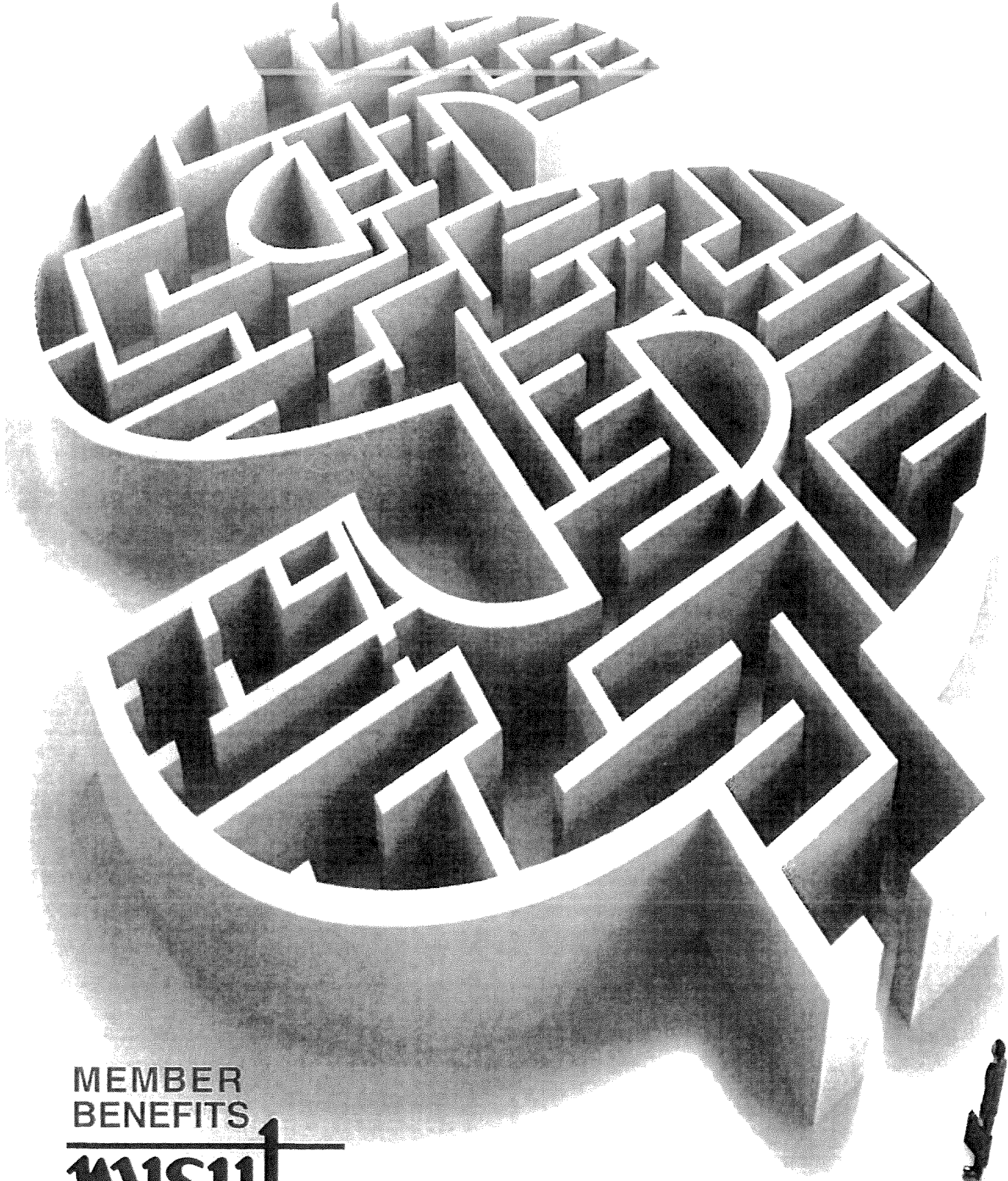
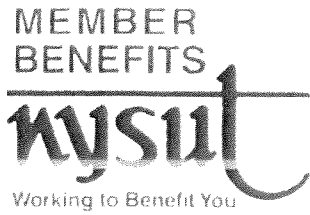


# 403(b) Field Guide



MEMBER  
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Working to Benefit You



Dear Colleague:

In our continuing efforts to offer financial education to NYSUT members, the Trustees of the NYSUT Member Benefits Trust and Directors of the NYSUT Member Benefits Corporation are pleased to provide you with this 403(b) Field Guide. We're committed to providing the tools necessary for members to make sound financial decisions with regard to 403(b) plans and retirement savings.



This guide is provided to you as an educational tool to become more familiar with 403(b) plans. While this guide does not cover specific 403(b) providers, it does explain all the relevant information you need to know when examining or choosing your 403(b) provider.

If you are a new member, this guide can be a helpful tool in choosing a 403(b) provider should you be able to contribute at this time.

If you already participate in a 403(b) plan, use this guide to help review your current plan to ensure you are participating in a program that best suits your present and future needs. And if you are retired, you can use this guide to help review your current plan, learn about IRA rollovers and better understand required minimum distributions.

We encourage you to carefully review this important material. Sound financial action today can help ensure that you enjoy a comfortable retirement lifestyle tomorrow.

In solidarity,

A handwritten signature in cursive script that reads "Martin Messner".

Martin Messner

Chairperson, NYSUT Member Benefits Trust

# 403(b) Field Guide

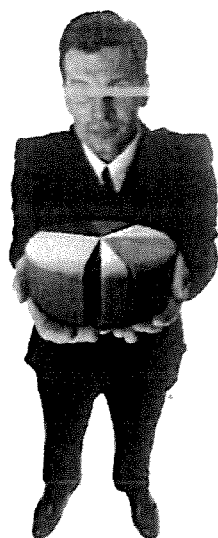
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*This 403(b) Field Guide was written by NYSUT Member Benefits  
and reviewed by Cammack Retirement Group.*

## Introduction

With all of the daunting financial tasks and distractions you face throughout your career, retirement planning sometimes takes a back seat. But whether retirement is now, in your near future or many years down the road, making the appropriate use of a 403(b) retirement savings plan can have a significant role in helping your retirement aspirations come true.



To this end, NYSUT Member Benefits is pleased to provide you with this guide, which offers useful information for those who are in their working years and those in their retirement years.

This guide can help you to understand the ins and outs of 403(b) plans from the most basic concepts, such as contribution limits and tax advantages, to more advanced notions, such as investment fees and options.

If you're already retired, use this guide to review your current 403(b) retirement savings plan or to answer any outstanding questions you may have about IRA rollovers, required minimum distributions or other features.

If you are not retired, don't wait any longer to start saving for this important phase of your life. Whether you are just reviewing your current 403(b) plan or have yet to start contributing, read through this guide, or take it with you to your next meeting with your 403(b) investment provider to ensure you are making the best decisions for your financial future.

## 403(b) Plan Basic Features



Public Law 85-866 added 403(b) to the Internal Revenue Code in 1958. This law made 403(b) plans available to employees of not-for-profit organizations. It allows for pre-tax contributions via salary deferrals to 403(b) retirement savings plans. Earnings on these contributions are not taxed until withdrawn. Your employer's plan document governs the 403(b) plans available to you.

Much of the basic information provided throughout this guide can be found in the plan document. You may wish to request a copy of your plan document from your business office or human resources department to review simultaneously with this guide.

**Payroll Reductions** – One big advantage of 403(b) plans is payroll reductions. Once you enroll, 403(b) contributions are automatically taken out of your pay on a pre-tax basis (see next feature). This is one of the most efficient ways to save for retirement since whatever amount you want to contribute for the year is divided by the number of paychecks you will receive that year.

The school of thought is that if you don't see it, you won't spend it, thereby allowing you to save toward retirement before tackling other expenses and hopefully allowing you to save continuously throughout your career.

**Pre-Tax Contributions** – Pre-tax contributions allow you to invest money toward retirement without incurring any federal or state income taxes on the amounts deferred (in most states, including New York state; however, your pre-tax contributions are taxed in New Jersey and Pennsylvania) or earned until you withdraw them. This means that not only does the full amount of the dollar value you elect to defer get deposited into your account, but you are also lowering your taxable income for the year in which you make contributions. Lowering your taxable income means lowering your current income tax liability, which is the advantage of pre-tax investing.

Contributions to 403(b) plans are commonly referred to as either salary deferrals or elective deferrals. Please refer to the following two examples.

Example 1

Combined Federal and State  
Income Tax Rate – 20%

You contribute \$100 per paycheck  
for a total of \$2,000 per year

Your “net” paycheck is only reduced  
by \$80 or \$1,600 for the year

Cost to invest \$2,000 is only \$1,600

Example 2

Combined Federal and State  
Income Tax Rate – 30%

You contribute \$100 per paycheck  
for a total of \$2,000 per year

Your “net” paycheck is only reduced  
by \$70 or \$1,400 for the year

Cost to invest \$2,000 is only \$1,400

As you can see, the income tax savings depend on your tax rate, but the advantages of pre-tax contributions are evident. In Example 1, assuming a total income tax rate of 20%, the cost to you to invest \$2,000 in a 403(b) account is only \$1,600. In other words, had you left that \$2,000 in your paychecks throughout the year, you would have only received a net amount of \$1,600. The pre-tax savings in this example amount to \$400. For Example 2, assuming a higher total tax rate of 30%, the cost to you to invest \$2,000 throughout the year is \$1,400. Had you left the \$2,000 in your paychecks throughout the year, you would have only received a net amount of \$1,400. The pre-tax savings in this example is \$600.

**Tax-Deferred Growth** – Along with the savings you achieve by investing on a pre-tax basis, an additional advantage is that any investment gains and earnings are tax-deferred, meaning you do not pay income taxes on any gains and earnings until withdrawn from the account. Tax-deferred growth can have a significant effect on your account, especially over longer periods of time. Please refer to the following example.



This example assumes you are in a total 20% tax rate and your 403(b) account earns a 7% annual rate of return. The taxable account assumes annual contributions of \$1,600 (\$2,000 less 20% in income taxes) and a net investment return of 5.6% (the annual rate of return of 7% less 20% in income taxes). The tax-deferred account assumes the full \$2,000 is invested each year, thanks to the advantages of pre-tax savings, plus the full 7% annual rate of return, thanks to the tax-deferred advantage. In addition, the tax-deferred amount after taxes represents the tax-deferred account less 20% in income taxes at the end of 10, 20 and 30 years.

As you can see, the combined advantages of pre-tax savings and tax-deferred growth can be very significant compared to investing outside of a 403(b) account with after-tax monies.

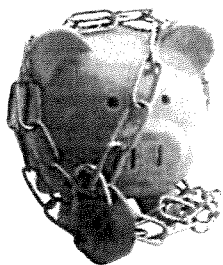
**Contribution Limits** – The IRS limits the amount of money you can contribute to your 403(b) account each year. The normal contribution limit for employee salary deferrals for calendar year 2016 is the lesser of \$18,000 or 100% of salary. This limit is indexed for inflation each year in \$500 increments and may or may not increase in each subsequent calendar year.

In addition to the “normal” contribution limit, two types of “catch-up” elections, if permitted in your 403(b) plan, might enable you to contribute more – the age-50 catch-up contribution limit and the 15 years of service catch-up contribution limit.

The age-50 catch-up contribution limit allows you to contribute up to an additional \$6,000 for calendar year 2016 if you attain age 50 before the end of the calendar year. Combining this limit with the normal contribution limit of \$18,000 allows for a total annual contribution limit of \$24,000 for anyone who is at least 50 years of age as of 12/31/2016.

If eligible, the years of service catch-up contribution limit allows you to contribute additional amounts up to a maximum of \$3,000 per year (with a lifetime limit of \$15,000) if you have 15 or more years of service with your current employer and have contributed less than \$5,000 per year, on average, over your entire working career. This maximum \$3,000 contribution is in addition to the normal contribution limit and the age-50 catch-up contribution limit.

Due to the complexities behind the years of service catch-up contribution limit, the age-50 catch-up limit is generally more popular; however, the interactions between the two catch-up provisions are complicated. Also, plans are not required to offer either catch-up limit, and many do not offer the 15-year catch-up election due to its complexity. You may wish to consult your tax adviser or 403(b) account representative with specific questions on this issue.



**Loans** – Even if your employer’s 403(b) plan provides a loan feature, you may or may not have a loan provision available to you. It all depends on the type of 403(b) account in which you invest (discussed later).

If you do have a loan option, you are limited to a loan(s) of no greater than the lesser of \$50,000 or one-half of the account balance. The \$50,000 limit is reduced by any prior outstanding loans you may have. Interest rates are determined by the 403(b) provider, but typically a portion of the interest

incurred is credited back to your account in your payments. Whether a 403(b) loan makes sense for you depends on many factors, including interest rates, fees charged by the 403(b) provider, other loan sources, and so on.

One disadvantage with 403(b) loans is the “double-taxation” effect. When you make loan payments back to your account, the interest portion of those payments is money on which you have already paid income taxes. Once you begin making taxable withdrawals from your 403(b) account during retirement, those “interest” payments will be treated as taxable income, thus causing you to pay income taxes on those amounts twice.

Another disadvantage is that your money will not be invested while it is out of the 403(b) plan, and you will lose out on any market gains that may occur during that time.

In addition, the burden of loan repayment may make it difficult to continue the same level of salary deferrals to the plan, thus further diminishing retirement savings.

Finally, should you default on your loan, the remaining balance will be considered taxable income and also be subjected to a 10% penalty, unless you have attained age 59 ½. All of these factors need to be considered when deciding upon requesting a loan from your 403(b) plan.

**Hardship Withdrawals** – Your employer’s plan may permit hardship withdrawals. Other than loans, this is the only other way to take money out of your account while you are actively employed under age 59 ½.



Hardship withdrawals are defined to be for an immediate and heavy financial need. The IRS defines specific scenarios as qualifying for this type of withdrawal, such as certain medical expenses, tuition payments, funeral expenses, and more. In addition, your employer’s plan may provide for different circumstances to qualify for these withdrawals. Also, you may need to exhaust your loan availability prior to taking a hardship withdrawal.

Hardship withdrawals are taxed as ordinary income and are generally subject to an additional 10% penalty unless you have attained age 59 ½. You will need to refer to your employer's 403(b) plan document for the specific rules regarding these types of withdrawals.

**Roth 403(b) Option** – If available through your employer's plan and your 403(b) provider, a Roth 403(b) feature provides an interesting twist on a traditional 403(b) plan. Instead of deferring salary on a pre-tax basis, your contributions are made on an after-tax basis. This means if you invest \$1,000, it will cost you \$1,000 since there are no pre-tax savings; however, while Roth 403(b)s still enjoy tax-deferred growth on earnings, qualified distributions are tax-free. In other words, since you have paid income taxes on the amounts contributed, you will not have to pay income taxes on all qualified distributions (withdrawals), which can include all of the account appreciation. Contributions are still made through payroll reductions.

*A qualified (tax-free) distribution* is a distribution (or withdrawal) that is made after a five-taxable-year period of participation and is either made on or after the date you attain age 59 ½, attributable to a disability or made post-death.

Roth 403(b)s have the same contribution limits as regular 403(b)s, but the limit is combined for both pre-tax and Roth contributions. In other words, the combined total of contributions to both types of plans in the same calendar year cannot exceed the normal contribution limit plus catch-ups for that year. Thus, a Roth 403(b) is not an "extra" contribution, but merely a different method of contributing to your 403(b) plan. It should also be noted that, unlike a Roth IRA contribution, a Roth 403(b) contribution is not subject to income limits.

Roth 403(b)s have the same rules for loans and hardship withdrawals as regular 403(b) plans, along with the same required minimum distribution rules (discussed later). The exception is that so-called "deemed" distributions as a result of loan default from a Roth 403(b) are subject to taxation on the earnings portion of the distribution, even if made after a five-taxable-year period of participation and after age 59 ½.

Whether a Roth 403(b) plan is right for you will depend on a variety of factors. These include your current tax bracket versus your anticipated retirement tax bracket, years until retirement and possibly estate planning for your heirs. You may wish to speak with a tax professional or your financial adviser to determine if this is an appropriate option for you.

#### **Employer Contributions** –

The availability of employer contributions to 403(b) plans has increased over the past few years. Employer contributions come in a variety of forms. For in-service employees, they may be matching contributions, which would match your contributions to your 403(b) account capped at a percentage of your salary or possibly matching contributions capped at a specific dollar amount (for example, \$500). You could also have an employer contribution for every employee based on a percentage of his or salary or a flat-dollar amount. In addition, your collective bargaining agreement may provide for an employer contribution upon retirement for unused sick leave, a local retirement incentive or a combination of both.



The benefit of employer contributions, in addition to the fact that they are pre-tax and tax-deferred, is that they do not trigger payroll taxes on the amounts contributed. This is a "win-win" situation for you and for your employer. Payroll taxes, also known as FICA taxes, consist of Social Security (6.2%) and Medicare (1.45%) taxes, which amount to 7.65%. This can be a fairly significant savings. Should your income exceed the Social Security maximum wage base (\$118,500 for 2016), the savings are limited to the Medicare portion or 1.45%.

In addition, employer contributions fall under a higher limit, known as the limit on annual additions (or 415 limit in IRS terms). For calendar year 2016, this 415 limit allows up to the lesser of 100% of your compensation or \$53,000 (the age-50 catch-up contribution limit is not included in this amount) to be contributed to a 403(b) account. While you are

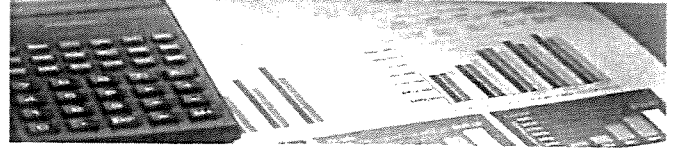
still limited to the elective deferral limits of \$18,000 plus catch-ups for salary deferrals, this means there is a significant amount of room for an employer contribution for either in-service employees or upon retirement. See the following two examples to help clarify employer contributions upon retirement.

**Example 1** – Jane earns a salary of \$60,000. In calendar year 2016, she contributed \$10,000 from her salary to her 403(b) account. Upon retirement in June 2016, Jane's collective bargaining agreement provides for an employer contribution of her unused sick leave, which amounts to \$22,000. Since the 415 limit is \$53,000 for calendar year 2016 and Jane contributed \$10,000, there is room for an employer contribution of up to \$43,000; therefore, the full \$22,000 for the employer contribution will be deposited into her 403(b) account. Not only does Jane save on income taxes, but her payroll tax savings on the \$22,000 contribution amounts to \$1,683 ( $\$22,000 \times 7.65\%$ ).

**Example 2** – Jane earns a salary of \$100,000. In calendar year 2016, she contributed \$15,000 from her salary to her 403(b) account. Upon retirement in June 2016, Jane's collective bargaining agreement provides for an employer contribution of her unused sick leave and a local retirement incentive, for a total of \$40,000. Since the 415 limit is \$53,000 for calendar year 2016 and Jane contributed \$15,000, there is room for an employer contribution of up to \$38,000; however, since the age-50 catch-up contributions are not included when calculating the 415 limit, \$6,000 of Jane's \$15,000 of employee contributions can be considered part of the age-50 catch-up contribution, thereby increasing her total annual limit to \$59,000. Therefore, the full \$40,000 for the employer contribution will be deposited into her 403(b) account. Not only does Jane save on income taxes, but her payroll tax savings on the \$40,000 contribution amounts to \$3,060.50 ( $\$40,000 \times 7.65\%$ ).

**IRS Publication 571** – For detailed information on 403(b) plans, please see IRS Publication 571, Tax-Sheltered Annuity Plans [403(b) Plans], at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

## 403(b) Investments and Fees



403(b) plans are available in two investment types: 403(b)(1) and 403(b)(7). If both types are provided through your employer, how do you choose which type of investment is best for you? These two types of accounts have several differences between them with regard to fees and options, which will be covered in this section.

### 403(b)(1) Annuities

A 403(b)(1) annuity contract, commonly referred to as a tax-deferred annuity (TDA) or a tax-sheltered annuity (TSA), is an insurance contract sold through many large financial and insurance companies. These contracts have many different components and may include some or all of the following elements.

**Fixed and Variable Annuities** – Most 403(b)(1) annuity contracts contain variable investment options, known as variable annuities, which may range in number from 10 to more than 50 options. Also referred to as sub-accounts, variable annuities perform like mutual funds with either stock or bond holdings, but they are slightly different than the similar mutual fund you could purchase from a local brokerage house. (Mutual funds are collections of stocks, bonds, short-term investments, or a combination of all three.) Variable investment options are usually subject to mortality and expense fees in addition to the internal expenses normally associated with a mutual fund, which are described within this section.

Most, if not all, 403(b)(1) annuity contracts also have fixed investment options, known as fixed annuities or simply fixed accounts. Different providers may offer variations, but most simply guarantee a fixed rate of return, possibly with a minimum floor that the rate will not fall beneath. This option is normally not



subject to a mortality and expense fee, but, in many cases, the fees associated with fixed options are already factored into the interest rate that the provider is paying.

Your investment tolerance and time horizon will determine if fixed annuity options make sense for you. One important factor to point out is that fixed accounts are NOT guaranteed by the Federal Deposit Insurance Corporation (FDIC) but instead are backed by the financial strength of the company providing the 403(b) account. (Variable annuities are not backed by the FDIC either, but are held in an account segregated from insurance company assets and not available to the insurer in the event of insolvency. Some insurance companies are also beginning to offer fixed annuities that are segregated from the general assets of the insurer as well.)

Some 403(b)(1) providers may have restrictions on monies that are deposited into their fixed accounts. These restrictions may limit the amount that can either be withdrawn or even transferred to other investment options within the account, and these restrictions may be imposed by the provider at different times.

Additionally, different 403(b)(1) annuity contracts may have variations of variable and fixed investment options (such as equity indexed annuities, which are a hybrid of a fixed and variable product), and it is important to understand what you are investing in and the associated fees. This information should be included in the plan literature you receive when considering investing in a specific provider's 403(b) account.



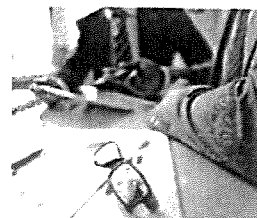
**Account Representatives** – 403(b)(1) annuity providers often offer account representatives to assist you in person. Services provided may include assistance with opening the account, investment recommendations based on your time horizon and

risk tolerance, assistance in determining your contribution amounts, conducting account reviews, etc. These representatives should be available to meet with you at your place of employment, your home or a mutually convenient location of your choice.

While these representatives do not “charge” you for their assistance, usually they are paid from the various fees found within the 403(b) account. Most likely, a portion of the mortality and expense fee, administrative/contract fees, and internal fund expenses, such as 12b-1 fees (an annual fund marketing/distribution fee), will make up part of the representative's compensation. Representatives can be compensated as a percentage of the contributions you make, your total assets on deposit or both.

All 403(b)(1) annuity contracts should also offer a toll-free number for general account information, along with the availability to access your account through the provider's website.

**Fund Expenses** – In reviewing the various investment options available through your 403(b) provider, keep in mind that almost all of them (with the exception of possibly fixed



investment options) incur an internal fund expense. This expense is a fee typically paid to the managing investment company for that specific investment option. Additional fees may be included in the fund expense, such as a 12b-1 fee, that is paid to the 403(b) provider.

Generally, the more difficult the investment fund is to manage, such as an international fund, small-cap fund or specialty fund, the higher the internal fund expense will be. Conversely, if it is a fund that is known as an index fund, meaning it is attempting to mimic one of the major stock indices (such as the S&P 500), the fund expense should be fairly low. Unfortunately, documentation of these fees is not always the easiest to find, and a prospectus for each specific fund is necessary to discover these various fees.

In addition, you do not simply pay these fees; they are automatically withdrawn from each investment account prior to determining the value of the investment at the end of each day. In other words, these fees are already factored into each investment, which means that you will not see the fee on your account statements. However, the annuity provider will typically issue quarterly fund performance

sheets, which should list the returns on the specific investments net of fees; check with your provider for details. It is important to understand what the fees are in your investment choices, as, in many cases, they are added together with other fees, such as the mortality and expense fee, found in 403(b)(1) variable annuities.

**Mortality and Expense Fee (M&E)** – Almost all 403(b)(1) variable annuities carry an annual M&E fee. This is a fee that pays for an insurance benefit and consists of two components:

1. A mortality risk charge charged by the provider to guarantee that a minimum death benefit is paid to your beneficiary upon your demise.
2. An expense risk charge to guarantee any other insured benefits, such as a guaranteed minimum annuity interest rate that may be purchased at retirement should a participant choose to annuitize his or her benefit.

As part of the mortality risk charge, some providers will guarantee that the beneficiary will receive a benefit in the amount of all of your contributions less any withdrawals, should that value be higher than the current value at the time of death. Additionally, some providers will offer a “step-up” in value death benefit, which will periodically lock in a value of your account, for example, once every three years, and guarantee that amount less any withdrawals at the time of death. If you are interested in these features, you should check with your provider to see if they are offered.

This Mortality and Expense fee can range greatly among the various providers, and even among investments within a provider’s annuity contract. You should ask your provider or account representative to review them with you. Often this fee can exceed the total fund expenses described previously, so it is critical to obtain the exact amount of this fee (expressed as a percentage) prior to investing. It is also

important to point out that whatever this annual fee is, it is calculated daily and automatically deducted from your various investment options, so it is difficult to see the fee actually being applied.

**Administrative/Maintenance Fee** – Some 403(b)(1) contracts may charge an annual administrative, maintenance or contract fee. This is simply a fee to you for owning the account. This annual fee normally ranges from \$30 to \$50. Some providers may waive this fee after a certain number of years in the contract or after a minimum balance is achieved. These fees are less popular nowadays, and you should check with your 403(b) provider to determine if you are incurring this fee.

**Loan Fees** – Many 403(b)(1) contracts provide a loan option. If available to you and you find yourself contemplating a loan, you should be aware that additional fees may be incurred when requesting a loan.

These fees could include a loan origination fee to start the loan, a loan servicing fee that could be an ongoing annual fee until the loan is paid off and an interest charge. The interest charge would be the difference between the interest rate you are being charged on the loan and the interest rate that is being credited back to your account with your payments.

All of these fees, as well as the tax consequences of loans described earlier in this document, need to be considered when deciding on requesting a loan from your 403(b) account. The plan literature that accompanies your 403(b) plan should contain this information.

**Deferred Sales Charge/Surrender Charge/Back-end Sales Charge/Disbursement Fee** – Almost all 403(b)(1) contracts carry some type of sales charge imposed upon a cash withdrawal or balance transfer to another company. Unfortunately, they can go by many different names and can differ significantly among the various providers.

These charges can range from a declining percentage, such as 10% of the amount withdrawn or transferred down to 0% based on the number of years since the last contribution. Or they can be a flat rate for a set number of years, decreasing or disappearing

over time. Just about all companies will allow anywhere from 10% to 20% to be withdrawn or transferred each year without incurring this fee, but that restriction is fairly limiting.

Again, all companies are different, and it is very important to understand what charges you may face if you are opening your first 403(b) account, considering changing 403(b) providers, or are close to retirement and need access to your account. Fortunately, some companies will waive these charges once you meet a certain requirement, such as completion of a number of years in the contract or retirement.

The plan literature that accompanies your 403(b) contract should contain this information, or you can call your representative or the company's toll-free number to determine if these fees will apply to you.

**Annuitization** – A unique feature that most 403(b)(1) contracts provide for is an annuitization option upon retirement. This option allows the 403(b) account holder to, in essence, “exchange” his or her 403(b) account in return for an income stream throughout his or her retirement years. Various options will exist with each provider, such as guaranteed length of payments, interest rate, fixed or variable payments, survivor payments, and possibly more. This annuitization option is funded by the mortality and expense risk charge described earlier in this document.

While this is not the most popular choice upon retirement, for some people it may be to their liking. You should be able to request literature from the provider to review these annuitization options to see if they may make sense for you.

**Conclusion** – 403(b)(1) contracts have many different features and fees. Fees add up over time, and you need to make sure you are receiving a value in return for the fees you are incurring. Paying expenses for certain account features along with account representative assistance may be the best option for one person but not another.

If 403(b)(1) contracts fit your situation, you should have many different providers to choose from through your employer. If you determine 403(b)(1) contracts are not the best choice for you, you may wish to consider a 403(b)(7) custodial account.

### **403(b)(7) Custodial Accounts**

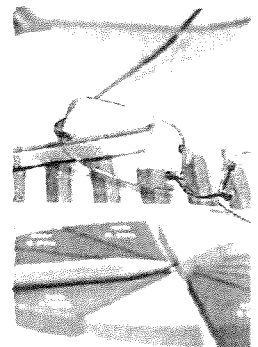
Commonly referred to as 403(b)(7) custodial or mutual fund accounts, these investments became available as an alternative to 403(b)(1) annuity contracts in 1974. 403(b)(7) accounts allow you to invest in mutual funds instead of tax-deferred annuities. Mutual funds are available in different forms, and the fees associated with them will depend on these different forms and the investment management company (provider) chosen. These investments can be no-load funds, sales-loaded funds or platform funds.

#### **403(b)(7) No-Load Mutual Funds**

More commonly referred to as a do-it-yourself investment account, no-load mutual funds are available for purchase with no upfront sales charge. This means if you invest \$500 in a no-load mutual fund, you receive \$500 worth of that fund.

Usually there is no deferred sales charge or back-end sales charge to sell that specific mutual fund. This allows you the freedom of either changing the 403(b)(7) provider altogether or just the investment options within that provider at no additional cost. Some specific mutual funds may require a small holding period (such as 90 days) to avoid excessive trading.

**Fund Expenses** – Similar to the variable investment options available in a 403(b)(1) contract, no-load mutual funds will also have an internal fund expense. This expense is a fee that is typically paid to the managing investment company for that specific investment option. Additional fees may be included in the fund expenses.



Generally, the more difficult the investment fund is to manage, such as an international fund, small-cap fund or specialty fund, the higher the internal fund expense will be. Conversely, if it is a fund that is known as an index fund, meaning it is attempting to mimic one of the major stock indices (such as the S&P 500), the fund expense should be fairly low. Unfortunately, documentation of these fees is not always the easiest to find, and a prospectus for each specific fund is necessary to discover these various fees.

In addition, you do not simply pay these fees; they are automatically withdrawn from each investment account prior to determining the value of the investment at the end of each day. In other words, these fees are already factored into each investment, which means that you will not see the fee on your account statements. However, the fund provider will typically issue quarterly fund performance sheets, which should list the returns on the specific investments net of fees; check with your provider for details. You should have the option to receive a prospectus for each mutual fund you invest in or are considering investing in, and this is where you can find what the fund expense for each specific fund you are considering will be.

**Account Representatives:** No-load 403(b)(7) accounts typically do not have representatives available to meet with you in-person to discuss your account. Since these are do-it-yourself types of accounts, expect to make most of the decisions on your own. These will include filling out the application, choosing the investments and determining the appropriate contribution amounts. In larger cities and suburbs, some no-load mutual fund companies have walk-in investor centers that provide in-person assistance. To determine if an investor center exists in your area, you may be able to access that information on the fund company's website.

Most no-load providers offer a toll-free number for general questions or assistance in filling out the forms. Some companies may also review your investments with you over the phone, but the level of review may be determined by the total dollar amount you have invested with that company. You should also have access to your account via the provider's website, which may have helpful information and calculators.

**Fixed Account Options** – No-load mutual funds do not normally provide for fixed account options. Instead, they will usually offer either a money market account or a stable value account. The money market account may be backed by the FDIC. The stable value account will not be guaranteed to provide a positive return, and there may be some slight investment risk.

**No Loans** – No-load 403(b)(7) mutual funds usually do not provide a loan feature.

**Administrative/Maintenance Fee** – Some no-load 403(b)(7) funds may charge an annual administrative, maintenance or contract fee. This is simply a fee to you for owning the account. This annual fee normally ranges from \$20 to \$50. Some providers may waive this fee after a certain number of years or after a minimum balance is achieved.

**No Mortality & Expense Fee** – Mortality and expense fees are usually charged to provide guaranteed death/annuity benefits and to pay the account representative. Since no-load 403(b)(7) accounts have neither of these, they should not impose a mortality and expense fee. No-load accounts will provide payment of the account value to the designated beneficiary upon the participant's death.

**Conclusion** – 403(b)(7) no-load mutual fund accounts have limited bells and whistles and are truly for the do-it-yourself investor. The only fees incurred should be the internal fund expenses and possibly a small annual contract fee. The end result is less fees overall, compared with all other 403(b) accounts, along with the least amount of additional features.

#### **403(b)(7) Sales-Loaded Mutual Funds**

Commonly referred to as broker-sold funds, sales-loaded funds are mutual funds that you purchase through a broker, financial adviser or representative. Loaded funds most commonly come in three sales classes: Class A, Class B and Class C, though other share classes may be available as well.

- **Class A Mutual Funds** – These funds have an upfront sales charge/commission (sometimes called a front-end sales charge) that generally ranges between 4% and 6%, depending on the specific mutual fund. When purchasing Class A

mutual funds, the upfront sales charge is deducted from your investment. For example, if you invest \$500 in a Class A mutual fund with a 5% sales charge, \$475 would be invested in the mutual fund and the \$25 sales charge would go to the investment company/provider.

Class A mutual funds also have internal fund expenses. Of the three classes described here, Class A funds will have the lowest internal fund expenses. This makes sense since you pay an upfront sales charge to invest in them.

Typically, Class A shares will not have any deferred sales charges or surrender charges, meaning you can move out of the specific investment at any point without incurring an additional charge. This also makes sense since you have already incurred the upfront sales charge.

- **Class B Mutual Funds** – These funds do not have an upfront sales charge. Instead, they have a deferred sales charge. The deferred sales charge is usually a percentage that depends on when you take money out of that specific investment. Normally, the deferred sales charge starts around 5% and declines over time. It may be waived after a certain number of years in that specific investment.

In addition, many Class B mutual funds will automatically convert to Class A shares (without incurring the upfront sales charge) after a certain time period has been met. Furthermore, deferred sales charges usually are not incurred if you are switching to another investment choice within the same fund family. For example, if you invest in a large cap Class B fund from company Z and want to later move it to a small cap Class B fund from company Z, you should not incur a deferred sales charge.

Class B shares also have internal fund expenses, and they will be higher than the fund expenses incurred through Class A shares. This is why it is advantageous if the Class B shares eventually convert to Class A shares after a certain period of time.

- **Class C Mutual Funds** – This share class typically does not have an upfront sales charge and will have a smaller deferred sales charge than Class B shares. To compensate, Class C mutual funds will have a higher internal fund expense than both Class A and Class B shares.

**Fund Expenses** – Similar to the no-load mutual funds, sales-loaded mutual funds have an internal fund expense. As described earlier, the level of these fees is determined by the class of mutual fund (Class A, Class B or Class C shares). This expense is a fee that is usually paid to the managing investment company for that specific investment option. Additional fees may be included in the fund expenses.

Generally, the more difficult the investment fund is to manage, such as an international fund, small-cap fund or specialty fund, the higher the internal fund expense will be. Conversely, if it is a fund that is known as an index fund, meaning it is attempting to mimic one of the major stock indices (such as the S&P 500), the fund expense should be fairly low. Unfortunately, documentation of these fees is not always the easiest to find, and a prospectus for each specific fund is necessary to discover these various fees.

In addition, you do not simply pay these fees. They are automatically withdrawn from each investment account prior to determining the value of the investment at the end of each day. In other words, these fees are already factored into each investment, and, as indicated previously in this guide, you will not see the fee on your account statements. However, as also previously indicated, the fund provider will typically issue quarterly fund performance sheets, which should list the returns on the specific investments net of fees; check with your provider for details.

**Account Representatives –** Since sales-loaded mutual funds are purchased through an adviser, you should have a representative available to meet with you in-person to open the account, recommend investment choices, help



determine contribution amounts, conduct account reviews, and so on. These representatives should be available to meet with you at your place of employment, your home or a mutually convenient location of your choice.

While these representatives do not “charge” you for their assistance, they typically get paid from either a portion of an upfront sales charge plus a portion of the internal fund expenses, such as 12(b)-1 fees, or simply from a portion of the internal fund expenses alone. Representatives can be compensated as a percentage of the contributions you make, your total assets on deposit or both.

All 403(b)(7) sales-loaded mutual funds should offer a toll-free number for general account information. You should also have access to your account via the provider’s website.

**Fixed Account Options –** Sales-loaded mutual funds do not normally provide fixed account options. Instead, they will usually offer either a money market account or a short-term/government bond fund. The money market account may be backed by the FDIC. The bond fund will not be guaranteed to provide a positive return, and there may be some slight investment risk.

**No Loans –** Sales-loaded 403(b)(7) mutual funds usually do not provide a loan feature.

**No Mortality & Expense Fee –** Mortality and expense fees are charged to provide guaranteed death/annuity benefits. Since sales-loaded 403(b)(7) accounts do not provide guaranteed benefits, these accounts should not impose a mortality and expense fee. Sales-loaded accounts will provide payment of the account value to the designated beneficiary upon the participant’s death.

**Administrative/Maintenance Fee –** Some 403(b)(7) sales-loaded funds may charge an annual administrative, maintenance or contract fee. This is simply a fee to you for owning the account. This annual fee generally ranges from \$20 to \$50. Some providers may waive this fee after a certain number of years or after a minimum balance is achieved.

**Other Fund Classes –** You may see other types of sales classes besides Class A, Class B and Class C, depending on the investment company. To determine what types of fees will be charged, you should ask the account representative or, better yet, review the appropriate prospectus for each specific investment choice as the various fees and charges can be confusing and difficult to find.

**Conclusion –** 403(b)(7) sales-loaded mutual funds can be described as a hybrid of a no-load account and a tax-deferred annuity account. Fees will most likely be higher than a no-load account, but may or may not be lower than a 403(b)(1) account. Representatives are available, but certain features are not.

#### **403(b)(7) Platform Funds**

Platform funds are basically a combination of various mutual funds consisting of no-load funds, sales-loaded funds or both. Typically, any sales-loaded funds will have the upfront sales charge waived to be part of the platform.

**Fund Expenses –** Internal fund expenses will depend on the type of mutual fund you are invested in. Since the platforms may have both no-load funds and sales-loaded funds available, the expenses will work the same as described in the previous no-load and sales-loaded sections.

**Asset-Management Fee/Wrap Fee –** Normally, a platform will have an additional fee charged against the account to compensate the investment provider and account representative. This fee may go by another name, but it will most likely be an annual percentage charged against the assets in the account, similar to a mortality and expense fee.

The fund literature should describe this fee. If not, be sure to inquire before assuming it does not exist. If it is there, it will usually be charged in a manner similar to a mortality and expense fee seen within tax-deferred annuities, whereby it is calculated and charged on a daily basis. The fee may or may not appear on your account statements.

**Account Representatives** – Unless it is a pure do-it-yourself platform, these investments usually have an account representative available to meet with you in-person to open the account, recommend investment choices, help determine contribution amounts, conduct account reviews, and so on. These representatives should be available to meet with you at your place of employment, your home or a mutually convenient location of your choice.

While these representatives do not “charge” you for their assistance, they typically get paid from a portion of an annual fee charged, which may be a fixed fee or most likely a percentage of the assets invested. Since representatives may be compensated differently depending on the fund, you should be aware that a representative may have an incentive for you to invest in certain funds on the platform.

All platforms should offer a toll-free number for general account information. You should also have access to your account via the provider’s website.

**Fixed Account Options** – Platforms will most likely offer money market funds or short-term/government bond funds for their conservative investments. Guaranteed fixed accounts are generally not available. The money market account may be backed by the FDIC. The bond fund will not be guaranteed to provide a positive return, and there may be some slight investment risk.

**Loans** – Loans are normally available in platforms. Please review the plan literature to see if there are any start-up fees, ongoing service fees and interest charges as they will most likely all be different depending on the specific plan. You should also consider the tax consequences described earlier in this guide before borrowing from your account.

**No Mortality & Expense Fee** – Mortality and expense fees are charged to provide guaranteed death/annuity benefits. Since platforms do not provide guaranteed benefits, these investments should not impose a mortality and expense fee. Platforms will provide payment of the account value to the designated beneficiary upon the participant’s death.

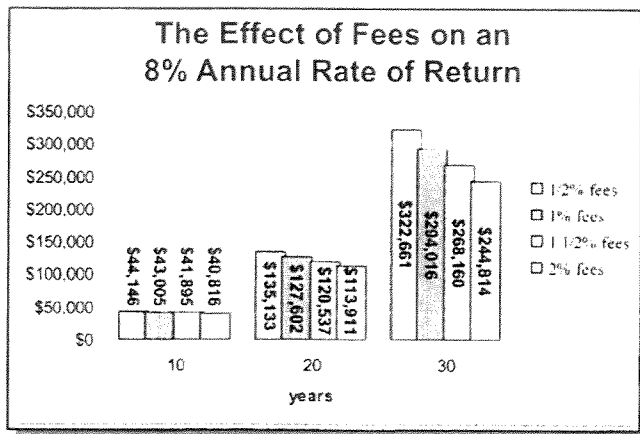
**Administrative/Maintenance Fee** – Some platforms may charge an annual administrative, maintenance or contract fee. This is simply a fee to you for owning the account. This annual fee usually ranges from \$20 to \$50. Some providers may waive this fee after a certain number of years or after a minimum balance is achieved.

**Conclusion** – Platform funds can have many features of all of the previously discussed 403(b) investment types. No-load funds, sales-loaded funds, loans, account representatives, and annual management fees may exist. A platform may have higher fees than a no-load account, but it may or may not have lower fees than a sales-loaded 403(b)(7) account or a 403(b)(1) account.

**403(b) Investments and Fees Summary:** Due to the availability of different 403(b)(1) providers and various 403(b)(7) mutual fund options, you, as the investor, must determine what features and fees make up the appropriate choice for your 403(b) account. Having an account representative or using a do-it-yourself style account can have an effect on your overall investment plan.



Fees add up over time, and you need to ensure that you are receiving value in return for whatever fees you are incurring. The following chart provides an example of the effect that fees can have on your account over a period of time, with all other things being equal.



This chart assumes an annual contribution of \$3,000 and an annual investment return of 8% before any fees. As you can see, fees do make a difference, especially the longer your investment timeline. Looking at year 20, the difference between ½% versus 1% in annual fees is only \$7,531, approximately 6%. However, the difference between ½% and 2% in annual fees is \$21,222, approximately 16%. After 30 years, the difference between ½% and 1% in annual fees is \$28,645, approximately 9%. The difference between ½% and 2% in annual fees is \$77,847, approximately 24%.

This is not to say that the account with the lowest fees is best. All things being equal, that may seem like the best option, but it is important to understand what services come with the expenses you pay.

Overall, everything must be taken into consideration, such as account representation, loans, guaranteed accounts, and anything else that may be important to you. It makes sense to look at the combination of funds, expenses and services that work for you. If you just want funds and don't need a lot of support, it may be that expenses are the most important criterion for you, since services only have value if you use them. If it is important to you to have an assigned account representative, that provider's expenses may be higher.

Only you can decide which type of plan and level of fees are best. Understanding your program, fees and continued investment are critical factors in successfully preparing for retirement.

## 403(b) Enrollment and 403(b) Provider Changes



Now that you have an understanding of the various types of 403(b) plans, features and fees, the next question is where to begin if you are a new investor, or how to make a change if you are considering switching your 403(b) provider.

**403(b) Enrollment** – If you are just starting out and do not have a 403(b) account, you must first determine what 403(b) providers are available to you through your employer. You can accomplish this by requesting the information from your business office, which may include a copy of the plan document that governs the 403(b) plan, or if your employer uses a third-party administrator (TPA), you may be provided that TPA's phone number or website. Generally, a TPA's website will list all of the available companies that are approved to do business at your place of employment along with the relevant contact information.

Some employers may limit when you can open an account and start contributions, so be sure to check with your employer and collective bargaining agreement to ensure you submit your paperwork at the appropriate time.

Once you have this information, you will need to decide with which company you wish to do business. It may not be easy to determine if the available companies offer a 403(b)(1) or 403(b)(7) plan, and you may need to contact that company just to answer that initial question.



If you are considering opening an account that has a representative assigned to it, you may wish to interview that representative along with other companies and their representatives to get an idea of how helpful and hands-on he or she will be and what types of investment choices and fees are available. At this time, you should also request all relevant plan information to review the options on your own.

When filling out the paperwork to open the account, you will need to select the investments you want your contributions to be invested in. If your account has a representative, he or she should assist you with these choices given your time horizon and risk tolerance. If you are opening a do-it-yourself account, you will need to make the choices on your own, or possibly with some assistance from the company's toll-free number, website or your own financial adviser.

Once you have determined with which company you are going to open an account, you will need to fill out a salary deferral form in addition to the account's specific paperwork (occasionally, these elections will be required to be completed on a website rather than on paper, but this requirement is relatively rare). The salary deferral form must be submitted to your employer to begin contributions. The salary deferral form may come from your employer, TPA or the 403(b) provider. This form will indicate what company you are using, your account number and how much you want to defer from your salary to the 403(b) account.

With the account opened and the salary deferral form submitted, you should begin to see a reduction in your paycheck as the money starts to get invested in your 403(b) account.

**403(b) Provider Changes** – If you want to change 403(b) providers, you can accomplish this by executing a tax-free “exchange” of your account with the current provider to another provider. This exchange allows you to keep the pre-tax and tax-deferred benefits of your current program and move it into another. Keep in mind that you can only execute an exchange with an approved provider under your employer's 403(b) plan document. This

means you cannot simply exchange your account to any other 403(b) provider as you are limited to the choices available through your employer. You should ensure that the exchange is completed directly between the two providers; you should NOT receive a check, as this would negate the tax advantage of the transaction.

The company that you are moving the account to should have the necessary paperwork to complete the transaction. It is important that you fill out the paperwork accurately and thoroughly as it is not uncommon for these exchanges to get held up over minor issues.

When moving your account to another provider, the first thing to determine is if your current provider charges you a fee to move the account. If it is a 403(b)(1) account, you may be subject to a deferred sales charge. If it is a sales-loaded account, depending on sales class, you may be subject to a back-end sales commission.

Get this information BEFORE you make the exchange. You should be able to get this information by calling the toll-free number on your account statement or speaking with your account representative, making it clear you are moving the account to another provider and want to know if there will be any charges. If there will be no charges, you should be able to proceed and complete the transaction. If there will be charges, you may want to think twice about moving the money before those charges disappear. (Remember, over time, these charges will diminish or disappear completely.)

Depending on your reasoning for moving the account to another provider, incurring a charge to move the account may not be in your best interest. You need to determine the dollar amount you will pay to see if it is worthwhile. If it is a fairly insignificant amount, it may not be a concern. If it is a significant amount, weigh the pros and cons of the new account to determine if it is worthwhile.

If fees are the reason for moving the account, determine if the charges you will incur to move the account can be made up by the lower fees in the new account.

If the charge to move the account is costly and you can't determine whether it is worthwhile to pay the charge, one additional option is to cease contributions to your current account and begin contributing to the new account. Over time, whatever the charge was to move your current account should diminish, as most deferred sales charges and sales loads are on a declining scale. At some point in the future, those charges may go away or be at a low enough amount to make the exchange at that time a good idea.

Depending on the type of account, some providers will allow you to exchange anywhere from 10% to 20% of the account value each year without incurring a deferred sales charge. While it may be a little tedious on your part to fill out and submit the appropriate paperwork each year, it may be a viable option in order to eliminate the deferred sales charge altogether or move some money out until the charge is more manageable. A few providers have a systematic transfer option, where the entire balance will be transferred over to the new provider over a certain number of years (e.g., 10) without a requirement that new paperwork be completed each year.

Either way, it is important to understand all of the fees and charges you may incur when considering a change to another 403(b) provider. Only you can determine if it is in your best interest.

## Options at Retirement



When you are nearing retirement, it's more important than ever to have an understanding of how these plans work during your retirement years. Income taxes come into play along with various rules and regulations on what you may or may not do upon retirement. This section will clarify the options you face upon retirement.

**Cash Withdrawals** – You may want to access your 403(b) account for cash withdrawals upon retirement. Unfortunately, the IRS imposes a penalty on withdrawals from 403(b) plans prior to the attainment of age 59 ½. This penalty, known as the early distribution tax, is an additional 10% tax.

Fortunately, there is an exception to this tax, which states that the tax does not apply to distributions from a qualified retirement plan [403(b) plans are qualified plans] if the account holder separates from service in or after the year he or she attained the age of 55. In other words, as long as you retire in the year that you will turn age 55 (or older), the early distribution tax will not apply on cash withdrawals.

While this is good news, be careful to pay attention to whether your provider will be charging any fees on cash withdrawals during retirement. These deferred sales charges/loads were discussed in detail under the 403(b) Investments and Fees section.

If you don't qualify for this exception, meaning you retired in a year that by year-end you will not have attained the age of 55, any cash withdrawals taken prior to the age of 59 ½ would be subject to the 10% early distribution tax, unless you qualify for a different exception.

The most common exception at this point would be substantially equal periodic payments from your 403(b) account. These would be annual distributions, based on a formula using either your life expectancy or a joint life expectancy, and the determined annual amount must be distributed for the greater of five years or attainment of age 59 ½.

Depending on the size of your account, these distributions may not be sufficient to meet your needs, but they would at least allow you to avoid the 10% early distribution tax. Your 403(b) provider should be able to determine what these distributions would amount to. If not, you may need to consult your own tax or financial adviser.

There are a few more exceptions to the 10% early distribution tax, but they are rarely used. For more information on all exceptions, refer to IRS Publication 575, Pension and Annuity Income, which can be found at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

**Income Taxes** – Except for qualified distributions (withdrawals) from a Roth 403(b) option, any cash withdrawals from your 403(b) account are subject to both federal and state income taxes. The tax amount depends on your own personal tax situation. Usually, the 403(b) provider will not withhold state taxes, but is required to withhold 20% for federal taxes on any distribution that is eligible for rollover, a rule that would apply to most cash distributions.

It is important to understand that the withholding is NOT the actual tax; it is similar to taxes that are withheld from your paycheck. At the end of the year, when you file your income tax returns, the amount withheld is either greater or less than your total tax liability, in which case you either receive a refund or owe additional taxes at the end of the year. The larger the 403(b) plan distribution, the more likely that you will owe additional taxes when you file your return.

**NYS Pension and Annuity Exclusion** – If you reside in New York state, you may exclude up to \$20,000 of your qualified pension and annuity income from your federal adjusted gross income to determine your New York State Adjusted Gross Income for cash withdrawals taken from your 403(b) account AFTER the attainment of age 59 ½. Withdrawals taken before attainment of age 59 ½ will not qualify for this exclusion. This exclusion is available for each individual taxpayer, so married taxpayers age 59 ½ or older who both received pension or annuity income can each take advantage of the annual \$20,000 exclusion.

If you receive a pension that is taxable in the state of New York, you can use this exclusion to offset up to \$20,000 per year from your pension, 403(b) distributions or a combination of both. If your pension is not taxed in the state of New York, then you should use this exclusion for the first \$20,000 withdrawn each year from your 403(b) account after you turn age 59 ½.

For more information on this exclusion, please refer to Publication 36, General Information for Senior Citizens and Retired Persons, which can be found at [tax.ny.gov/pdf/publications/income/pub36.pdf](http://tax.ny.gov/pdf/publications/income/pub36.pdf) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

**IRA Rollovers** – At any point during your retirement, you have the option of an IRA rollover. Upon a triggering event, such as retirement or attainment of age 59 ½ [your employer's 403(b) plan document should outline these triggering events], you can roll over your account to an Individual Retirement Arrangement (IRA). Almost every financial, bank and insurance company offers IRAs.



You may want to consider this if you want to invest your money with a different company that wasn't available through your employer, or your financial adviser suggests you move your money to an IRA. Investments in an IRA are not limited to annuities and mutual funds; for example, individual securities may be purchased in an IRA account but not in a 403(b). IRA rollovers, if done correctly, allow for a tax-free transfer of your 403(b) account to an IRA. However, before doing so, be aware of a couple of items.

First, remember how the 10% early distribution tax for withdrawals from 403(b)s doesn't apply if you separate from service in or after the year you attain the age of 55? This exception doesn't apply to cash withdrawals from IRAs before the attainment of age 59 ½. This means that if you transfer your money to an IRA and subsequently take a cash withdrawal from the IRA at ANY point before the attainment of age 59 ½, you will be assessed the 10% early distribution penalty.

If you will need access to your account prior to the age of 59 ½, an IRA rollover may not make sense or you may be able to consider a partial rollover of your account. While there are some exceptions to the 10%

rule, such as the substantial annual periodic distributions (discussed in Cash Withdrawals earlier in this section), they are far and few between. For information on exceptions, refer to IRS Publication 575, which can be found at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

Second, before executing an IRA rollover, you should determine if some or all of the amount transferred will be subject to any type of deferred sales charge or back-end sales load. If so, you will need to decide whether to leave your account where it is until those charges disappear or continue with the transfer. Check with your 403(b) provider's toll-free number or account representative to determine what, if any, charges may apply.

Finally, if you wish to borrow from your account, IRAs lack a loan feature, so if your 403(b) plan has a loan feature you will no longer be able to borrow should you roll over your account balance to an IRA.

**403(b) Exchanges** – Upon retirement, you still have the option of executing a tax-free “exchange” of your 403(b) account with another 403(b) provider. However, you can only do this with an approved provider under your former employer's 403(b) plan document. This means you cannot simply transfer your account to any other 403(b) provider; you are limited to the choices available through your former employer. Before executing the exchange, determine if you will incur any deferred sales charges or back-end sales load from your current provider. As discussed previously, should you complete an exchange, you should ensure that the transfer check is sent directly from your existing provider to your new provider in order to avoid any possible taxation.

**Required Minimum Distributions** – No matter where your account ends up, a 403(b) or an IRA, you will be subject to mandatory withdrawals known as required minimum distributions. For 403(b) plans, these distributions generally need to be started no later than April 1 of the year following the year you attain age 70 ½ (or the year in which you retire, if later). For IRAs, the first distribution must be taken after attainment of age 70 ½, regardless of employment status. The IRS provides tables to

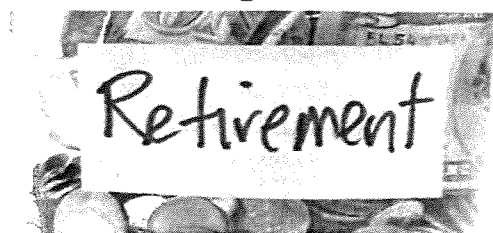
determine the amount of your withdrawal, which is a percentage based on the dollar amount in your account and your beneficiary designation.

Hopefully, your 403(b) provider will calculate your required minimum distribution, but, if not, you are still required to make the withdrawal. Failure to take a required minimum distribution can result in fairly significant IRS penalties.

Note that if you wait until April 1 of the year following the year you reach age 70 ½ to take your first required minimum distribution, you will need to take a second minimum distribution by year's end to satisfy your required minimum distribution, resulting in two taxable distributions in the same tax year. This is why it is important to have some professional assistance in determining the proper amount and timing of your distributions.

If your 403(b)/IRA provider is unable to assist with this, you may need to seek advice from either a tax professional or financial adviser. There are many rules regarding minimum distributions, and you should refer to IRS Publication 571 for 403(b) plans or IRS Publication 590 for IRAs. Both can be found at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

## Other Retirement Savings Plans



Besides 403(b) plans, three other options for retirement savings may be available – 457 Deferred Compensation Plans, traditional Individual Retirement Arrangements (IRAs) and Roth IRAs.

**457 Deferred Compensation Plan** – A 457 deferred compensation plan acts much like a 403(b) plan. A 457 plan allows you to invest toward your retirement via pre-tax contributions just like a 403(b) plan. Contribution limits for salary deferrals are also the same as the 403(b) limits, currently \$18,000 for

calendar year 2016. However, contributions made to a 457 plan are not aggregated with contributions to a 403(b) plan. This means if you have both plans available to you, you have the option of contributing \$18,000 to each plan for a total of \$36,000 for calendar year 2016.

457 plans also have a few catch-up provisions, including the age-50 catch-up provision that 403(b) plans have. For information regarding other catch-up contribution limits for 457 plans, see the plan literature for your employer's plan.

The same rules for 403(b) plan distributions and taxation apply to 457 plans, except there is no early distribution penalty from a 457 plan. This would allow a retiree under the age of 55 to withdraw money from a 457 plan without an additional tax penalty.

Investment options, plan fees, loans, and other features depend on your employer's specific plan. To determine if you have the option of contributing to a 457 plan, check with your employer's business office. If the plan is available, you should review all of the relevant plan literature to understand all of the fees and features.

Usually, only one 457 plan provider is available through an employer and it is often the New York State Deferred Compensation Plan. Information regarding the New York State plan can be found at [nysdcp.com](http://nysdcp.com).

**Traditional Individual Retirement Arrangement (IRA)** – Another option you have is to contribute to an IRA. While you must contribute to an IRA with after-tax monies, you then claim a tax deduction on your tax return, which provides you with the same tax breaks as pre-tax contributions. IRA contributions cannot be funded through payroll reductions. It probably doesn't make sense to make non-deductible contributions to an IRA, so this section will just cover traditional tax-deductible IRA accounts.

Tax-deductible contributions to IRAs are limited to \$5,500 for calendar year 2016, with an additional \$1,000 available as an age-50 catch-up. However, in

order for these contributions to be tax deductible, your Adjusted Gross Income (AGI) must be below \$61,000 if filing single and less than \$98,000 if filing jointly. Otherwise, the amount that is able to be deducted from your taxes will be phased out if your AGI is between \$61,000 and \$71,000 if single, and between \$98,000 and \$118,000 if married.

If your AGI exceeds these phase-out limits, you are not allowed to deduct the IRA contributions unless you do not participate in any other qualified retirement plan, such as a pension plan, 403(b) or 401(k) plan. If you are not part of any of the aforementioned plans, your contributions are tax deductible regardless of your income, unless your spouse participates in a qualified retirement plan, in which case there are separate AGI limits (significantly higher than those listed above).

IRAs are available at just about every financial institution, including banks, insurance companies and brokerage houses. The advantage to an IRA is the freedom to invest with any company in any manner you choose. Depending on the IRA provider, mutual funds, stocks and bonds are available investment choices. The disadvantages of IRAs are the deductibility limits, lower contribution limits, lack of a loan feature, and no option to fund through payroll reductions.

IRAs are subject to the required minimum distributions and early distribution tax applicable to 403(b) plans. However, unlike 403(b) plans, the exception that applies to the early distribution tax if you retire in or after the year you attain age 55 does NOT apply to IRAs. In other words, unless you use some of the other available exceptions, there is a 10% early distribution penalty for distributions taken prior to the attainment of age 59 ½. In addition, if you work past age 70 ½, you are permitted to defer your first 403(b) minimum required distribution until April 1 following the year of your retirement; for an IRA, the first distribution must be taken after attainment of age 70 ½, regardless of employment status.

For specific information regarding IRAs, see IRS Publication 590, which can be found at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

**Roth IRAs** – Similar to Roth 403(b) plans, a Roth IRA allows you to invest money on an after-tax basis, enjoy tax-deferred growth and receive tax-free qualified distributions.

Roth IRA contribution limits are the same as traditional IRA limits, \$5,500 for calendar year 2016 and \$1,000 for the age-50 catch-up. Roth IRA contributions are not allowed if your adjusted gross income is above \$132,000 for a single filer (allowed at a reduced amount between \$117,000 and \$132,000) or \$194,000 for married filers (allowed at a reduced amount between \$184,000 and \$194,000).

Note that it is possible to convert 403(b)s and Traditional IRAs to Roth IRAs; contact your investment provider for details.

Contributions to Roth IRAs and Traditional IRAs are combined to determine the contribution limit, meaning your total combined contributions to both plans cannot exceed the limits for that calendar year.

Rules for a Roth IRA qualified (tax-free) distribution are similar to the rules for Roth 403(b) plans and are typically distributions that are made after a five-taxable-year period of participation and either made on or after the date you attain age 59 ½, attributable to a disability, or post-death.

Unlike traditional IRAs and other retirement plans, there are no required minimum distributions for Roth IRAs. There are many more rules regarding Roth IRAs. You can find detailed information in IRS Publication 590 at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).

## Other Information



**The Saver's Credit** – Formally known as the Retirement Savings Contributions Credit, you may be eligible to receive a federal tax credit of up to \$1,000 (up to \$2,000 if married filing jointly) for contributions to a 403(b) plan, 457 plan or IRA. To be eligible for this credit for calendar year 2016, adjusted gross income must be below \$30,750 for single tax filers and \$61,500 for married tax filers.

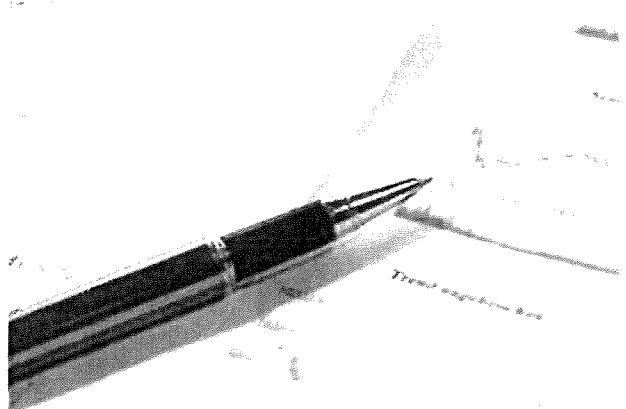
The tax credit is based on your filing status and plan contributions up to the first \$2,000. The following chart can help determine your eligibility and credit amount:

### 2016 Tax Saver's Credit Rates by Filing Status and Adjusted Gross Income (AGI)

*(Subject to cost of living adjustments)*

Married Filing Jointly AGI	Credit Rate
\$0 - \$37,000	50%
\$37,001 - \$40,000	20%
\$40,001 - \$61,500	10%
More than \$61,500	None
<b>Head of Household AGI</b>	
\$0 - \$27,375	50%
\$27,376 - \$29,625	20%
\$29,626 - \$45,750	10%
More than \$45,750	None
<b>Single &amp; All Other Filers AGI</b>	
\$0 - \$18,500	50%
\$18,501 - \$20,000	20%
\$20,001 - \$30,750	10%
More than \$30,750	None

For more information on The Saver's Credit or to determine your eligibility, please see IRS Form 8880, Credit for Qualified Retirement Savings Contributions, which can be found at [irs.gov](http://irs.gov) or [memberbenefits.nysut.org](http://memberbenefits.nysut.org).



## Resources



Informational workshops, IRS publications and the endorsed Financial Counseling Program can provide valuable information for in-service members as well as retiree members of NYSUT.

**NYSUT Member Benefits Presentations** – The following presentations are available free of charge to your local association, local chapter, retiree chapter, or retiree council. Presentations are made by NYSUT Member Benefits staff. Contact your local or chapter leader if you are interested in bringing one of these presentations to your group.

- **403(b) Basics** – This presentation, designed for new NYSUT members, offers a basic understanding of 403(b) retirement savings plans and stresses the need for members to start saving for retirement early in their career.
- **Inside the 403(b)** – This presentation is designed to help members better understand their options when choosing a 403(b) plan by taking a detailed look at the various types of 403(b) programs available.
- **The Financial Planning Puzzle Workshop** – The twists and turns of the economy have clarified more than ever the need for a financial plan; unfortunately, for many people, beginning a financial plan remains a daunting task. This two-hour workshop outlines the process from beginning to end, covering the five key areas of financial planning: cash management, risk management, savings, retirement, and estate planning. You may not have all the answers you need by the end of the session, but you'll know the questions you need to be asking -- putting you well on the way to successful financial management.
- **The Challenging Times of Financial Management – The Retirement Years** – Financial planning doesn't stop at retirement. This one-hour presentation discusses the various investment options you may face during retirement along with helpful information regarding your 403(b) plan, Social Security benefits, income taxes, and more.

**IRS and NYS Publications** – Publications 571, 575, 590, and Form 8880, all referenced throughout this guide, are available at *irs.gov*. Publication 36 is available at *tax.ny.gov/pdf/publications/income/pub36.pdf*. All referenced publications and forms can also be found on the “403(b) Field Guide” page within the “Legal & Financial” section of the Member Benefits website at *memberbenefits.nysut.org*.

**403(b) Provider-Specific Workshops** – These workshops are conducted by Stacey Braun Associates, Inc., the provider of the Financial Counseling Program (described next). On-site workshops require a minimum of 30 paid attendees at a cost of \$20 per attendee (includes spouse).

Alternatively, the workshop is available as a webinar to a local's membership at a cost of \$250 to the local. With either format, this workshop covers detailed information on five 403(b) providers chosen by the local from a list of 10 popular 403(b) providers (including the New York State 457 Deferred Compensation Plan).

The workshop covers all of the relevant fees, investments, features, and more for each specific 403(b) provider chosen. Be sure to express your interest in this workshop to your local leader, as these workshops are arranged by request from local associations/local chapters to NYSUT Member Benefits.

**NYSUT Member Benefits Corporation-Endorsed Financial Counseling Program** – For an annual fee, this program offers you access to a team of Certified Financial Planners<sup>®</sup> and Registered Investment Advisors to provide you with fee-based financial counseling services. The Financial Counseling Program is provided by Stacey Braun Associates, Inc. and administered by the NYSUT Member Benefits Corporation.

Stacey Braun Associates, Inc., an investment advisory company established in 1977, provides fee-based professional financial counseling for groups and individuals. Being fee-based, Stacey Braun Associates receives no commissions from mutual funds, brokerage firms, insurance companies, or any other third party. As a result, Stacey Braun's advice is unbiased, objective and customized specifically for you and your financial situation.



*The Stacey Braun Associates, Inc. Financial Counseling Program is a NYSUT Member Benefits Corporation (Member Benefits)-endorsed program. Under an agreement with Stacey Braun, Member Benefits has an endorsement arrangement of 10% of annual participation fees received plus \$9 per direct bill participant. All such payments to Member Benefits are used solely to defray the costs of administering its various programs and, where appropriate, to enhance them. Member Benefits acts as your advocate; please contact Member Benefits at 800-626-8101 if you experience a problem with any endorsed program.*

*Agency fee payers to NYSUT are eligible to participate in NYSUT Member Benefits-endorsed programs.*