

State of Iowa Retirement Investors Club

The ABC's of the 403b plan



Presented by:

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Welcome!!

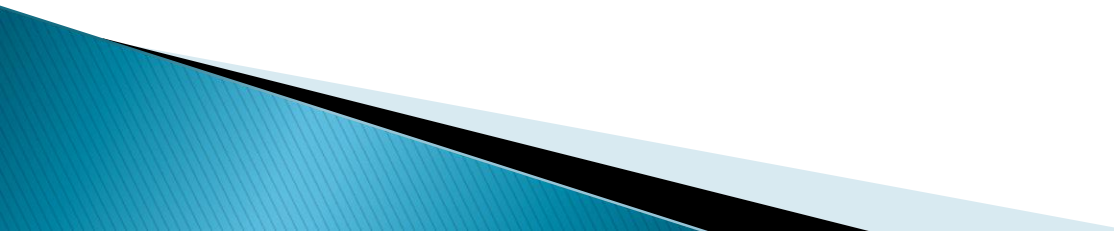
Today's agenda

- ▶ What is a 403b
- ▶ RIC benefits
- ▶ 403b plan provisions



What is a 403b?

A **403b Plan** is an employer-sponsored *voluntary* retirement savings program designed to provide:

- ▶ Income at retirement
 - ▶ Tax advantages
 - Pretax contributions
 - Tax-deferred earnings
 - Tax credit (must qualify)
 - ▶ Savings through salary reduction
 - ▶ Low cost, competitive investment options
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IRS Rules

July of 2007 – the IRS issued the final 403b plan regulations that *required employers to take* an active role in the administration and selection of investments in 403b plans.



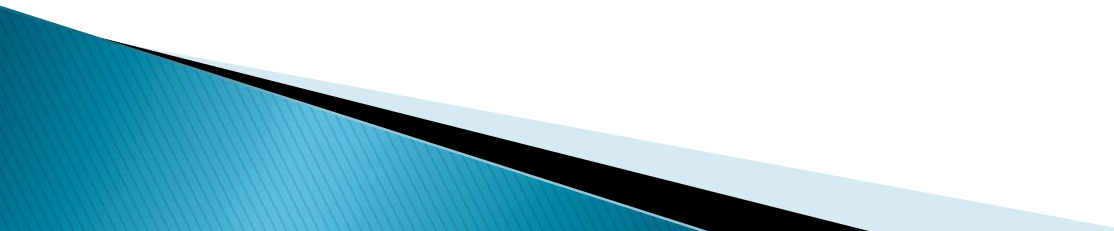
IRS Rules



Your employer chose the Retirement Investors Club (RIC) as the plan sponsor to provide administration and investment options in compliance with the IRS regulations.

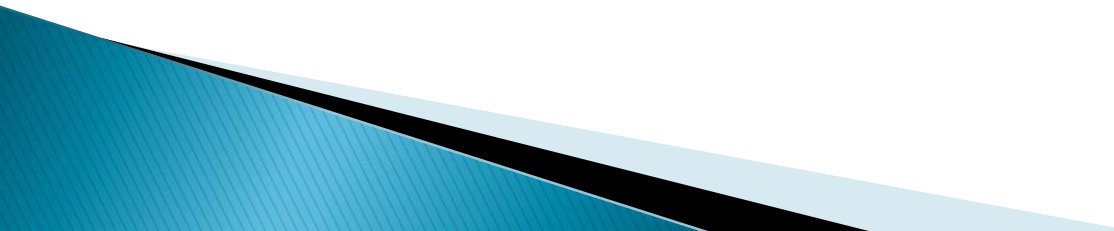
Who is RIC?

The Retirement Investor's Club (RIC)

- ▶ Is part of the Iowa Department of Administrative Services (DAS)
 - ▶ Has qualified staff with several years of large retirement plan management experience & knowledge of federal/state tax laws, retirement plan administration & education.
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Who benefits?

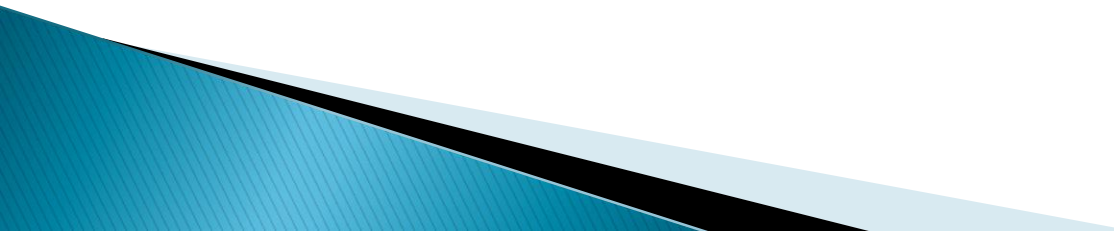
The RIC 403b plan program is administered for the exclusive benefit of **you and your beneficiaries** and is designed to provide:

- ▶ An easy way to save for retirement
 - ▶ Diversified, competitive investment options
 - ▶ Account flexibility
 - ▶ Program education
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How does RIC work?

Plan provisions

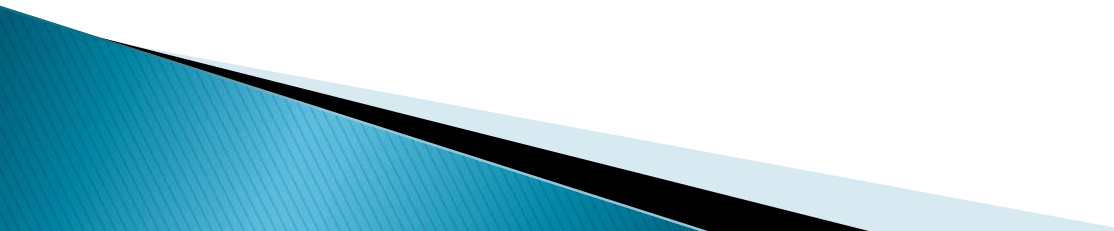
Your employer determines which flexible plan options to include in your plan such as:

- ▶ Loan provisions
 - ▶ Frequency of payroll deduction changes
 - ▶ Ability to accept roll-ins from outside plans
 - ▶ Roth 403(b) plan
 - ▶ Employer contributions
- 

Contributions

Your salary reductions in the amount you choose are taken from your paycheck before state and federal taxes.

Pretax deductions from your paycheck are deposited into your choice of 403(b) current provider investments.



Contribution Limits (Regular)

You may defer wages up to the IRS maximum limits (declared annually)

Regular

100% of compensation up to:

16,500

Contribution Limits (50+)

You may defer wages up to the IRS maximum limits (declared annually)

Regular 100% of compensation up to:	16,500
Age 50+ The regular limit + \$5,500	\$ 22,000

Contribution Limits (15 Year Catch up)

You may defer wages up to the IRS maximum limits (declared annually)

Regular 100% of compensation up to:	16,500
Age 50+ The regular limit + \$5,500	\$ 22,000
15 Year Catch up Applies if you have worked for you employer for 15+ years & meet other eligibility criteria.	\$ 19,500

Contribution Limits (Maximum Total)

You may defer wages up to the IRS maximum limits (declared annually)

Regular 100% of compensation up to:	16,500
Age 50+ The regular limit + \$5,500	\$ 22,000
15 Year Catch up Applies if you have worked for you employer for 15+ years & meet other eligibility criteria.	\$ 19,500
Maximum Total Limit Available if you are eligible for both the 50+ AND 15 Year Catch Up limits	\$ 25,500

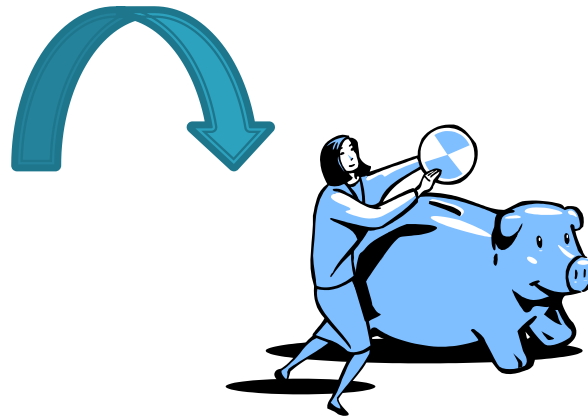
Contributions–employer



If your employer makes contributions, they are deposited into your selection of RIC investments.

Rollover

Roll* your previous employer sponsored plan or qualified IRA into your RIC 403b



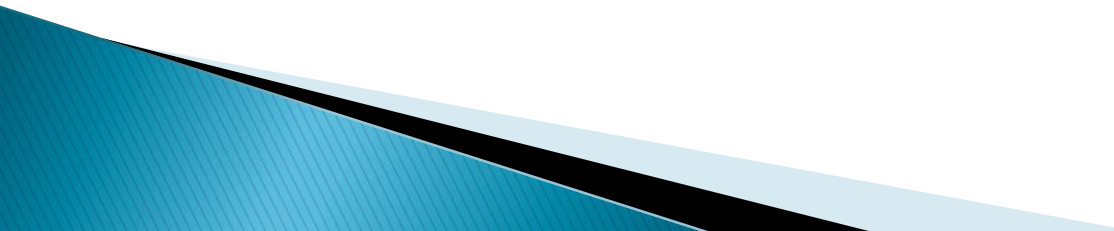
*A rollover is to a non-taxable transfer of assets from one retirement plan to another

Distributions

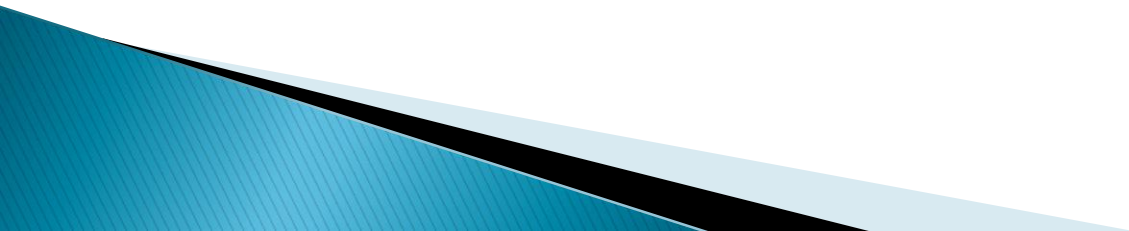
Distributions are allowed if a “distributable event” has occurred. Such as: age 59 ½, termination from employment

Nonqualified distributions may be subject to ordinary income taxes a 10% federal tax penalty prior to age 59 ½.

Please refer to the *Special Tax Notice Regarding Plan Payments* for more detailed information.



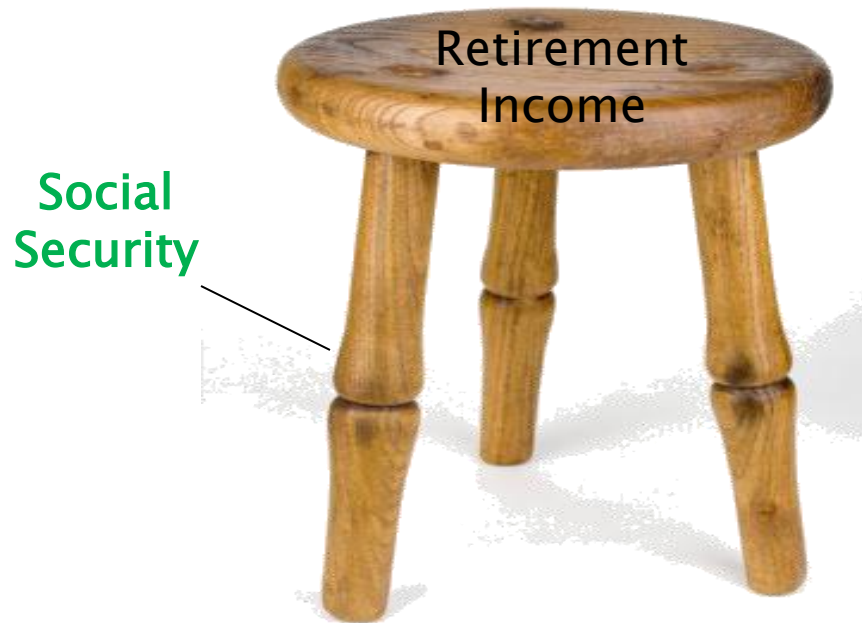
Why participate?



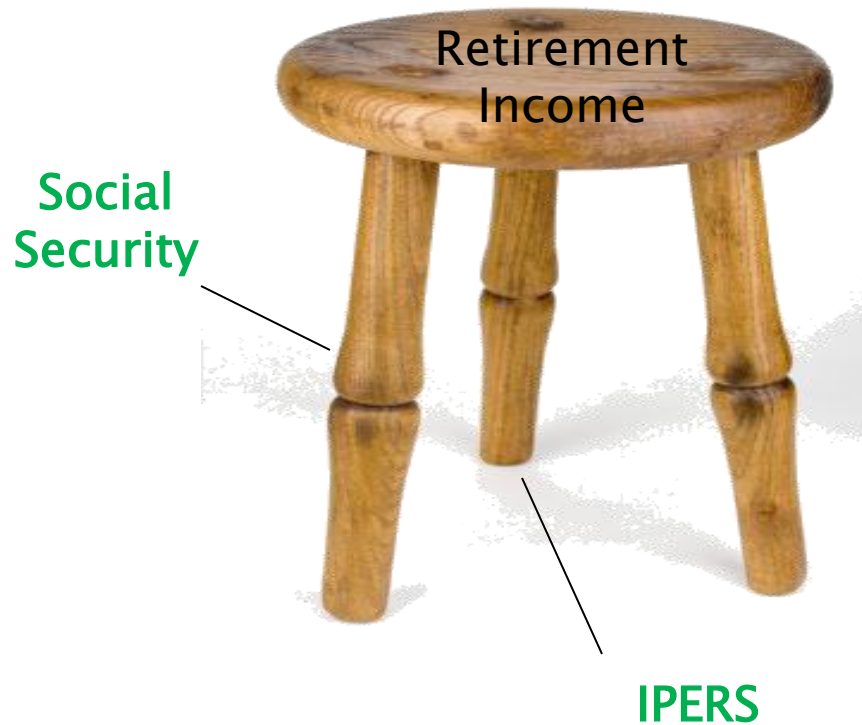
More control

403b plans help you manage your retirement goals so that a lack of retirement income doesn't dictate *when* you will retire and *how* you'll spend your time!

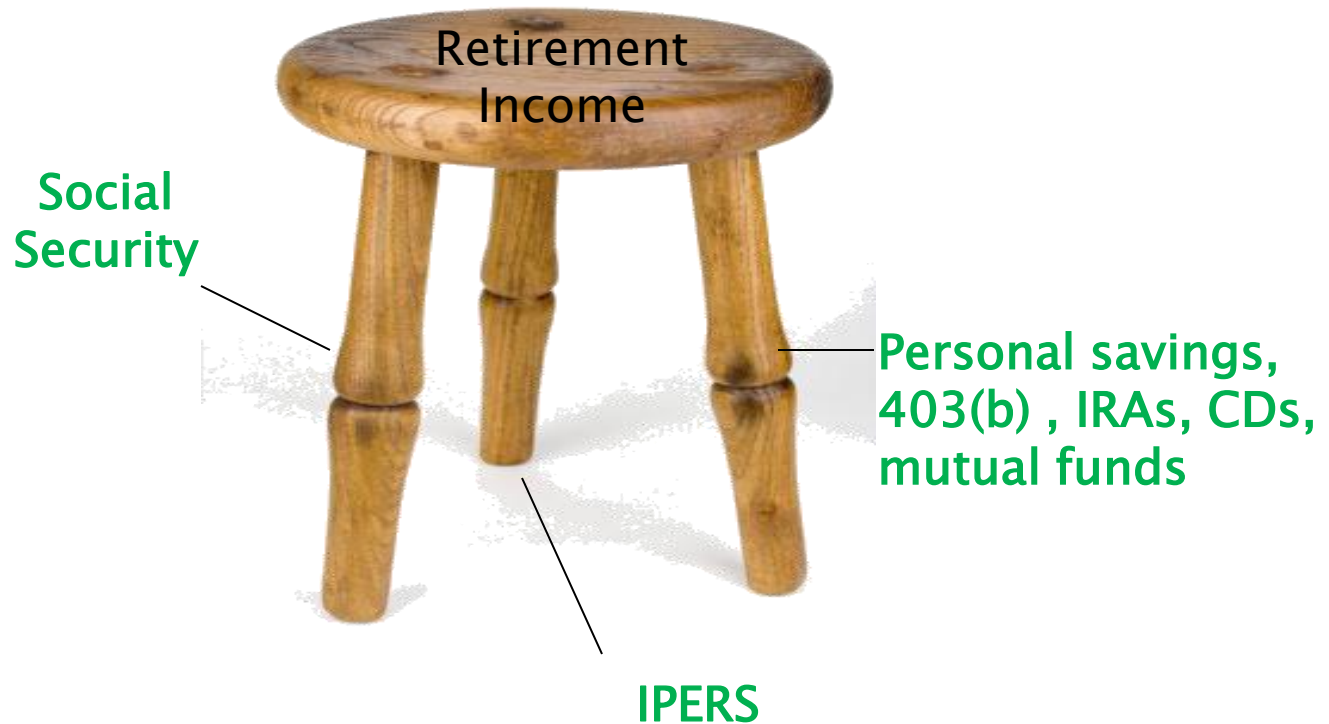
Retirement Income (Social Security)



Retirement Income (IPERS)



Retirement Income (personal savings)



Tax Relief

Pretax contributions

The amount you contribute to 403(b) is not reported to the IRS as taxable income



Tax Relief



Pretax contributions

The amount you contribute to 403(b) is not reported to the IRS as taxable income.

Tax deferred earnings

Investment earnings are tax-deferred
(increasing compounding power)

Tax Relief



Pretax contributions

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Tax deferred earnings

Investment earnings are tax-deferred
(increasing compounding power)

Savers tax credit (if eligible)

A retirement savings contribution credit of up to \$2,000 is available to qualified participants

Tax Relief_(pretax benefit)

Pretax contributions

The amount you deduct from your paycheck is not reported to the IRS as taxable income

Example:

Annual wages	\$38,000*
403(b) contributions	<u>\$3,000</u>
IRS taxable income of:	\$35,000

*IPERS & Social Security use 38,000 when calculating your benefits

Tax Relief (pretax example)

Pretax vs. after tax savings– the 403(b) pretax save pays \$80 to invest \$100

	After tax savings
Gross Income	\$1,730
RIC contribution (pretax)	0
Taxable income	\$ 1,730
Federal tax*	-137
State income tax*	-71
FICA	-132
Income after taxes	\$ 1,390
After tax savings contribution	-100
Take home pay	\$1,290

Tax Relief (pretax example)

Pretax vs. after tax savings– the 403(b) pretax save pays \$80 to invest \$100

	After tax savings	Pretax savings
Gross Income	\$1,730	\$1,730
RIC contribution (pretax)	0	- 100
Taxable income	\$ 1,730	\$1,630
Federal tax*	-137	-129
State income tax*	-71	-66
FICA	-132	-125
Income after taxes	\$ 1,390	\$1,310
After tax savings contribution	-100	0
Take home pay	\$1,290	\$1,310

Tax Relief (Saver's credit)

Saver's Credit

You may be eligible for a retirement savings contribution credit of up to a \$2,000 credit against federal taxes owed

Your adjusted gross income determines your eligibility & credit amount and must not exceed:

\$55,500 for joint filers

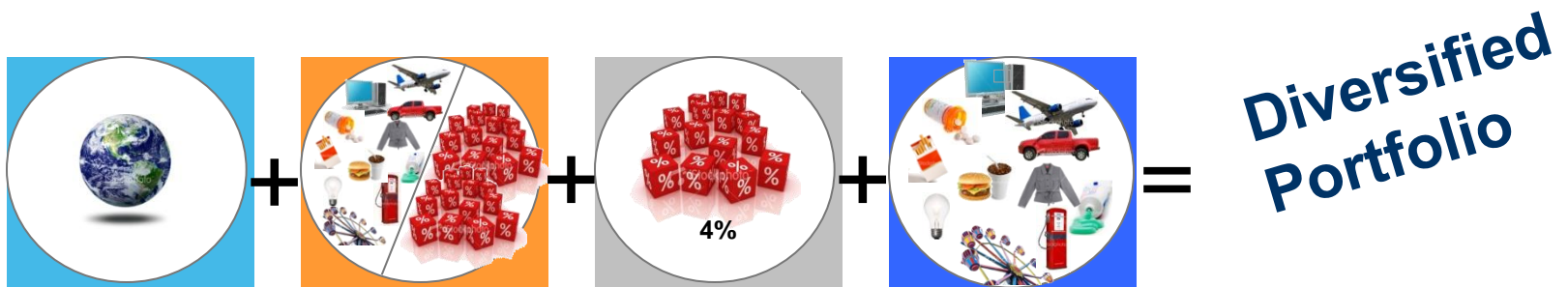
\$27,751 for single filers



Diversification

Spread your investment dollars among a mix of investments to help you manage your investment risk so you can meet your retirement goals.

Using diversification as part of your investment strategy does not guarantee a profit or against a loss in declining markets.



Future Uncertainty (social security)

Aside from the misuse of social security assets, funding has decreased significantly

- 1945 42 workers paid into the system for every 1 retiree taking benefits
- 1993 3 workers paid into the system for every 1 retiree taking benefits
- 2030 Projects 2 workers will pay into the system for every 1 retiree taking benefits



Future Uncertainty (healthcare costs)

Total cost of insurance for state of Iowa retirees has significantly increased

	1993
Single	\$171.44
Family	\$450.54

Rates quoted are for retirees under age 65 with Program 3 Plus from Wellmark



Future Uncertainty (healthcare costs)

Total cost of insurance for state of Iowa retirees has significantly increased

	1993	2010
Single	\$171.44	\$ 712.01
Family	\$450.54	\$1,666.12

Rates quoted are for retirees under age 65 with Program 3 Plus from Wellmark



Future uncertainty (inflation)

Loss of purchasing power due to the rise in the cost of living

Cost of
phone call



Cost of a
Stamp



Average cost of
a car



1973

\$.10

\$.08

\$ 3,930

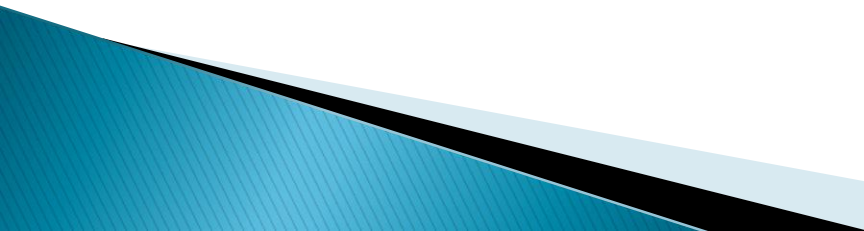
2010

\$.50

\$.44

\$ 27,000

RIC Investment Provider Standards

- ▶ RIC conducts investment provider competitive bids at least every 6 years and performs annual investment reviews
 - ▶ July 2009–RIC completed a bid for 2010–2015
 - ▶ RIC requires minimum standards for active provider
 - –Diversified, competitive fund line-up
 - –Restriction-free and penalty-free investments
 - –Flexible distribution options
 - –24/7 internet & phone access
 - –Investment planning tools
 - –Low costs
- 

Provider status

Active RIC provider

- ▶ An investment provider contracted by DAS to offer investments, open new accounts and receive salary reductions

Inactive RIC provider

- ▶ An investment provider no longer able to receive contributions but able to keep previously contributed assets invested
 - If you have money invested with an inactive provider, you may request an exchange to an active RIC provider at anytime.
 - Some inactive providers may have surrender penalties or restrictions on exchanges

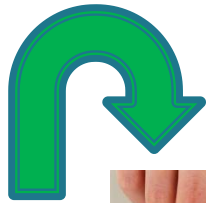
Investor Style

Establishing your investment style will help you decide on one or any combination of investments to meet your savings goals.

	Aggressive	Moderately Aggressive	Moderate	Moderately Conservative	Conservative
Goal	Max growth	High growth	Steady growth	Safety & growth	Safety
Risk tolerance	Substantial	Substantial	Substantial	Limited	None
Possible timeframe	20+ years	10-20 years	10-15 years	Less than 10 years	Less than 5 years
Short-term loss	No problem	No problem	Not sure	Don't like it	Absolutely not!

This chart is for illustrative purposes only and is not investment advice. Please consult with your financial advisor prior to making financial decisions. Generally, the greater an investment's possible reward over time, the greater its level of price volatility, or risk.

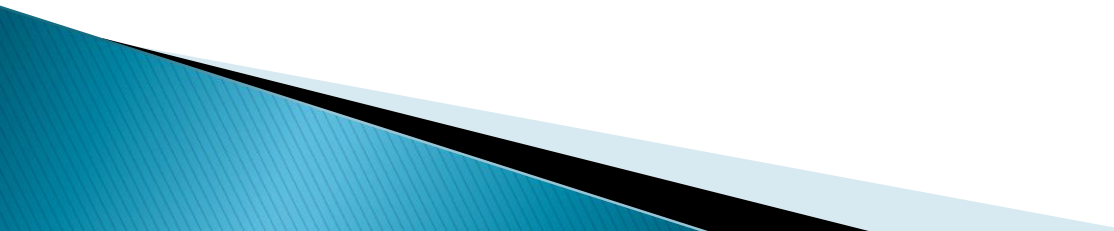
What changes are allowed?



Change options

Your 403b plan is very *flexible*

You may change...

- ▶ Salary reduction amounts
 - ▶ Fund elections for existing assets
 - ▶ Direction of future contributions
 - ▶ Your beneficiary
 - ▶ Various distribution options at termination from employment
 - ▶ Etc.
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Thank you for attending
today's session!

