

Pawtucket School Department 403(b) Annuity Summary Plan

What is a 403(b) Annuity Plan?

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools and certain tax-exempt organizations. This plan is separate from your contributions to the Municipal Retirement System (MERS) or the Employees Retirement System (ERS), if applicable. You are allowed to contribute to both a 403(b) plan, and MERS/ERS, if applicable.

403(b) Individual accounts must include contractual language specifying that the account is non-transferable by the employee, and can be any of the following two types:

- 1) An annuity contract, provided through an insurance company - 403(b)(1).
- 2) A Mutual Fund, where there is a custodial arrangement with a bank, savings and loan, or other approved financial institution – 403(b)(7).

NOTE: The IRS has ruled that contributions made 90 days after 11/16/04 can not be invested in incidental life insurance contracts.

What are the Benefits of Contributing to a 403(b) Plan?

There are two benefits to contributing to a 403(b) plan.

- 1) Contributions to a 403(b) plan are excluded from your income (Tax Deferred). You do not pay taxes on the contributions in the year they are made. You do not pay taxes on the contributions until you begin making withdrawals from the plan, usually after you retire.
- 2) Earnings and gains on amounts in your 403(b) account are not taxed until you withdraw them.

Who can set up a 403(b) Account?

You cannot set up a 403(b) account on your own. You can only set up a 403(b) account through a service provider and your employer. Contributions can only be made through your employer as a tax deferred payroll deduction.

How can contributions be made to a 403(b) Account?

Only the Pawtucket School Department can deposit your contributions into your 403(b) account, these contributions are called Elective Deferrals. These are contributions made under a Salary Reduction Agreement (SRA). The SRA allows the Pawtucket School Department to make tax deferred payroll deductions, from your paycheck, to be contributed directly into a 403(b) account for your benefit. The Pawtucket School Department does not make employer contributions (Non-Elective) to 403(b) accounts, nor does it allow after tax employee contributions to its 403(b) plan.

Includible compensation is generally all salary from the Pawtucket School Department includible in gross income, except for Material Stipend reimbursements, for the employee's most recent one-year period of service ending with or within the taxable year.

Who can contribute to a 403(b) Account?

The Plan is available to all employees, including Part Time employees, Substitute Teachers, Substitute Clerks, and Substitute Teacher Assistants.

How much can I contribute to a 403(b) Plan?

It is the responsibility of your Service Provider to complete the Maximum Amount Contributable (MAC) calculation in your Salary Reduction Agreement and, if applicable, the Catch-Up Provision calculations, to arrive at the maximum amount you may contribute to the plan. The maximum amount contributable may change each calendar year and is subject to IRS adjustments.

Transfer of Interest in a 403(b) Contract

You may transfer all or part of your interest from a 403(b) account to another 403(b) account, and the transfer is tax-free. However, this treatment applies only if the transferred interest is subject to the same or stricter distribution restrictions. This rule applies regardless of whether you are a current employee, former employee, or a beneficiary of a former employee.

Transfers that do not satisfy this rule are plan distributions and are generally taxable as ordinary income.

Tax-Free Rollovers

You can generally roll over tax-free all or any part of a distribution from a 403(b) plan to a traditional IRA or an eligible retirement plan. The most you can roll over is the amount that, except for the rollover, would be taxable. The rollover must be completed by the 60th day following the day on which you receive the distribution.

Rollovers to and from 403(b) plans: Effective for distributions made after 2001, you can roll over, tax free all or any part of a distribution from an eligible retirement plan to a 403(b) plan. Additionally, you can roll over, tax free, all or any part of a distribution from a 403(b) plan to an eligible retirement plan

Eligible Retirement Plans: The following are considered eligible retirement plans.

- 1) Individual retirement arrangements.
- 2) Qualified Plans.
- 3) 403(b) Plans.
- 4) 457 Plans.

For more information on this subject refer to IRS Publication 575.

When can distributions / withdrawals be made from the 403(b) account?

You must receive all, or at least a certain minimum, of your interest accruing after 1986 in the 403(b) plan by April 1 of the calendar year following the later of:

- 1) The calendar year in which you become age 70 ½, or
- 2) The calendar year in which you retire.

Generally, a distribution cannot be made from a 403(b) account until the employee:

- 1) Reaches age 59 ½,
- 2) Has a severance from employment,
- 3) Dies,
- 4) Becomes disabled, or
- 5) In the case of salary reduction contributions, encounters financial hardship.

In most cases, the payments you receive or that are made available to you under your 403(b) account are taxable in full as ordinary income.

Check with your Service Provider to find out whether this rule also applies to pre-1987 accruals. If not, a minimum amount of these accruals must begin to be distributed by the later of the end of the calendar year in which you reach age 75 or April 1 of the calendar year following retirement, whichever is later. For each year thereafter, the minimum distribution must be made by the last day of the year. If you do not receive the required minimum distribution, you are subject to a nondeductible 50% excise tax on the difference between the required minimum distribution and the amount actually distributed. For more information, also refer to IRS Publication 575.

Note: More information may be obtained on 403(b) annuity tax implications from IRS Publication 571 and 575. These may be obtained from your local IRS office or by going to the IRS web site at: http://www.irs.gov/forms_pubs/index.html

Disclaimer: The Pawtucket School Department does not represent the above statements to always be correct and factual; they are subject to modification by the IRS. In order to verify the accuracy of these statements, the Pawtucket School Department recommends that they be verified with your Service Provider, tax accountant, IRS Publications, or an IRS agent.

Adopted by the Pawtucket School Committee on 4/9/02