The path to helping participants plan successfully
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As a retirement plan provider, we spend a great deal of time focused on helping employees accumulate the assets they will need to achieve financial security. However, what happens once you get there? How do you transition from the accumulation phase to the decumulation phase? What is the best way to take control of the money you have accumulated and make sure that it continues to work for you?

The Pentegra Distribution Path™ provides an overview of all the options available to employees and offers simple yet essential tips for creating a decumulation strategy to build a lifetime income stream and make a secure retirement a reality.
When it’s time to retire.

The transition to retirement is not just a financial one; it’s also a psychological one. There are many factors to consider as you enter this phase. For your entire career, you have been focused on saving—and on the amount needed to retire securely. Once you make the decision to retire, there’s another amount that you need to focus on: how much you can spend each month, and which source of retirement income it will come from.

This is what the industry calls “decumulation,” or the process of distributing the savings you have spent your lifetime accumulating. How you spend your savings is as important as how you accumulated them. Many of the same factors that shaped your savings decisions will also shape how you spend them.

For many retirees, this can be overwhelming and often confusing. You may have savings from many different sources—employer-sponsored retirement plans, such as 401(k) or pension plans, plus IRAs and Social Security. Many of your income sources offer different methods of distribution that you will need to choose from. The first step is to understand which options are available to you from each of your income sources, and the advantages and implications of each.
transition to retirement

Visualize your retirement lifestyle.
What are your choices?

Understanding the options available to you.
Pentegra offers the flexibility to structure retirement income in a variety of ways. It is important to understand which options are available to you and the advantages and tax implications of each option.

It’s time to begin planning!

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<td>Lump Sum Payout/Partial Lump Sum Payout</td>
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A variety of options are available.
Lifetime Income Solutions® Through Annuities

As you consider how to maximize your retirement income, you may be concerned about how to balance spending too much in the early years of your retirement and running out of savings, or being too frugal and leaving excess savings behind. Most of us face real risks related to inflation, longevity and market volatility. A primary concern for many baby boomers will be how to “pensionize” their retirement savings.

What is an annuity and how does it work?

Lifetime income annuities provide a way to maximize your retirement benefits to provide comfort and security throughout retirement. An annuity provides a guaranteed monthly benefit payment based on your accumulated retirement benefits. These benefit payments continue for as long as you live and, if you choose, for as long as your beneficiary lives. An annuity pays you monthly income that you cannot outlive.

Pentegra offers an out-of-plan lifetime income solution through Hueler Investment Services. Through the Lifetime Income Solutions® program, you can convert your retirement assets into a reliable income stream or paycheck for life by purchasing a lifetime income annuity. You get assistance to help you determine how to choose the annuity that is right for you and can choose from a variety of pre-screened high quality insurance companies.

The Lifetime Income Solutions® platform also includes the ability to choose a Qualified Longevity Annuity Contract (“QLAC”). A QLAC is a “pure” deferred income annuity that pays you later in life. The advantage of a longevity annuity is that only a small initial deposit of premium dollars is needed to guarantee bigger income payments later in your retirement years.

Annuities may be an ideal choice because they enable you to make long-range plans by providing basic financial security—so that you can use personal savings and other income sources for whatever you like, without worrying about using all your retirement income. Annuities also offer key tax advantages. The tax code specifically protects money in retirement plans, deferring taxes until you receive the income.
lifetime income solutions

A guaranteed income stream for life.
What’s the best annuity for you?

The best annuity for you depends upon your sources of retirement income, how they are invested, your health, and the health of your beneficiary. Different types of annuities pay different levels of income because they take different factors into consideration. How much an annuity pays depends on:

- The size of your retirement benefit
- The age when you begin receiving annuity payments
- Whether you choose a payment option that includes your spouse or other beneficiary

How do different types of annuities compare?

Annuity payments are not “one size fits all.” If any of your income sources provide an annuity option, you will need to explore and understand the different annuity forms available. First, you have flexibility in when you wish to begin receiving your annuity benefits.

**Immediate Income Annuity**  Payments begin within 12 months of your purchase date. In exchange for a lump sum, an insurance company provides a guaranteed monthly income for life or over a specific time frame.

**Deferred Income Annuity**  Payments begin at any time from several months to years after your purchase date. In exchange for a lump sum, an insurance company provides a guaranteed monthly income for life to begin at a future date that you select.

**QLAC (Qualified Longevity Annuity Contract)**  Payments begin as late as age 85. In exchange for a one-time payment, an insurance company provides a guaranteed monthly income for life to begin well after retirement but not later than 85. QLACs permit you to “spend down” more of your remaining savings earlier in your retirement and provide you with the peace of mind that comes with having another income stream much later in life.
understanding annuities

Different types of annuities pay different levels of income because they take different factors into consideration.
Types of annuity payments

Joint and Survivor Annuity
A joint and survivor annuity provides income over your lifetime and the lifetime of your spouse or beneficiary. A typical joint and survivor annuity provides you with a monthly retirement income, with a portion of that income continuing to your beneficiary upon your death. Generally the more you leave as a death benefit, the less you receive during your lifetime, and vice versa. The death benefit is a function of the percentage found in the benefit form name (e.g., 50% joint and survivor benefit provides 50% of what you were receiving as a death benefit). Because payments are guaranteed for your lifetime, with benefits continuing to your beneficiary upon your death, this type of annuity will generally pay less than a straight, or single life annuity because it offers guaranteed benefits upon your death, or death benefit protection.

Period Certain and Life Annuity
A life annuity may also be structured to provide retirement income for life with a “period certain,” or a guaranteed benefit for a certain period of time. For example, a life annuity with 10 years certain means that the benefit would be paid over your life, with a minimum of 10 years of payments guaranteed. If you were to die after four years, your beneficiary would receive the remainder of the payments for six more years, because the annuity guarantees that the payments will be made for at least 10 years. The guaranteed portion of the benefit under this option is also referred to as a death benefit, or death benefit protection.

Straight or Single Life Annuity
A straight life, or single life annuity provides retirement income for your lifetime. It is essentially a series of monthly payments that continue for as long as you live. When you elect a straight life annuity, payments end upon your death, with no remaining payments to your beneficiary. While this type of annuity provides the highest level of monthly benefit, it offers no death benefit protection. This is because in exchange for a higher level of retirement income, you give up a continuing benefit for your beneficiary.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides guaranteed lifetime income</td>
<td>No access to additional income beyond periodic annuity amount</td>
</tr>
<tr>
<td>Reduces investment risk (benefit is not subject to market fluctuations)</td>
<td>Once elected, benefit form and joint and survivor beneficiary generally cannot be changed</td>
</tr>
<tr>
<td>A predictable benefit you can’t outlive</td>
<td></td>
</tr>
<tr>
<td>Eliminates the worry of how your assets are invested</td>
<td></td>
</tr>
<tr>
<td>Can build in inflation increases</td>
<td></td>
</tr>
<tr>
<td>Can provide for spouse or beneficiary income after your death</td>
<td></td>
</tr>
</tbody>
</table>
comparing payments

A predictable benefit you can’t outlive.
The Pentegra Supplemental Retirement Allowance

If you have a pension benefit through Pentegra, you can take advantage of the Pentegra Supplemental Retirement Allowance. The Pentegra Supplemental Retirement Allowance lets you use assets from any other qualified retirement plan – such as a 401(k) plan, ESOP, Money Purchase plan or Profit Sharing plan as well as a personal IRA – to purchase an additional monthly benefit that is payable for your lifetime and/or the lifetimes of you and your beneficiary.

The Pentegra Supplemental Retirement Allowance provides a way to redefine a portion of your retirement savings to provide lasting comfort and security throughout retirement. When you are ready to begin receipt of your pension benefit, you can transfer all or a portion of these assets to your Pentegra defined benefit plan. Amounts transferred will increase your monthly pension benefit for life. These payments continue for the rest of your life and, if you choose, for as long as your beneficiary lives.
Redefine a portion of your retirement savings.
Installment Payments and Distributions Over Time

Installment payments are a way to structure your retirement savings to provide regular income throughout retirement. An installment payment program lets you make long-range plans so that you can use personal savings and other income sources for whatever you like without worrying about using all of your retirement income. Installment payments generally offer a great deal of flexibility in structuring your payments. Under this option, Pentegra offers you the ability to create an income stream and payment cycle that works best for you.

Annual/Periodic Distribution Payments

An installment payment can be structured to provide benefit payments over a specified period of time that you choose, based on your accumulated retirement benefit. You can choose to take a monthly, quarterly or annual distribution as a percentage of your savings, or as a specific flat dollar amount payable over time.

Annual/Periodic Distribution Payments Based on Life Expectancy

An installment payment can be structured to provide benefit payments over a specified period of time not to exceed your life expectancy using IRS life expectancy tables.

Do-it-Yourself, Ad-Hoc Distribution Payments

Alternatively, installment payments can be structured simply as periodic ad-hoc distributions that are made when you choose.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxed only on amount distributed</td>
<td>Unlike an annuity, there is the possibility of outliving your distribution time period</td>
</tr>
<tr>
<td>Periodic access to money over a fixed time period</td>
<td>You need to continue to manage your investments</td>
</tr>
<tr>
<td>Flexibility to change the amount of benefit and the time frame for payment</td>
<td></td>
</tr>
<tr>
<td>Not “locked in” like an annuity</td>
<td></td>
</tr>
</tbody>
</table>
periodic payments

A customized income stream and payment schedule.
Lump Sum Distributions

Your plan most likely offers a Lump Sum Distribution option. Lump sum distributions can generally be made in full or partial form. With a lump sum distribution, it is important to understand the impact of tax implications and penalties. For example, taking a distribution will subject you to federal income tax as well as any applicable state and local income taxes. If you are currently under age 59 ½, you may be subject to an early distribution penalty. Tax implications and penalties can quickly erode your retirement savings.

While taking a full or partial lump sum distribution provides you with immediate access to your retirement savings, there may be costly long-term consequences. The IRS looks at a cash distribution from a retirement plan as income to the person receiving it. Remember, your tax bracket is determined by how much income you earn. If you take a lump sum distribution from your retirement plan, you could increase your income level for that calendar year dramatically, potentially putting you in a higher tax bracket. By considering other distribution options, you’ll preserve more of your savings.

<table>
<thead>
<tr>
<th>Retirement savings:</th>
<th>$10,000 (before distribution)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal income tax:</td>
<td>$2,000</td>
</tr>
<tr>
<td>Penalty on early withdrawals:</td>
<td>$1,000</td>
</tr>
<tr>
<td>State income tax:</td>
<td>$500</td>
</tr>
<tr>
<td>Amount you actually receive (after taxes and penalty):</td>
<td>$6,500</td>
</tr>
</tbody>
</table>

Assumes a federal income tax rate of 20% and state income tax rate of 5%. Your employer will be required to withhold 20% in federal taxes on any pretax cash distribution. This 20% withholding would then be applied toward the $2,000 owed in federal income taxes. Your situation may vary.

### The Effect of Taxes on a Lump Sum Distribution

### Pros

- Allows you to access your money all at once

### Cons

- Lifetime income not guaranteed; possibility of outliving money
distributions

Consider the long-term consequences of a lump sum distribution.
Leave the money in your existing plan account

You enjoy many valuable benefits as a Pentegra customer. You can continue to do so even after you terminate employment or retire. By leaving your account with Pentegra, you don’t have to take any action—there’s no paperwork to complete. This option allows growth potential for your money without having to pay taxes on it until you take a distribution.

Consolidate your retirement assets
While you won’t be able to contribute to the plan because you are no longer working for your employer, you can use your Pentegra account to consolidate assets from other retirement plans, including after-tax distributions and Individual Retirement Accounts (IRAs).

Access your account
You can continue to access your account whenever you need to. Once you have terminated employment, you have unlimited access to your account. Even better, if your plan permits loans, you can continue to borrow from your account for any reason—and that is something IRAs don’t allow.

Cost-effective investments
You can continue to take advantage of your current investment options—options that are only available to Pentegra plan participants that you are already familiar with. Pentegra’s investment options are among the most cost-effective investment funds available in the industry today. Low investment costs and their impact on a fund’s returns are especially important to retirement investors, since cost savings compound substantially over time and allow your money to work harder for you.

Flexible Retirement Income Strategies
When you are ready to retire, you can take advantage of the Lifetime Income Solutions® offered by Pentegra as well as continue to enjoy the flexibility that comes along with the many retirement distribution options available to you as a Pentegra customer.
other options

Consider consolidating assets.
Getting to the ideal decumulation number

Having a firm idea of how much you expect to spend will help determine a decumulation plan, which includes which retirement income sources you will tap, when you will begin to draw from them and when to begin collecting Social Security income.

Your ideal decumulation income stream includes basic expenses for shelter, food, utilities and other routine bills, along with medical expenses and “pleasure” expenses – the money you need to travel, pursue hobbies and do other fulfilling activities.

First, determine what your expenses are. Then consider the best way to begin to draw from your retirement income sources. Retirement plan distributions need careful planning; much in the same way that you have spent your career accumulating assets, you will want to spend time planning for this phase of your life.

Consider how compounding works and realize that large distributions may have an adverse effect on income in your later years—because large amounts that are distributed from your savings no longer have earnings potential—which will ultimately impact your account value.

In addition, dollar cost averaging begins to work in reverse. Withdrawing from volatile portfolios potentially requires more shares to be sold when markets are down to generate the same amount of cash, so market timing can be an issue.

Just as you’ve done throughout the accumulation phase, you will need to periodically review your accounts (e.g., 401(k), IRAs, etc.) to be sure your investments are still meeting your needs throughout the decumulation phase.
What does your ideal income stream include?
What’s the right amount?

Traditionally, the ideal decumulation number is 4% — that is, the percentage of your nest egg you can withdraw annually in order to maintain your portfolio over the long term. Taking into consideration the fact that interest rates have remained low — as well as the volatility of the market — some retirees prefer to take withdrawals based on life expectancy. It is important to consult with a financial advisor to determine the appropriate withdrawal amounts and tax withholding for your individual circumstances.

4% Rule

How it works: Withdraw 4% of your portfolio the first year of retirement. Each subsequent year, withdraw 4%, adjusted for inflation.

Pros: Historically proven to be a sustainable withdrawal benchmark in well-diversified portfolios.

Cons: Market declines early in your retirement can have an adverse effect on the long-term sustainability of your portfolio.

Withdrawals Based on Life Expectancy

How it works: Using the minimum distribution life expectancy table in IRS Publication 590 Appendix C, divide your account balance by your life expectancy based on your current age to determine your annual withdrawal amount.

Pros: Takes into account life expectancy based on your specific age.

Cons: More difficult to calculate; may result in variable distribution amounts; distributions may become smaller, especially in the latter part of your retirement years.

Withdrawals Using an Annuity Purchase

How it works: Use a portion of your retirement assets to purchase an annuity in an effort to expand your purchasing power and get more than the 4% rule would provide, while providing a guaranteed income stream at retirement.

Pros: When you purchase an annuity with a portion of your retirement assets, you effectively create a secure income foundation. This strategy may allow you to continue to invest the remainder of your retirement assets with a longer time horizon in mind, which may help guard against the possibility of outliving your retirement assets.

Cons: Less flexibility once your election is made.
What is the percentage you can withdraw annually and still maintain your portfolio?

### Comparing Monthly Income

<table>
<thead>
<tr>
<th>Age/Gender</th>
<th>Payment Option</th>
<th>Monthly Retirement Income (Based on $100,000 Retirement Account)</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 year old male</td>
<td>Life Annuity</td>
<td>$561</td>
</tr>
<tr>
<td>65 year old male</td>
<td>Life Annuity with 10 Year Period Certain</td>
<td>$546</td>
</tr>
<tr>
<td>65 year old female</td>
<td>Life Annuity</td>
<td>$520</td>
</tr>
<tr>
<td>65 year old female</td>
<td>Life Annuity with 10 Year Period Certain</td>
<td>$512</td>
</tr>
<tr>
<td>65 year old male or female</td>
<td>Withdrawal Using 4% Rule</td>
<td>$333</td>
</tr>
<tr>
<td>65 year old male or female</td>
<td>Withdrawal Based on Life Expectancy</td>
<td>$397</td>
</tr>
</tbody>
</table>

Source: Hueler Income Solutions® Data as of 4.30.15 representing quotes for immediate income annuities
Timing is everything

Determining your ideal retirement date may not be straightforward. So much depends on your personal circumstances. You will need to consider when you will be eligible for Social Security benefits, as well as how you will handle health benefits after you stop working and whether you will continue to work part time.

Key factors to consider:

• What are all of my sources of retirement income?
• What is the age used to define “Normal Retirement Age” under my employer-sponsored retirement plan(s)? It is likely not the same as your Social Security Retirement Age, which is based on year of birth, and generally is age 66 or later.
• Do your employer sponsored retirement plans offer early retirement benefits and, if so, what are they? What are the reductions and penalties, if any?
• Are you married? Is your spouse retired or still working?
• What is the state of your health and anticipated life expectancy? If you retire from your employer before your Normal Retirement Age, will there be a gap before you are Medicare-eligible? If so, how will you fill this gap?

Additional Planning Resources:

www.aarp.org
www.ssa.gov
www.pentegra.com/buildingblocks
What is the right retirement date for you?
Tax implications and considerations

You will also want to consider the implications your retirement income will have on your tax liability. Your retirement savings will typically come in three forms: tax-free, tax-deferred and taxable.

This is where tax liabilities come into play. The order you choose for making withdrawals from retirement assets can have a big impact on the long-term growth of your assets. You will want your strategy to be as tax-efficient as possible. Here are some general suggestions:

• Retirees over age 70½ must take required minimum distributions (RMDs) from qualified retirement plans and traditional IRAs annually.
• Consider withdrawing taxable assets next. In general, assets with the highest cost basis are sold first.
• Consider leaving any Roth IRA assets in your account until you need them. If you don’t need the money, the Roth IRA can pass intact to your heirs.
• Consult with a professional advisor to determine the withdrawal sequence that is best suited to your personal circumstances.
Ensure your strategy is as tax–efficient as possible.
Put the Pentegra Distribution Path™ to Work for You

The Pentegra Distribution Path™ offers simple yet essential tips for creating a decumulation strategy and path to a secure retirement. Use the Pentegra Distribution Path™ to take control of the money you’ve accumulated and make sure that it continues to work for you.

We understand that planning for a secure future involves some of the most important financial decisions that you may have to make. Pentegra is here to help you. For more information on the Pentegra Distribution Path™, contact us at 800.872.3473, visit us at www.pentegra.com, or contact the Pentegra Customer Service Center at 866-633-4015.