

Gideon School District

403(b) and 403(b)(7) Plan Summary—Nov. 2009

What is a 403(b) Plan?

A 403(b) is a tax-advantaged retirement program for employees of educational institutions, and certain other not-for-profit organizations. A 403(b)(7) is a subsection that allows investment in mutual funds through a custodial account. Where used in this information, 403(b) refers to both 403(b) and 403(b)(7) as appropriate. 403(b) plans provide an outstanding means to maximize retirement savings. All employees of the Gideon School District are eligible to participate in a 403(b) plan through payroll deduction. To minimize administrative and payroll costs, the district maintains a list of approved vendors for 403(b) plans and employees have the option of selecting from plans offered by these vendors.

These plans allow employees to reduce current taxable income while setting aside funds to supplement retirement benefits. Taxes on investment earnings are also deferred, allowing for long-term investment growth. Withdrawals are taxed as ordinary income, but many retirees find themselves in a lower tax bracket than when they were working. (A 10% penalty may apply for early withdrawal.)

Of the many IRS rules and regulations governing 403(b) plans, there are a few fundamental principles:

- The amount that can be contributed in pre-tax dollars to 403(b) retirement plans (employer and salary reduction combined) is limited by both an overall maximum and your income.
- Even if an employer's retirement plan allows cash withdrawals, you can't take distributions of salary reduction to annuity or any 403(b)(7) contribution to a mutual fund before age 59 ½ as long as you are still working for that employer. If you leave your employer and take distributions before 55, you may be subject to an additional 10 percent tax penalty in addition to regular income taxes.
- Most people in 403(b) retirement and Tax Deferred Annuity plans must start receiving minimum distributions by the April 1st following the year they turn 70 ½ or retire, whichever is later. 403(b) funds accumulated prior to 1987 aren't subject to mandatory federal minimum distribution rules, but are subject to other distribution requirements.

As part of a comprehensive revision of the laws covering ERISA retirement plans, 403(b)(7)s were created to expand the original 403(b) concept. A 403(b)(7) plan allows employees to make contributions to custodial accounts invested in mutual funds, yet the investment is treated the same as if it had been made to an annuity contract. As a result, if an employee makes 403(b)(7) contributions, they may exclude them from their gross income for federal (and most state) tax purposes. Section 403(b)(7) also makes an exception to the 403(b) rule that requires

contributions be made to annuity purchased from an insurance company. But the exception applies only when the mutual fund investments are held in qualifying custodial accounts.

How Can I Participate in the Gideon School District 403(b) Plan?

The Gideon School District 403(b) plan currently has two approved vendors through which employees can participate in 403(b)/403(b)(7) tax deferred investment options. As of May 30, 2009, currently approved vendors include:

- **ING** -- <http://www.ing-usa.com/us/individuals/productsservices/annuities/index.htm>
- **Vanguard** -- <http://vanguard.com>

These are considered to be “low cost” vendors where your retirement savings will most likely be maximized. The products sold by these vendors are not federally insured and can go down in value, but generally, over time, they are good investments. Vanguard offers a variety of mutual funds that you can invest in. Vanguard funds are probably more suited for the “independent minded” investor who is comfortable with doing his/her own research and making their own choices. ING offers a "fee for service" plan that has additional fees but may be appropriate for individuals who would like more guidance. ING has local representatives that will meet with interested employees and discuss retirement options, products offered, as well as do an assessment of the types of investments that may be best suited for you. It is important to keep the number of vendors small, although new vendors will be considered if there is justification that their plans are better and/or their costs are lower. New vendors will be considered at the request of a group of five or more employees who intend to fund a 403(b) through the new vendor via payroll deduction and who provide cost saving justification for the addition of that vendor. Any new vendor must demonstrate compatibility with the planwithease system that the district has selected to manage our 403(b) plan.

To participate in the district 403(b) plan you must establish an account with one of the approved vendors and then fill out a salary reduction request contract with the central office.

Annual Contribution Limits

The IRS imposes contribution limits for employees participating in a 403(b) plan. These are total contribution limits for all 403(b) plans an employee may participate in. The annual contribution limit is \$16,500 for 2009 and 2010. The contribution limit may be increased annually to factor in the effects of inflation, so limits beyond 2010 may change. The “Age 50+ catch-up Limit” is \$5,500 for 2009 and 2010.

403(b) Retirement Plan Annual Contribution Limits

(Authorized by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001)

403(b) Plan Dollar and Percentage Limits					
Rule	2006	2007	2008	2009	2010
Limit on employee contributions	\$15,000	\$15,500	\$15,500	\$16,500	\$16,500
"Catch-Up" contributions for participants 50 or over	\$5,000 additional	\$5,000 additional	\$5,000 additional	\$5,500 additional	\$5,500 additional

Note: Limits are subject to annual review by the IRS and may change beyond 2010.

The 15-Year Rule catch-up provision applies only to the 403(b) Retirement Plan. Based on contribution history beginning in 1987, the 15-year rule may allow any employee to exceed the annual limit if they have at least 15 years of service. Additional contributions made under the 15-year rule cannot exceed \$3,000 per year, up to a \$15,000 lifetime cap.

As indicated in the chart above, there are certain catch-up limits that allow contributions above the established limitations. You may want to consult a tax advisor to seek additional guidance if you plan on taking advantage of any of these catch-up provisions.

- **Age 50+ Catch-up:** You are eligible to make additional annual “Age 50+ Catch-up” contributions to your 403(b) plan beginning in the year you turn age 50. If you’re already contributing the maximum to your 403(b) plan, you may be eligible to use these pre-tax, catch-up contributions to save even more for retirement. You should check IRS guidelines for the current restrictions on the “Age 50+ Catch-up” provisions.
- **403(b) Lifetime Catch-up:** This is available to employees who have completed 15 or more years of service. This catch-up provision allows participants to contribute up to \$3,000 per year (subject to a \$15,000 lifetime limit) in addition to the regular contribution limit. To qualify, you must be a long-term employee who has contributed on average less than \$5,000 a year to your 403(b) plan. Your 403(b) vendor must verify you have not exceeded the contribution limit to qualify.

Ineligibility Issues

You are ineligible to participate in the 403(b) plan if you are a participant in an eligible deferred compensation plan [457 or 401(k)] or a participant in another TSA.

IRS Web Site

The Internal Revenue Service maintains a Retirement Plans FAQs regarding Tax-Sheltered Annuities (<http://www.irs.gov/retirement/article/0,,id=96975,00.html>) where you can find out additional information.

Local Information

If you have questions about the 403(b) plan available through the Gideon School District you can contact the Gideon School District central office in person or by phone at 573-448-3911.

Additional information and updates are provide on the Gideon School District Web site by going to <http://gideon.k12.mo.us/info/hrlinks.html> , reviewing the information located on that page and by selecting the 403(b) Plan Info Link. Please note that website design is subject to change. For assistance in navigating the district website you can contact the central office.

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NOTE: This information on this page is considered to be informational in nature. It describes the general design of the 403(b) plan available through the Gideon School District and conveys our current understanding of the basic requirements and limitations. Government regulations and the interpretation of government regulations may change from time to time. It is the responsibility of the contributor to verify their qualifications for participation in a 403(b) plan. As of the date of this document the district is in the process of establishing 403(b) compliance under recent IRS rule changes and some information in this document may change.

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