

Making the Most of Your District's 403(b) Plan

General Information Only

Please be aware that this information is intended to be general in nature and is not intended to be legal or tax advice. Each of you should follow up with a legal, tax, or financial professional about your own personal situation.

Today's Objectives:

- 1** Retirement planning
- 2** Retirement costs
- 3** Sources of retirement income
- 4** Cost of procrastination
- 5** Action steps

Why does my employer want me to know about this employee benefit?

- An important tool to plan for retirement planning
- Benefits for you today and in the future
- Employer-provided retirement savings vehicle

Why start planning now for retirement?

Five reasons:

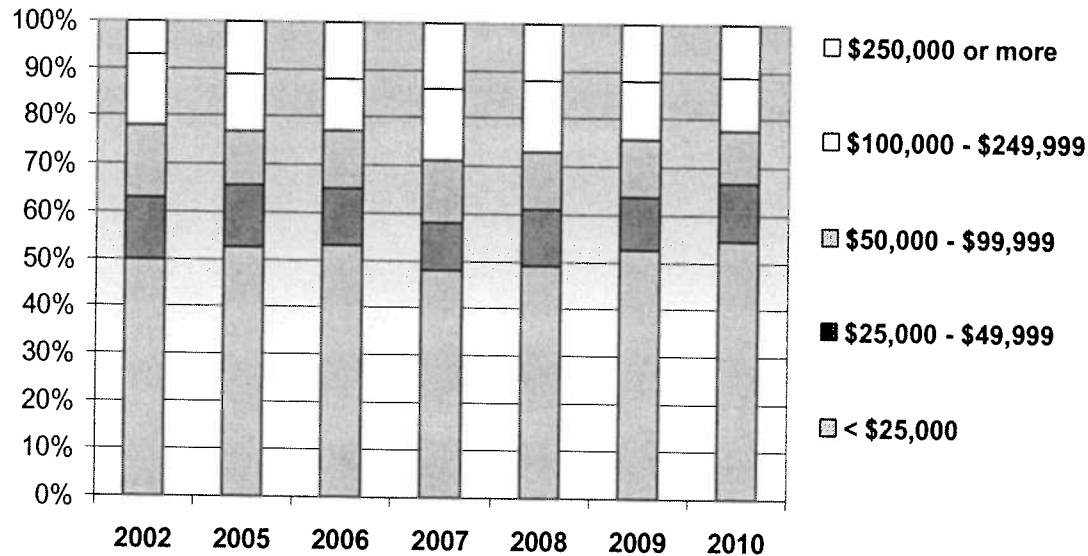
- Benefit from tax advantages
- Power of compound interest
- Pensions/Social Security often not enough; provide income only
- Rising cost of living
- Added flexibility and control available with your own retirement accounts; lump sum benefit is available.

Important Statistics

- 48% of workers surveyed were not too confident or not at all confident that they will have enough money to enable them to have a comfortable retirement.
- 51% were not confident about having enough to pay for medical expenses in retirement.
- 40% of workers and retirees admit worrying about being financially dependent on others during later years.

Source: EBRI Retirement Confidence Survey, 2010

Retirement Savings Preparation



2007 to 2010, employees with < \$10,000 increased from 35% to 43%

2009 to 2010, employees with < \$1,000 increased from 20% to 27%

EBRI 2010 Retirement Confidence Survey

Key considerations in thinking about retirement

- Lifestyle plans, financial plans
- Activities, necessities
- How much will retirement cost and where will it come from?

How much will retirement cost?

Income need today	Amount needed in 10 Years	Amount needed in 20 Years	Amount needed in 30 Years
\$40,000	\$53,757	\$72,244	\$97,090
\$60,000	\$80,635	\$108,367	\$145,636

- *Assumes 3% inflation*

Where will the money come from?

- 77.9% Earnings, pension plans, personal savings, and investments
- 19.1% Social Security (not applicable for some public school employees)
- 3% Other

Source: EBRI Databook on Employee Benefits, October 2009, Sources of Income for Persons Age 55 and Older; Households with income of \$34,750 or more.

Pension Plan/Social Security: Important Factors

- Eligibility
- Full retirement age

Social Security in 2010

- \$13,836 - Estimated average annual benefit paid to a retired worker
- \$22,512 - Estimated average annual benefit paid to a retired couple
- \$27,876 - Maximum annual benefit paid to a retired worker at full retirement

Source: Social Security Administration

Number of Workers to Retirees in Social Security

- 1945 – 41.5 workers for every retiree/beneficiary
- 1965 – 4.0 workers for every retiree/beneficiary
- 2008 – 3.2 workers for every retiree/beneficiary
- 2030* – 2.2 workers for every retiree/beneficiary
- 2060* – 2.1 workers for every retiree/beneficiary

Source: Social Security Administration, 2009 Old Age and Survivors and Disability Insurance (OASDI) Trustees Report.

*Estimated

Social Security Benefit Eligibility

Year of Birth	Full Retirement Age	% Received at Age 62
1937 or before	65	80.0
1938	65 + 2 months	79.1
1939	65 + 4 months	78.3
1940	65 + 6 months	77.5
1941	65 + 8 months	76.6
1942	65 + 10 months	75.8
1943-1954	66	75.0
1955	66 + 2 months	74.1
1956	66 + 4 months	73.3
1957	66 + 6 months	72.5
1958	66 + 8 months	71.6
1959	66 + 10 months	70.8
1960 and after	67	70.0

Pension Plan

- Benefit generally depends on compensation, years of service, and plan's annual accrual factor; some have changed recently
- Plan also establishes
 - Age for retirement with full benefit
 - Age for retirement with reduced benefit
- Hypothetical example: Jane Alvarez' benefit is \$22,000 per year, starting at age 62 and continuing for the rest of her life, based on her average compensation of \$40,000 and her 25 years of service with the district

Supplemental Plans

- 403(b) Plan
- 457(b) Plan
- 401(k) Plan (grandfathered pre-5/86 plans only)

Why contribute to your district's 403(b) plan?

- Opportunity for pre-tax contributions
 - Note: After-tax Roth 403(b) contributions may also be permitted under 403(b) plan*
- 100% vested in your contributions
- Tax-deferred growth
- Dollar-cost averaging
- *If applicable:* Employer matching contributions

Why pre-tax contributions?

	Taxable Account	Tax-qualified Savings Plan
Salary	\$3,000	\$3,000
Pre-tax contribution	\$0	\$200
Taxable income	\$3,000	\$2,800
* Federal marginal income taxes	\$750	\$700
Total take-home pay	\$2,250	\$2,100
After-tax savings	\$200	\$0
Net take-home pay	\$2,050	\$2,100

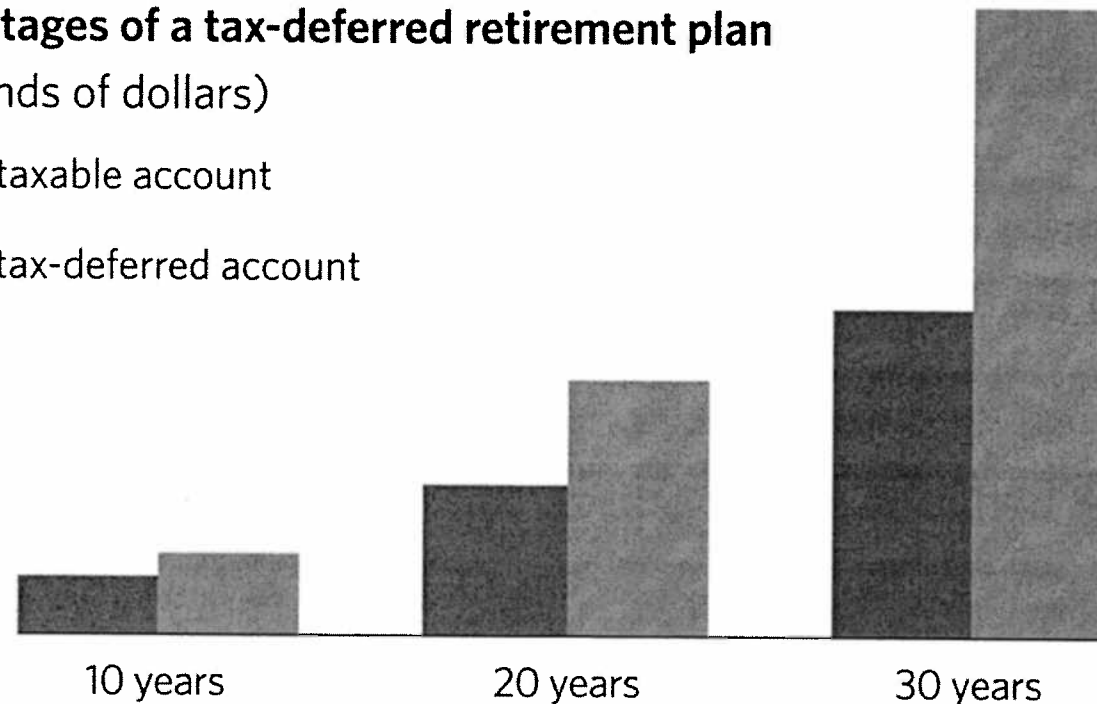
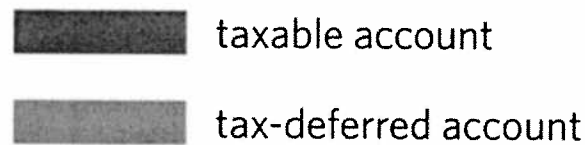
This table is hypothetical and only an example. It does not reflect any specific investment and is not a guarantee of future income.

*25% marginal tax rate and single filer.

Tax-deferred Retirement Plan

The advantages of a tax-deferred retirement plan

(in thousands of dollars)



This chart compares the hypothetical results of contributing (1) \$100 each month to a taxable account and (2) \$133.33 (since contributions are pre-tax) to a tax-qualified retirement investment plan. The chart assumes a 25% federal marginal income tax rate and an 8% annual rate of return. Fees and charges, if applicable, are not reflected in this example and would reduce the amount shown. Income taxes are payable upon withdrawal. Federal restrictions and tax penalties may apply to early withdrawals. This information is hypothetical and only an example. It does not reflect the return of any investment and is not a guarantee of future income.

403(b) Plan Basics

- Who is eligible?
- How do you sign up or change your contribution?
- How much can you contribute?
- What are your options for investing your contributions?
- Can you take a loan from your 403(b) account?
- When can you take distributions from your 403(b) account?

Who is eligible?

Your district's 403(b) -plan may permit:

- All employees who normally work more than 20 hours per week (or 1,000 hours per year)

OR

- All employees to participate.

Other exclusions may apply.

Contact your district for specific 403(b) plan eligibility rules.

How do you sign up or change your contributions?

- To begin contributions and enroll in the 403(b) plan or to change your contributions, you must complete a salary reduction agreement.
- If you are a new participant, you will also be required to select an investment provider available under the 403(b) plan and establish an account with that provider.
- Contact your district for its specific procedures as to how to enroll in the 403(b) plan or change contributions.

How much can a participant contribute?

- Basic limit: \$16,500 (2011 adjusted limit)
- If 403(b) plan permits:
 - Employees with 15 or more years of service with the district may contribute an additional amount:
 - Up to \$3,000 per year, depending on deferrals in past years
 - Lifetime per-employer maximum of \$15,000
 - Employees age 50 or older may contribute an additional \$5,500 (2011 limit, indexed)

What are my options for where to invest my contributions?

- You may select an approved investment provider under the plan from a list provided by your district.
- Contact your district for the list of available investment providers for your 403(b) plan or see the list in your handouts.

What are my options for investing my contributions?

The investment providers offered under your 403(b) plan offer one or both of the following types of investment products:

- Annuity contracts
- Mutual fund products

May I take a loan from my 403(b) account?

- If the 403(b) plan permits loans, you may be able to take a loan subject to the terms of the investment arrangement that you select.
- Remember: The primary objective of the plan is to save for retirement.
- Contact your district to determine if loans are permitted under your 403(b) plan or see a list of the features in your 403(b) plan in your handouts.

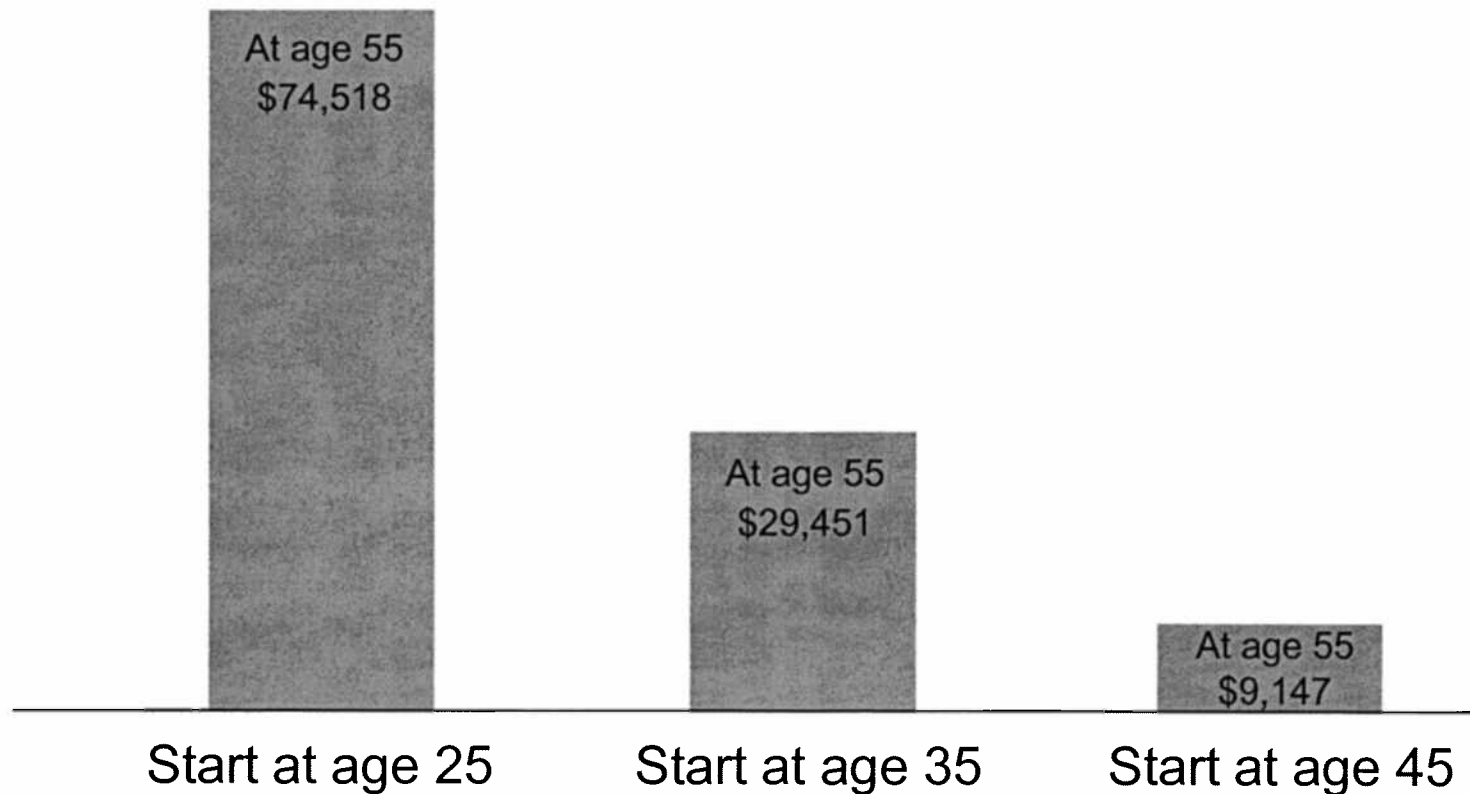
When can I take distributions from the plan?

- At four basic events:
 - Age 59 ½
 - Severance from employment
 - Financial hardship (if permitted under your 403(b) plan)
 - Disability
- Additional plan limitations may apply (contact your district for specific terms of your 403(b) plan).
- In addition, distributions will be made to your beneficiaries upon your death.

What is the urgency?

The cost of procrastinating

Investing \$50 a month earning 8% annually

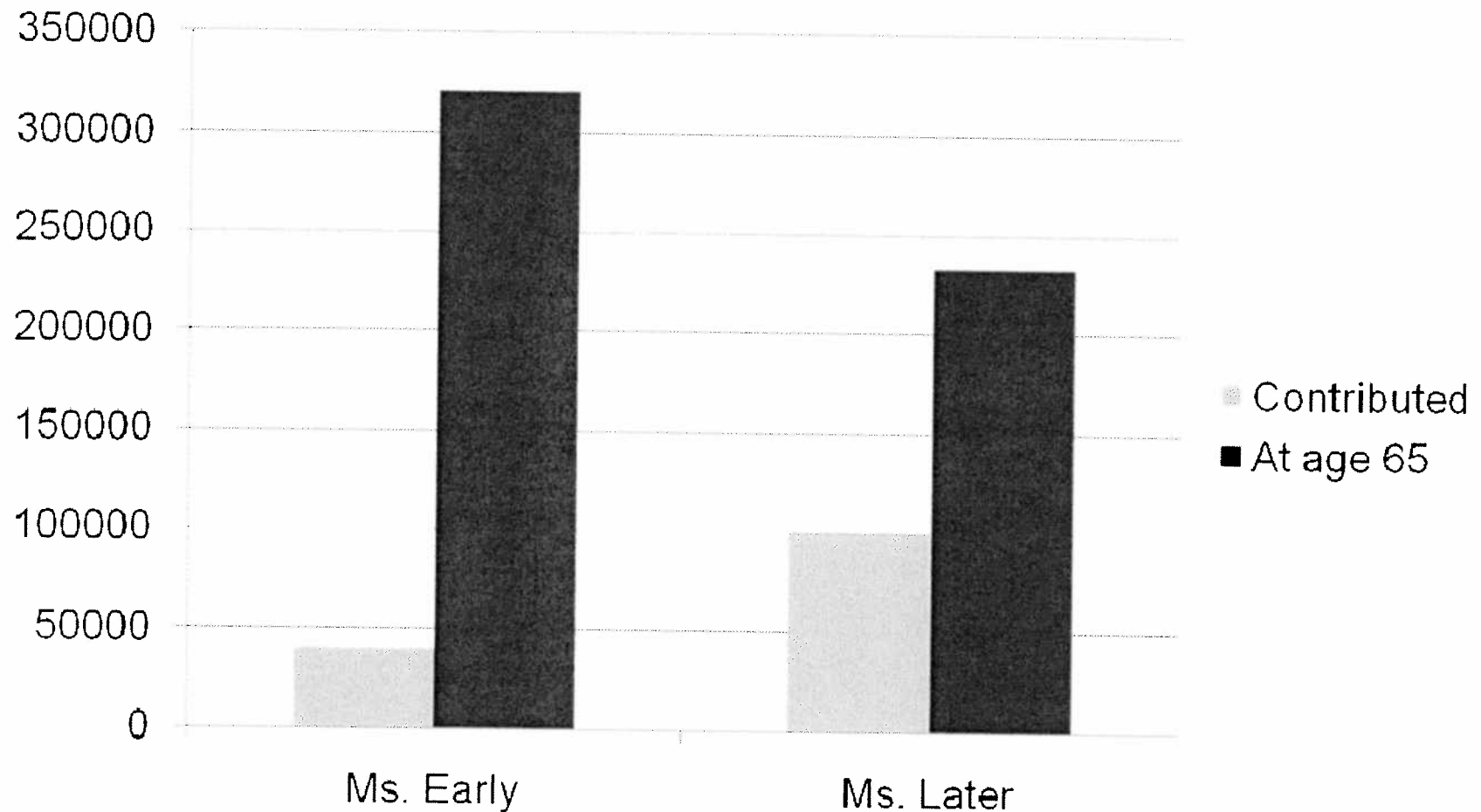


The Power of Starting Today

	Ms. Early	Ms. Later
Age today	25	25
Age start/stop	25/35	40/65
Annual contribution	\$4,000	\$4,000
TOTAL contribution	\$40,000	\$100,000

Both earn a 6% annual rate of return.
Who ends up with more at age 65?

Can you afford to wait?



These figures are hypothetical and do not represent the returns for any particular investment.

The Power of Starting Today

	Ms. Early	Ms. Later
Age today	25	25
Age start/stop	25/65	40/65
Annual contribution	\$4,000	\$4,000
TOTAL contribution	\$160,000	\$100,000
Account Value @ 65	\$656,000	\$233,000

This time, consider if Ms. Early kept her contributions going until age 65 (all else remains the same). While she contributes \$60,000 more than Ms. Later, Ms. Early's account value is \$423,000 higher!!

Action Steps

- 1** Calculate the cost of retirement.
- 2** Create a plan to achieve your goals.
- 3** Take advantage of tax-qualified savings.
- 4** Increase savings with increases in pay.