit margins. Therefore, STRS Ohio fees are lower and the retiree's account remains the retiree's money instead of commissions being paid out of the retiree's account.
- An STRS Ohio annuity pays a greater amount than an annuity in the general market. This means a retiree's monthly annuity through STRS Ohio will be higher than if the defined contribution plan account balance was rolled over

**Managing income during retirement is equally if not more important than accumulated investment growth over one's career.**

to another company to administer the annuity payout.

Annuity rates are based on

market conditions and mortality expectations that change regularly. Each vendor sets its own rates. A recent comparison of annuities on the website [www.annuityshopper.com](http://www.annuityshopper.com) reveals the difference between annuities at various companies. For example, annuitizing \$500,000 for a 60-year-old retiree, the monthly amount would be \$2,337 with AIG, \$2,420 with Voya Financial and \$2,382 with MetLife Investors USA. If the retiree annuitized the defined contribution account with STRS Ohio the monthly amount would be \$2,819 — more than 16% higher.

### NOTIFICATION



### Members in **fifth year** of membership now eligible for plan reselection.

Defined Contribution Plan and Combined Plan participants in their fifth year of STRS Ohio membership will have the option to change plans by **June 1, 2015**. Plan reselection information will be sent to eligible members in the spring and will also be available at [www.strsoh.org](http://www.strsoh.org). Eligible members who do not make a plan selection during the reselection period will remain in their current plan.

Alternative retirement plans (ARPs) offer other payment options in addition to lump-sum and lifetime annuity payments. Individuals should contact the ARP vendor directly for payout information.

Deciding which defined contribution plan to select (STRS Ohio or an ARP) is about evaluating the plan's: ability to provide sustainable income; fee charges (i.e., broker commission fees), if applicable; profit margins, if applicable; account balance accumulations; investment options and services offered to assist with managing retirement income. An individual considering all of these factors when making a plan selection will be better equipped to make a decision that results in a sustainable retirement income.

Sources: "The Search for Income in Retirement" by Ruth Davis Konigsberg, [www.finra.org](http://www.finra.org) (Smart Management of Retirement Income — Selecting Payout Methods) and [www.annuityshopper.com](http://www.annuityshopper.com).



# Evaluation of the **mitigating rate** for defined contribution plans continues

**The Ohio Retirement Study Council (ORSC), the legislative body that provides policy oversight of Ohio's public pension systems, has completed a report assessing the mitigating rate developed for alternative retirement plans (ARP).**

Established by law, the mitigating rate is a portion of the employer contribution used by the retirement system to offset the negative impact of participation in defined contribution plans. The current STRS Ohio mitigating rate is 4.5%, meaning the pension system receives 4.5% of the 14% employer contribution and the member's account receives the remaining 9.5%.

The ORSC mitigating rate report, a requirement of House Bill 483, indicated that the ARP program has a negative financial impact on Ohio's public retirement systems. Furthermore, the lack of annual mitigating rate studies establishing an ARP cap has resulted in uneven

application of statute. Also, the Revised Code does not provide specific guidance on the extent of mitigation.

Based on report findings, the ORSC staff's mitigating rate recommendations are that a consistent formula be established in statute to provide clarity and consistency for employees, employers and the retirement systems. The ORSC recommends that the formula take into account the most recent unfunded accrued liability rate of the retirement system. Any new developments regarding the mitigating rate will be included in a future issue of *Higher Education News*.



## **Volunteer work no longer violates reemployment provisions**

Senate Bill 42, passed in late 2014, included a change to a reemployment provision impacting STRS Ohio retirees returning to public employment. Under this legislation, **a retiree can now return immediately in a volunteer capacity to the employer he/she retired from and not face forfeiture of retirement benefits** if the position is different from the position held prior to retirement.

For retirees returning to public employment, but not in a volunteer capacity, existing rules and regulations associated with reemployment are still in force. For further information, go to [www.strsoh.org](http://www.strsoh.org). (Click on "Reemployment" under "Receiving Benefits.")

## **Online presentation offers overview of STRS Ohio retirement benefits**

STRS Ohio offers an online *Retirement Benefits Presentation* that provides an overview of the retirement benefits STRS Ohio makes available to its members upon retirement. There are three versions of this presentation — one for each of the three retirement plans offered by STRS Ohio. Each presentation includes important information pertaining to a member's

retirement plan including: information about the monthly benefit payment, death benefits and reemployment restrictions. The presentations can be accessed in the multimedia section of STRS Ohio's website at [www.strsoh.org](http://www.strsoh.org), where other online presentations and on demand webinars are also available.

