

A Brief Intro to 403b Plans

As a public employee, you have the right under IRS regulations to open a 403b plan, sometimes known as a Tax Deferred Annuity or Tax Sheltered Annuity. With these plans, you can have pre-tax dollars withheld from your salary and invested in a choice of options. The money accumulates free of income tax until it is withdrawn. The money is subject to a penalty if withdrawn prior to retirement or age 59½, whichever comes first. Some plans, however, let you borrow against your savings at a low interest rate.

The IRS caps the amount of money you can deposit in a 403b plan each year. The cap in 2008 is \$15,500 unless you are at least 50, when it rises to \$20,500. Employer contributions do not count towards your cap, but there is a combined employer-employee contribution limit of \$46,000 per year in 2008. There is also a “catch-up” contribution for employees who have worked at least 15 years and did not previously contribute the maximum amount.

These plans are different from the private sector’s 401k plans. The 401(k) is a tax-deferred retirement plan for private sector employees, while the 403(b) is a tax-deferred retirement plan for employees of educational institutions and certain non-profit organizations. A 401k plan is set up by the employer, which has fiduciary responsibility for the plan, while a 403b plan is established between the participant and the providing company. The employer provides no oversight of the 403b plan and cannot give you advice about plan options.

All plans charge fees, which commonly range from as low as 0.2% annually to 3% or more. Research your potential choices carefully to see what fees are being charged. Typically, a plan has two kinds of expenses: administrative costs and investment management fees. Investment management fees are usually charged by the investment company as a percentage of the total assets under management — the total value of your account. These fees range from about 0.2% on the low end to 3% on the high end. For more information on fees, see the website <http://www.403bwise.com/wisemoves/fees.html>.

Most 403b plans are annuity plans, which are basically insurance policies. A percentage of the fee paid goes towards guaranteeing an income stream from your money when you retire. Some 403b plans are taken out directly through mutual fund companies and are called 403b(7) plans. Fees are generally lower in these plans, but you usually can’t borrow against them.

You can go to the OMNI website (www.omni403b.com) to find a list of plan participants for Byram Hills, as well as an informative FAQ.

In the past, NYSUT endorsed plans offered by ING called Opportunity Plus and Opportunity Independence. Opportunity Plus is a traditional annuity plan and Opportunity Independence is a 403b(7). NYSUT is currently having an independent agency conduct a review of its arrangement with ING to determine whether these plans or others best serve teachers’ needs. More information should be available soon.

Many representatives of full service (annuity) 403b plans will come to school to meet with teachers who schedule appointments. These meetings must take place after the school day ends. Remember that you have many options regarding these plans, since the list currently numbers 21 participating companies. The district does not limit your choice the way most private sector 401k plans do. The lowest cost 403b(7) plans, however, are from mutual fund families that do not have sales representatives available to meet with you on a personal basis. They will often give help over the phone, though.

If you are in Groups 1, 2, or 3 under the “Attendance Plan” (Contract, page), you will need to open an ING 403b plan in order to receive the payment for your unused sick days at retirement. (This limitation to ING may be removed in the near future, however.) The payment for unused sick days cannot be made directly to a teacher in Byram Hills. It must be deposited into the teacher’s 403b plan, which is financially beneficial. The teacher permanently saves the FICA tax and Medicare tax that must be withheld from a direct payment. Income tax is not paid until the money is withdrawn, so it can grow tax-free until that time. The money can be withdrawn at any time free of penalties once the teacher is retired. The government sets limits on the annual contributions made by the employee to a 403b plan, but allows employer contributions in excess of that figure. A teacher who goes over the maximum allowable contribution by both employee and employer in the year of retirement will have the remainder paid on January 1st in the following year, unless the teacher can use a 5 year FAS (final average salary), in which case the remainder will be paid by check outside the 403b.

Payments by the district for the new annual “Attendance Plan,” which goes into effect for all tenured teachers in September, 2008, can be put into any 403b plan the teacher is currently using.

For more information about 403b plans in general, the website <http://www.403bwise.com/faqs/index.html>, started by two former teachers, can be helpful.

For information about the Byram Hills plan, go to <http://www.omni403b.com>.