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Payback Time: How to Receive Retirement Income from TIAA-CREF

Having a well-thought-out plan to receive income in retirement should be an important part of your financial strategy. Here are some of the issues to think about.

Before you start planning your retirement, take note of some cheering, but sobering, statistics. Seventy-seven out of every 100 people who reach age 65 will live to be age 80 or older, and almost a quarter will surpass age 95. These statistics show that many people need to make their retirement savings last for a very long time. They also suggest that it's important to craft a retirement income strategy that can help make your money last as long as you live; no strategy should leave you vulnerable to running out of money at the time in life when you can least afford it.

To help you create sufficient income for retirement, TIAA-CREF offers an array of retirement income options and comprehensive planning services. These include a full range of lifetime annuity, cash withdrawal and minimum distribution options that you can use alone, or in combination with other income choices, to meet your financial needs.

By understanding the retirement income options available to you, and asking yourself questions that relate these options to your goals and financial circumstances, you can develop a strategy that best fits your needs.

Understand Your Options

Basically, there are two methods for receiving your retirement accumulations: *guaranteed and variable annuities* and *cash options*. In general, annuities are best for people who want to be assured of income, while cash options are best for those who want to control their principal.

Guaranteed and variable annuities are contracts through which you exchange your accumulation for the insurance company's promise to provide you an income for life or for a specified period. (Note that these payments are subject to the claims-paying ability of the insurance company.) An annuity contract does not guarantee the income stream will be adequate for your

financial needs, only that you will receive regular income payments until you (and, if applicable, your annuity partner) die.

Although variable annuities provide an ongoing stream of income, the amount you receive can vary, because the income payments reflect the returns earned by the account(s) you selected as the source of your income. You might take your income from a stock account, for example, where the income is variable, based on the account's underlying investment performance. Or you can choose a guaranteed annuity, which guarantees a basic level of income, and through which only the annual, additional amounts can fluctuate.

When thinking about using an annuity as an income option, be aware that there are costs associated with doing so, including surrender fees, early withdrawal penalties and mortality risk expenses. Also, depending on the financial company you choose, product availability and features may vary. So read the prospectus before investing.

Cash options involve withdrawing some or all of your accumulations from your variable annuity accounts or mutual funds in order to meet your retirement income goals.

With cash options, you have more freedom to manage your retirement accumulations than you do with annuities. For example, with cash options, you can live off the interest payments only, or you can choose to live off a combination of principal and interest. You can also create a stream of annuity income for a portion of your accumulation while leaving the remainder of your savings intact for the future.

Annuities: Pros and Cons

How do annuities and cash options compare with each other? The major advantage of annuities is that they relieve you of the worry of outliving your income. With a cash withdrawal strategy, it's possible to design an income plan where you draw interest and a small amount of principal from your retirement savings and "nurse" the money through retirement. However, if you dip into principal, you'll have less money available to generate interest. So as the years go by, you'll need to draw more and more principal to make ends meet, exposing you to the risk of running out of money altogether. With an annuity, you can avoid these concerns — you get a stream of income that lasts as long as you (and, if applicable, your annuity partner) live.

The principal disadvantage of annuities is that by trading your assets for income, you risk leaving money with the insurance company that would otherwise go to your heirs if you die at a

younger age. To prevent this from happening, you can choose one of two basic provisions that lessen the risk of not getting full use of your money. First, you can use a *joint annuity*, which unlike a single-life annuity, continues payments for the life of your annuity partner as well as yourself. You can also add a *guaranteed period*, which ensures that your income will continue to your beneficiary for a set number of years if you die earlier in retirement (or, with a joint annuity, if both you and your partner die). Because of the basic protections annuities provide, some institutions' retirement plans require participants to convert half or more of their money to lifetime income.

Cash Options: Pros and Cons

As mentioned, cash options do not provide the fundamental protection against outliving income that annuities do. However, cash options can offer flexibility for people in certain situations. For example, cash options can be useful for people phasing into retirement and who need income until they retire. Cash options can also be effective for people who have more retirement income than they need and want to set aside some of their assets for their heirs. Cash withdrawal strategies can also be a good choice for people who are in poor health, since a withdrawal strategy enables them to take out as much money as they need to.

Because a single large cash withdrawal can result in a significant tax bill, most people take cash settlements gradually through *systematic payments*. Those who need a limited amount of income, perhaps for a short period of time, often choose the *TIAA Interest-Only Option*, which leaves the principal intact.

One factor to keep in mind with cash income strategies is that federal minimum distribution rules require you to begin drawing a set amount of principal from tax-favored retirement plans every year. TIAA-CREF's *minimum distribution option* pays the required amount and no more, leaving the remaining accumulation intact for the longest legally allowed time.

To learn more about the wide range of cash and annuity income options available from TIAA-CREF, go to www.tiaa-cref.org/support/publications/index.html, click on **View all TIAA-CREF publications** and select the booklet "Receiving Your Retirement Income from TIAA-CREF." You can also order the booklet by calling **877 518-9161**.

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