

What is a TSA/403(b) Plan?

The following overview is not an exhaustive discussion of the rules and regulations for TSA/403(b) Plans. It is prepared to provide some basic information as a service to our employees who are planning to participate in the District's TSA/403(b) Plan.

In Making a TSA/403(b) Plan Available to me, is the District Recommending that I Participate in the Plan?

No! Only you can decide whether or not you should make contributions to the TSA/403(b) Plan. In making the plan *available to you*, the District is simply acknowledging that many individuals want to accumulate retirement savings *in addition to* the income that will result from participation in PERS or STRS. The TSA/403(b) Plan permits you to do that through the saving of pre-tax dollars.

Are the Insurance Companies and Mutual Fund Providers with District Payroll Slots Endorsed by the District?

No! Under California law, the District is required to permit providers that are duly licensed and registered in the State to offer their TSA/403(b) products and investment options to you as long as those providers agree to meet the conditions that contribute to a compliant TSA/403(b) Plan. That means that providers must agree to adhere strictly to both federal and state statutes by signing the District's Hold Harmless Agreement, so that the District and its employees can avoid being penalized for violating those statutes in the event of an IRS audit our TSA/403(b) Plan.

After July 1, 2004, there is an additional requirement under the California Education Code that providers *must register the products that will be offered to District employees with the California State Teachers Retirement System*. The registration process will include detailed information about the product(s) and the companies available through a special website that will be (or has been) announced to you in the form of newsletters from CalSTRS, or included in the statements that are received from the CalPERS and CalSTRS System(s). You are encouraged to visit the Registry website for detailed information about the providers(s) and the products that are available through the registered companies. In no event does the registration requirement imply endorsement of any company or product by the CalSTRS or this District.

How Does a TSA/403(b) Plan Work?

You may elect to reduce your salary and direct those salary reduction contributions to your selected provider(s). Salary reduction contributions are not subject to federal or state income tax withholding but are subject to payroll taxes. For covered employees, this will include Social Security and Medicare taxes.

Any interest or market growth on the account(s) you select will also be tax-deferred. When you withdraw money from your account(s), it is subject to ordinary federal and state income tax. If your withdrawals are made prior to age 59 ½ there may also be an IRS penalty tax of 10% and a California penalty tax of 2.5%.

Most TSA/403(b) account values have withdrawal *restrictions* prior to age 59 ½ because the Tax Code is structured to discourage premature use of the values. Essentially, the amounts that you accumulate are intended to be used for your retirement needs.

Many TSA/403(b) accounts provide loan provisions intended for your use if emergencies arise. Loans, under the Code and regulations, are required to be paid back, usually over a 5-year period. Loans should be utilized with caution because of the income tax consequences and potential penalties for failure to make timely payments on those loans.

Where Can My Contributions Go?

You can direct your contributions to a provider(s) approved by the District that offer *either* annuities, or to *custodial accounts* that invest in mutual funds, or both. *You may not* purchase individual stocks or bonds or bank/credit union deposit accounts.

Annuities

Annuities are offered only through life insurance companies. Annuities provide for an accumulation phase, then at retirement annuities offer lifetime income payout options; however, participants are not *required to* choose life income options. Some may prefer to utilize annuities for systematic withdrawals, or lump sum needs after retirement.

Annuities fall into three general categories:

- ◆ A traditional fixed annuity provides stable account values without stock market fluctuation, with an underlying guaranteed interest rate, and an additional interest rate if market rates exceed the guaranteed rate. Most fixed annuities do not have front-end charges, but do have withdrawal surrender charges for a period of time.
- ◆ Variable Annuities will generally include a traditional fixed account, and a variety of stock and bond options with a variety of money managers. In a variable annuity, participants can generally direct their contributions among their selection of the available options and can transfer amounts already in the account between the stock and bond options. The stock and bond options, because they are similar to mutual funds, may increase or decrease in value depending on the performance of the stocks and/or bonds included in the option. Variable Annuities will generally have an annual fixed dollar fee and fees for mortality and expense charges. Mortality fees will cover guaranteed death benefits, as well as money management fees for the stock and bond options.

- ◆ Equity Index Annuities are traditional fixed annuities that will generally offer an underlying guaranteed interest rate with excess earnings based upon a portion of a stock market index such as the Standard & Poor's 500, or the Dow Jones Industrial Average. Generally, Equity Index Annuities do not have front-end charges, however, they do have surrender charges for withdrawals.

Product features, including costs and fees as well as surrender charges, vary and the selection process should include comparisons of costs and surrender charges.

Custodial Accounts

A custodial account permits contributions to be invested in domestically traded retail mutual funds (but not individual stocks and bonds). Usually, the mutual funds offered within the custodial account represent a cross-section of the funds available in a specific fund family, and you are permitted to divide your contributions among the available funds within that custodial account and to transfer account values among those funds. Your account value will increase or decrease subject to the market value of the stock of the individual companies in which the fund invests, or the types of bonds and other fixed income securities included in those mutual funds.

Costs and fees will vary depending on the type of shares purchased and should be carefully compared.

Contribution Limits

Your contribution limits are outlined in the Instructions for Calculations as well as in the Worksheets that are a part of this package. It is important to stay within the eligible limits because of the potential penalties and tax consequences of excess contributions and, in certain situations, the possible *double taxation of an excess deferral*.

The District's rules for calculation requirements are designed to help you avoid excess contributions.

Professional Advice

Remember that TSA/403(b) providers are not all the same. Conditions, products, and investment choices vary widely. You may wish to seek the advice of financial advisors, including the representatives of those providers, concerning calculations, regulations, and product/investment comparisons. You should always make the choices that meet your own personal risk tolerance levels, and your own specific needs and goals.