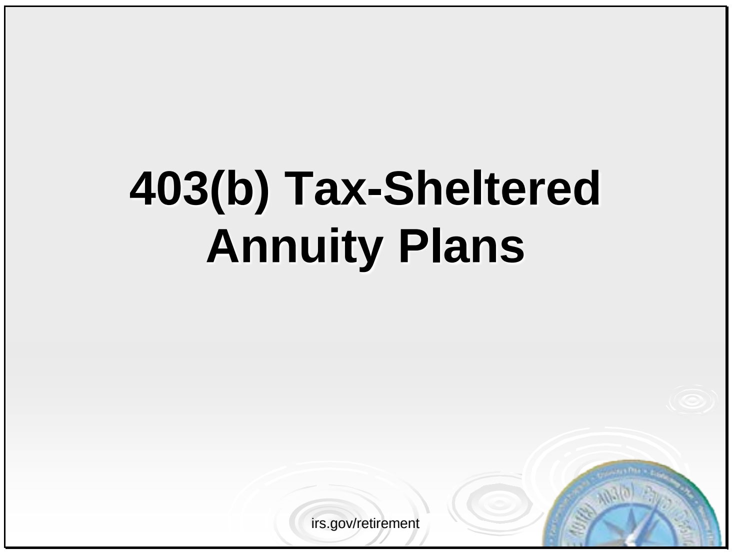
The following is for use by assistive readers and users who prefer a text version of this course.

Slide 1



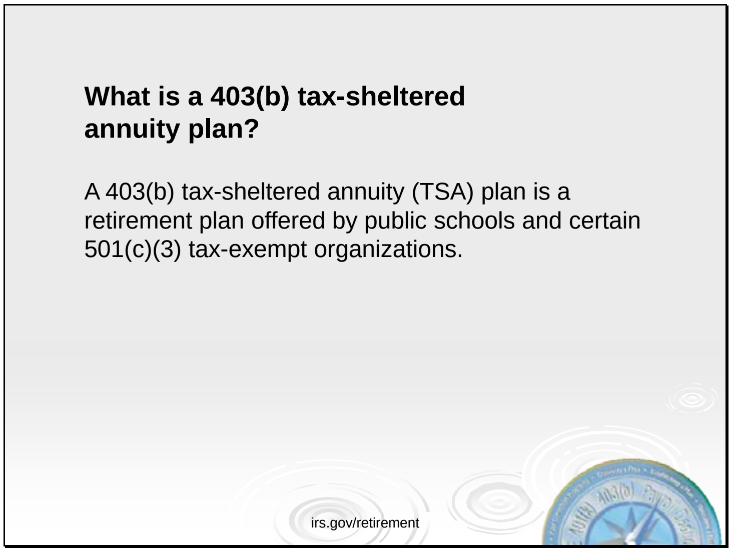
This mini-course on 403(b) Tax-Sheltered Annuity Plans is presented as a conversation between a new employee and a Human Resources representative.

Meet Pam, a teacher who is starting her new job today.

As part of her new employee orientation, Doug, from the school's HR department, is explaining Pam's employee benefits.

Let's listen in as Doug explains their employer's 403(b) Tax-Sheltered Annuity Plan to Pam.

Slide 2

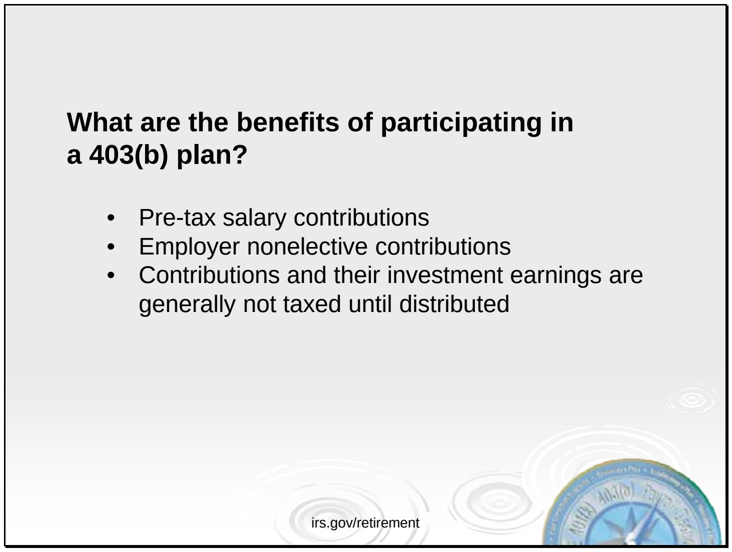


DOUG: Now, I want to explain how our retirement plan works. Here, we have a 403(b) tax-sheltered annuity plan for our employees.

PAM: What is a 403(b) tax-sheltered annuity plan?

DOUG: It’s a retirement plan that can be offered by public schools, like ours, and certain tax-exempt 501(c)(3) organizations.

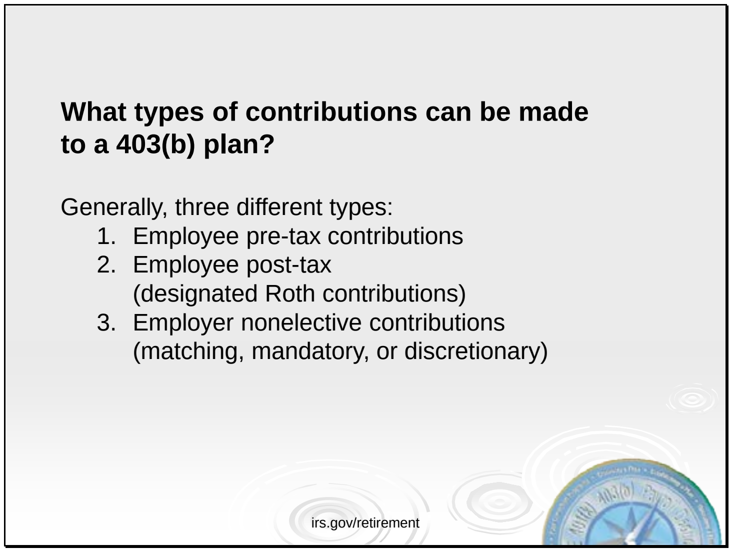
Slide 3



PAM: So, what are the benefits of participating in this 403(b) plan? And can you tell me why should I join?

DOUG: Well Pam, a 403(b) plan would allow you to contribute some of your salary to the plan. An employer, like ours, may also contribute to the plan for you. Your pre-tax salary contributions and the employer’s nonelective contributions, along with any money that’s earned on them, are generally not taxed by the federal government or most state governments until they’re distributed.

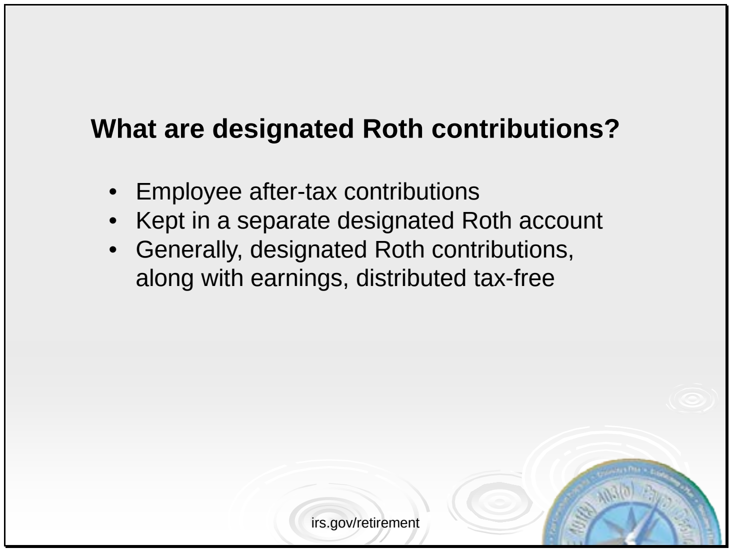
Slide 4



PAM: What kind of contributions can be made to this plan?

DOUG: Contributions to a 403(b) plan can generally be of three different types.
First, you can make contributions from your pre-tax salary.
Second, since our plan allows this, you can also make contributions from your after-tax salary. These are called designated Roth contributions.
Finally, our employer makes nonelective contributions to the plan for each employee.

Slide 5



PAM: Designated Roth contributions, what are those?

DOUG: Designated Roth contributions are amounts that you contribute to the plan from your after-tax salary. These contributions are kept for you in an account that is separate from any of your pre-tax salary contributions and employer nonelective contributions. This account is called a designated Roth account. These contributions also grow tax-free in the plan. You don't pay income tax on them or their earnings when they are distributed to you when you retire, because you already paid the income taxes on those dollars.

Slide 6

What is the maximum amount an employee can contribute by salary reduction (or a designated Roth contribution) to a 403(b) plan?

Generally, the lesser of:

1. 100% of the employee's includible compensation; or
2. $17,500 in 2014 ($23,000 if age 50+)

Increased limits under a special 15-year rule or age 50+ catch-up contributions

irs.gov/retirement

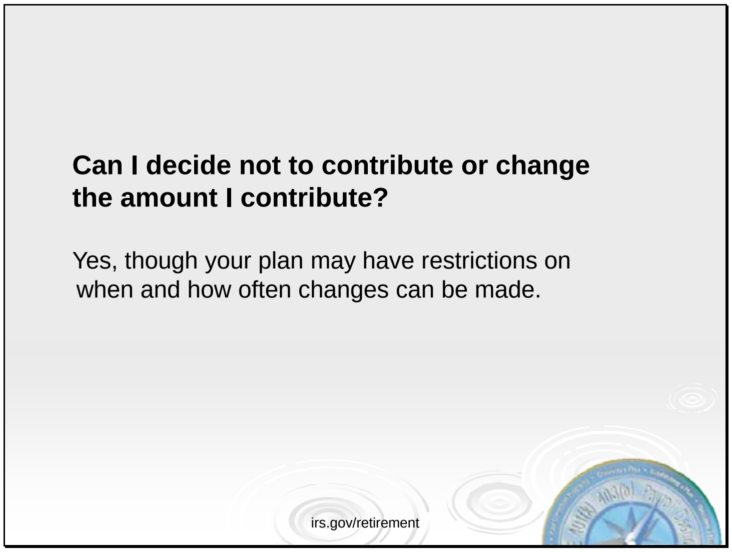
PAM: So, what is the maximum amount that I can contribute?

DOUG: Generally, the maximum amount that you can contribute is the lesser of 100% of your includible compensation or $17,500 in 2014. By the way, this $17,500 dollar limit changes annually.

Before you ask, "includible compensation" generally means the amount that you get from the employer that must be included in your income.

Now, if the plan provides, people who have at least 15 years of service with the employer or who are age 50 or older can make some additional contributions. Our plan allows these additional contributions.

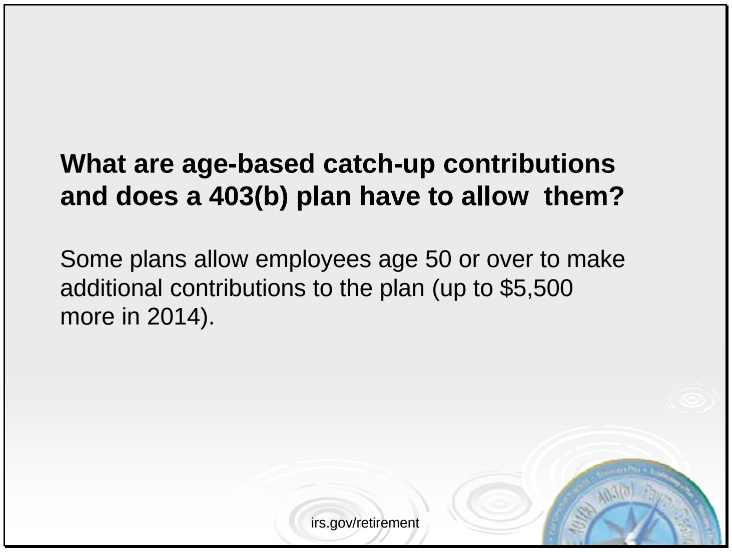
Slide 7



PAM: What if I decide not to contribute anything or if I want to change the amount I contribute; can I do that?

DOUG: You can initially decide not to make any contributions to the plan or indicate you want to contribute a certain amount. If you change your mind later on, you can start contributing or change the amount you want to contribute to the plan up to the annual limit. For example, initially, you can indicate you don’t want to contribute anything on your salary deferral election form. If you do change your mind down the road and want to start contributing, you’ll need to notify us by completing a new salary deferral election form. If you want to change the amount you contribute, provide us with a new salary deferral form. Each employer sets the rules on when and how often this can be done. Our plan allows one change per year and the change becomes effective at the end of the current quarter (every 3 months).

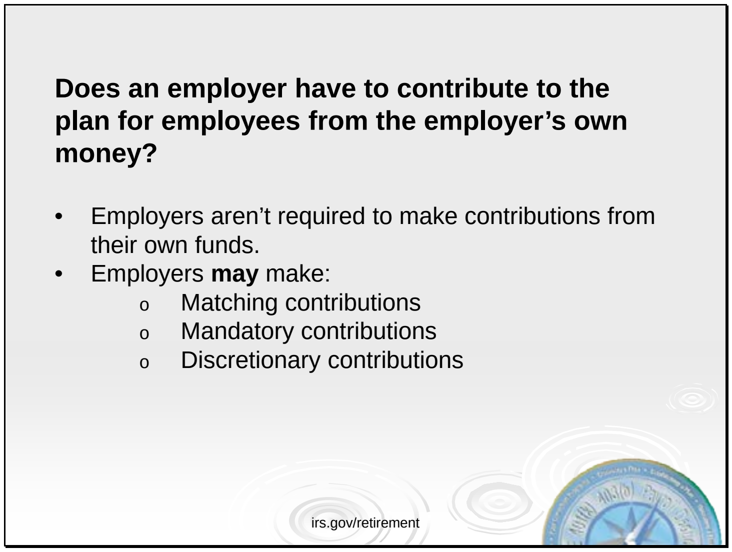
Slide 8



PAM: OK, you mentioned age-based catch-up contributions earlier. What are these? And, does a 403(b) plan have to allow employees to make catch-up contributions?

DOUG: Age-based catch-up contributions are an additional amount that employees age 50 or over can make to the plan. The amount of the catch-up contributions usually changes every year. In 2014, this amount is $5,500. This means that the maximum an employee who is age 50 or over can contribute to the plan is the lesser of 100% of his or her includible compensation or $23,000 in 2014; $17,500 as a regular contribution and another $5,500 as a catch-up contribution. A plan doesn’t have to allow age-based catch-up contributions but luckily our plan does!

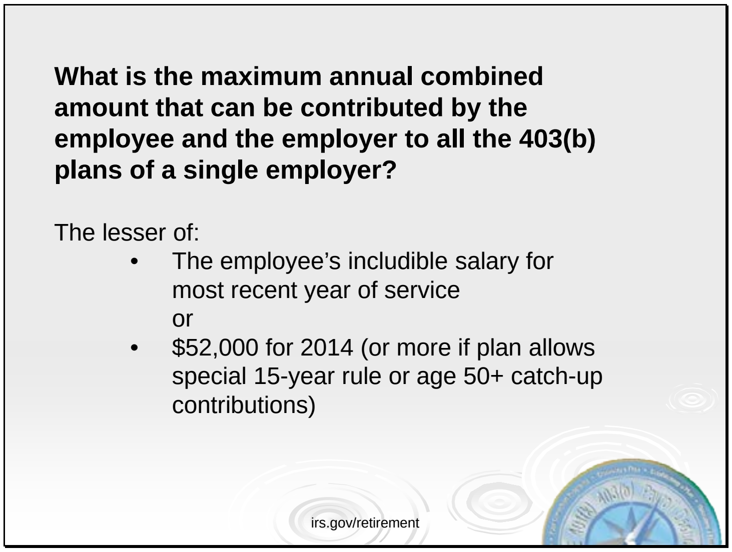
Slide 9



PAM: So does an employer also have to contribute to the plan for me from their own funds?

DOUG: No, an employer isn't required to make any nonelective contributions from their funds for employees to a 403(b) plan. The employer can, if they choose, make a matching contribution which means they match some percentage of how much you choose to contribute to the plan. Our employer doesn't make a matching contribution but does make a mandatory contribution to the plan of 3% of your includible salary. This means that 3% of your includible salary will be contributed to the plan for you on an annual basis regardless of whether you make any contributions to the plan. Since this isn't a discretionary contribution, our employer must make this 3% contribution every year rather than only in the years they choose.

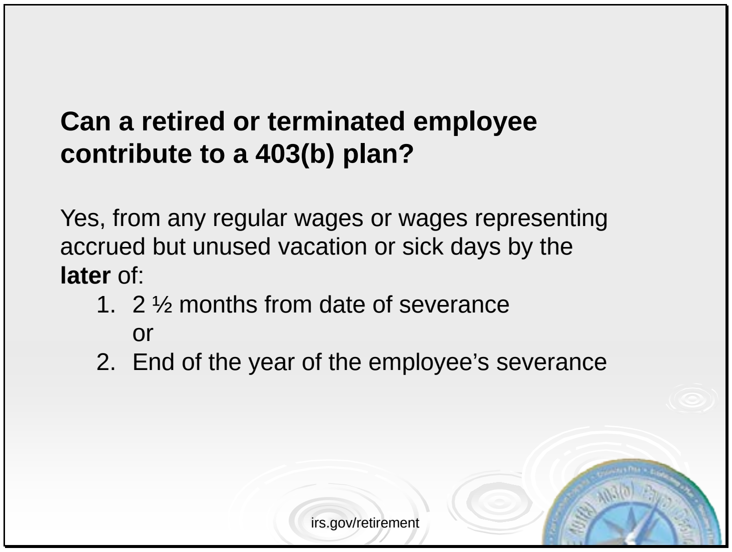
Slide 10



PAM: Wow, this is sounding better and better. What is the maximum annual amount that can be added to my 403(b) plan account?

DOUG: Well, we already talked about the maximum you can contribute. Now since our employer only maintains one 403(b) plan, the maximum that both our employer and you, the employee, can contribute annually to the plan is the lesser of $52,000 for 2014 or your includible compensation for your most recent year of service.

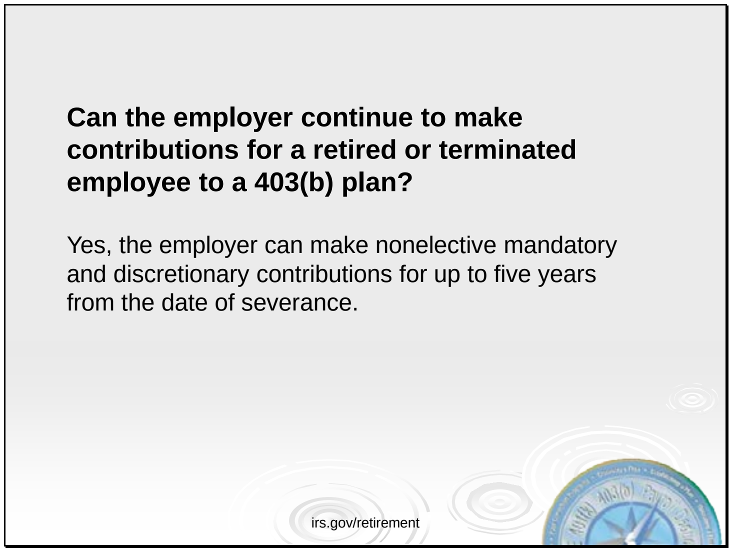
Slide 11



PAM: What if I'm terminated or after I retire, can I continue to make contributions to the 403(b) plan?

DOUG: Yes, but only from any wages that haven't been paid to you or from any wages that are for accrued but unused vacation or sick days. Also, you can only make contributions by the later of 2 ½ months from when you leave or by the end of the year in which you leave.

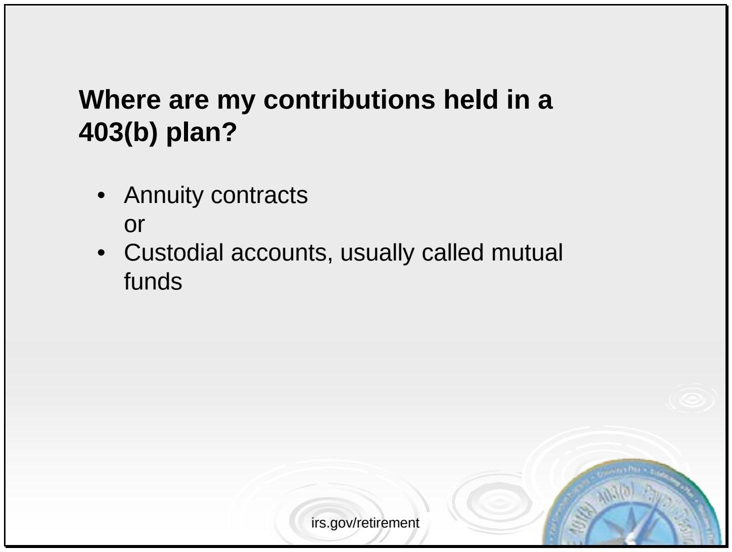
Slide 12



PAM: Okay, if I’m terminated or after I retire, can the employer still make nonelective contributions for me to the plan?

DOUG: Yes, in a 403(b) plan, an employer can only make nonelective mandatory and discretionary contributions, but not matching contributions, and can make these contributions for up to five years from when you leave. However, the plan doesn’t have to provide for these and our plan doesn’t.

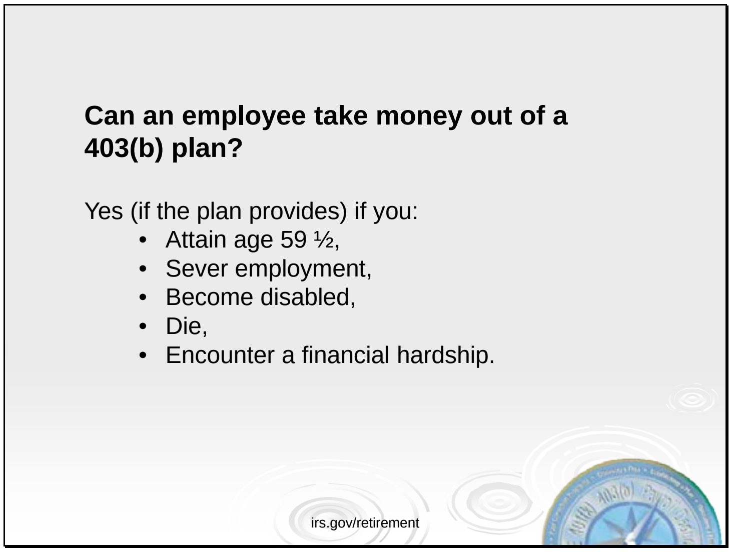
Slide 13



PAM: Where is the money I have in the plan held?

DOUG: You can choose to have the money held in either an annuity contract or in a custodial account. Custodial accounts are usually called mutual funds. I'll provide you with the paperwork you should read before making your decision.

Slide 14



PAM: What if I need to access this money before I retire, can I do that?

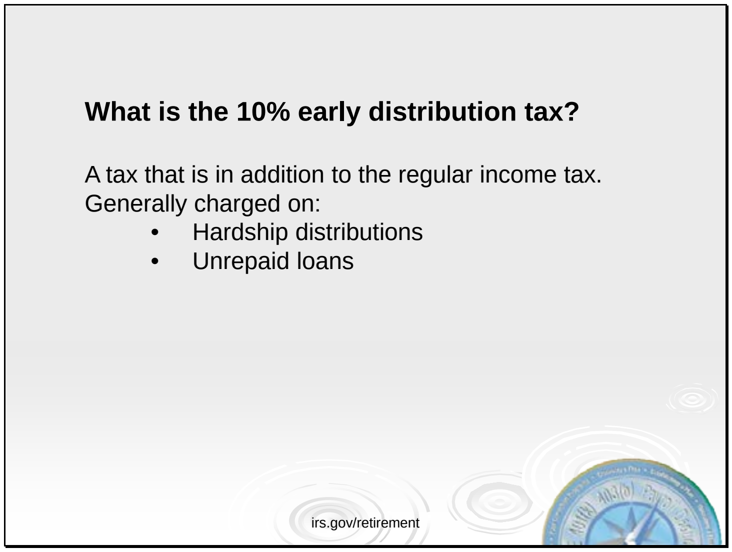
DOUG: Yes, 403(b) plans may allow you to withdraw money from the plan before you retire when you:

- reach the age of 59 ½;
- sever employment;
- become disabled;
- die; or
- encounter a financial hardship

Now you'll have to pay taxes on the amounts you withdraw that aren't designated Roth contributions. Also, in some cases, like a financial hardship distribution, you'll likely have to pay an additional 10% early distribution tax on any amount.

Another way you can access the money in the plan before you retire is through loans from the plan.

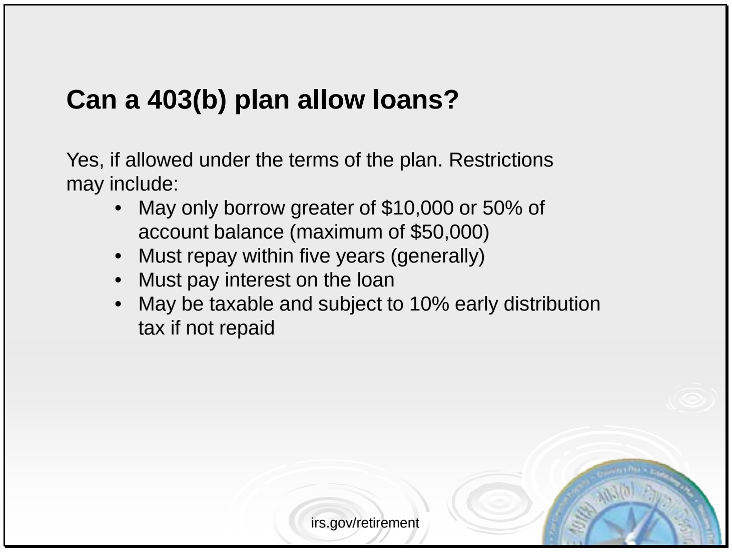
Slide 15



PAM: What is this 10% early distribution tax?

DOUG: It's an additional tax charged if you withdraw money from the 403(b) plan before you reach the age of 59 ½. So, for example, if you take a financial hardship distribution, you'll have to pay income tax and this additional 10% early distribution tax on the taxable amount of the distribution. Another example is if you take a loan from the plan and don't repay that loan, the unpaid loan amount is generally considered taxable income and may be subject to the additional 10% early distribution tax.

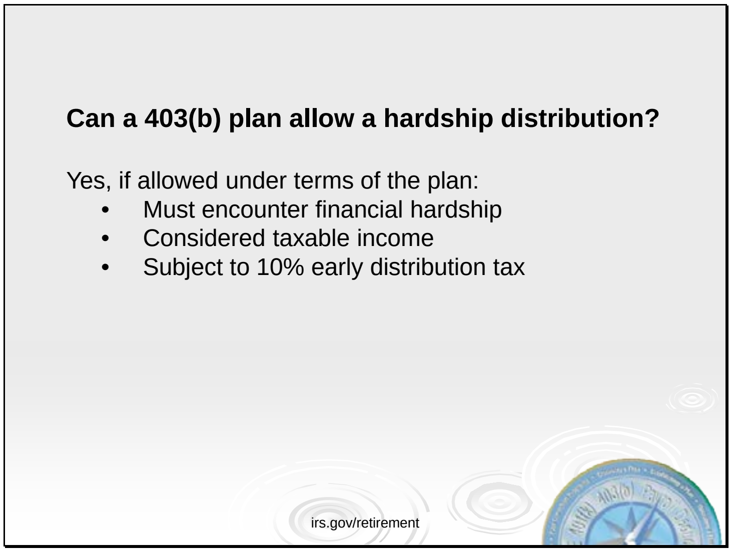
Slide 16



PAM: Okay, so I may be able to borrow the money I have in the plan?

DOUG: Yes, some 403(b) plans, like ours, allow you to borrow from the money you have in the plan. There are some restrictions. For example, you can only borrow the greater of $10,000 or 50% of what you have in the plan, but in no case more than $50,000. You have to pay interest on the amount borrowed, and most loans have to be repaid within five years. If the loan isn't repaid, it's treated like you took the money out early from the plan and you may have to pay income taxes on the money and maybe even that 10% additional early distribution tax I mentioned earlier.

Slide 17



PAM: Now what is a hardship distribution?

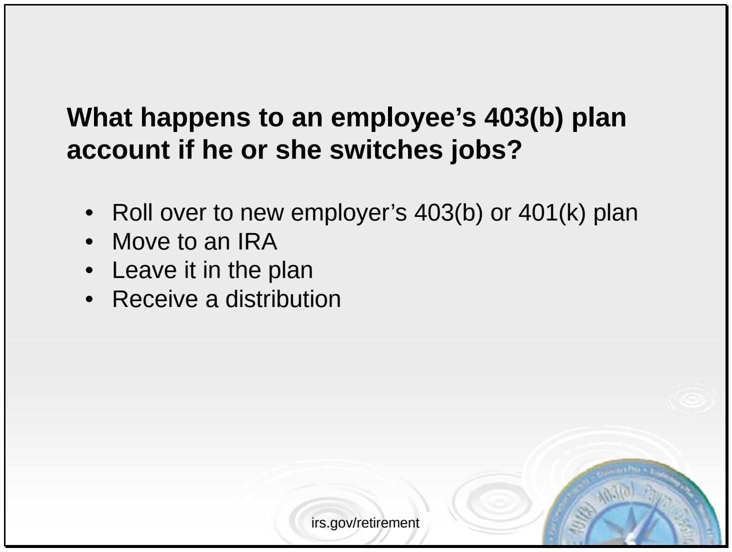
DOUG: Some 403(b) plans, like ours, allow you to withdraw funds from a 403(b) if you experience a financial hardship and have no other resources available.

A hardship distribution may generally be made for:

- unreimbursed medical expenses for you, your spouse, or your dependents;
- making a down payment on the purchase of a primary residence for yourself; or
- paying tuition and fees for higher education needs.

Now a hardship distribution is taxable income and you also have to pay that additional 10% early distribution tax I talked about earlier on the amount withdrawn.

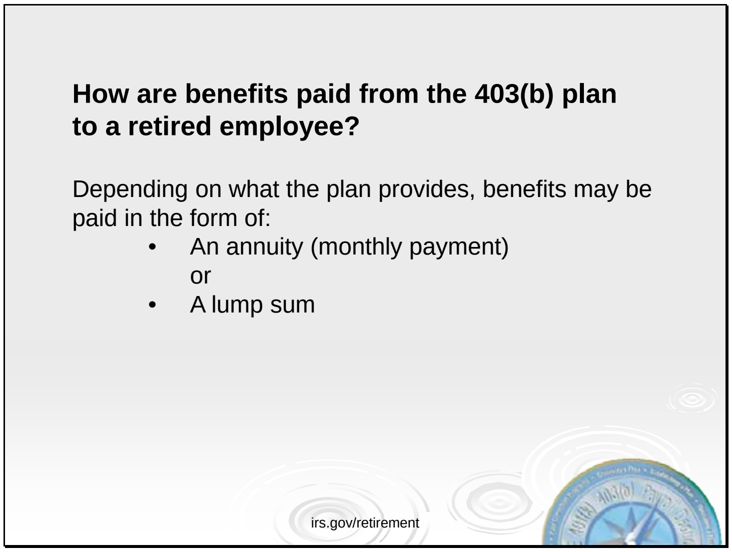
Slide 18



PAM: What happens to the money I've put into the plan if I switch jobs?

DOUG: If you switch jobs, you have several options: you can roll over the money into your new employer's 403(b) or 401(k) plan; roll it into your IRA; leave it where it is, especially if you like your investment choices; or take a lump sum payment. But if you take a lump sum before you turn 55, you'll not only have to pay income taxes on the amount but may also have to pay an additional 10% early distribution tax.

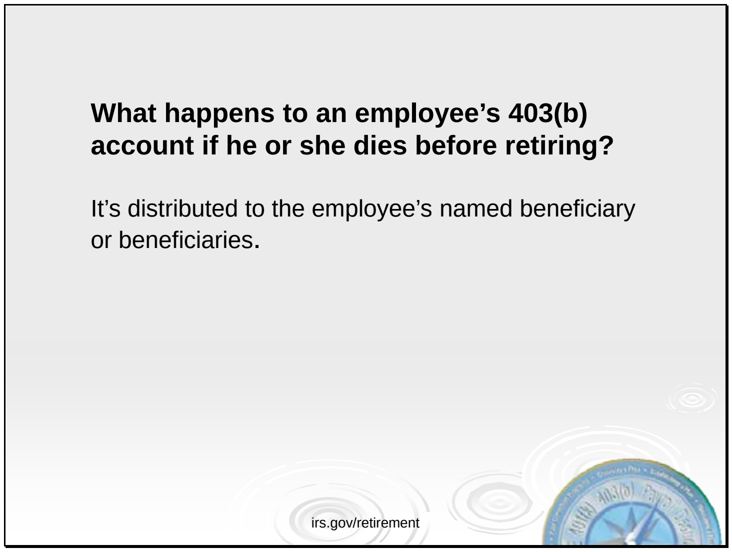
Slide 19



PAM: Now I keep putting money into the plan and then I retire. How are my benefits paid to me when I retire?

DOUG: When you retire, you have a choice under our plan on how benefits are paid to you. This choice is affected by the type of investment you choose. For example, you can choose to have benefits paid to you in the form of an annuity. This means you get a monthly payment of a certain amount for a period that you choose. This period can be for the term of your life or the joint lives of you and your beneficiary. Alternatively, you can have the benefits paid to you in a lump sum.

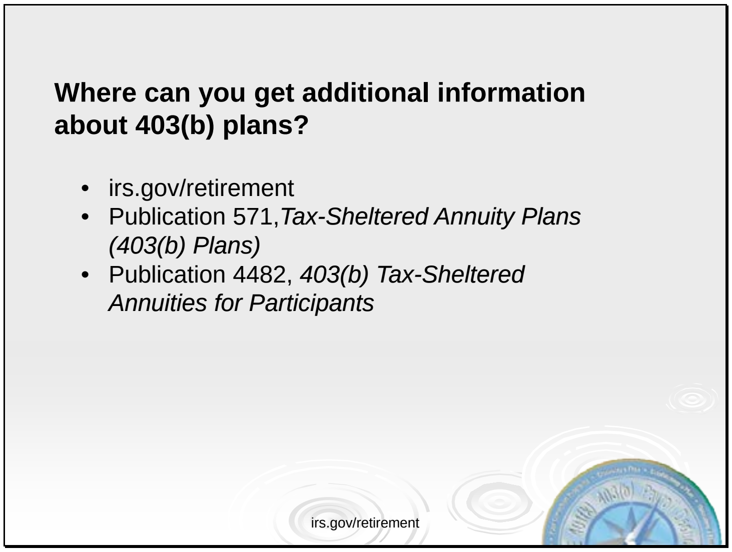
Slide 20



PAM: What happens to the amount I have in the plan if I should pass away before I retire?

DOUG: You’ll need to fill out a beneficiary designation form when you start participating in the plan. You can name one or multiple beneficiaries, and they inherit any amount you have in the plan.

Slide 21



PAM: Thanks Doug, you've done a wonderful job explaining all this to me. But what if I have any follow-up questions? Where can I get more information about 403(b) plans?

DOUG: The IRS has a great website, www.irs.gov/retirement. You can go to their site, then look on the left side of the screen for Types of Retirement Plans, click on this and you'll see a link for 403(b) plans.

The IRS also puts out several publications specifically about 403(b) plans. Publication 571 and Publication 4482 come to mind.

Of course, you can always come back and ask me any additional questions you may have about our plan.