

# Think you need to save more for retirement? Do you see an income gap looming at retirement?

## Quick Facts to Help You Decide if You Should Enroll in a Supplemental Retirement Plan

### What is a supplemental retirement plan?

The federal government allows MUS to offer two tax-deferred compensation plans, a 403(b) plan and a 457(b) plan, to help you save more towards your retirement. This is above and beyond what you and your employer are contributing toward your retirement through State-mandated contributions to MPERA, TRS, or ORP (Tiaa-Cref). (Social Security contributions are also mandatory, by federal law.) See IRS publications #571 and #4406 at [www.irs.gov](http://www.irs.gov) for technical information.

### Who can enroll in a 403(b) and/or a 457(b)?

Any MUS employee who is required to contribute to a mandatory plan, or would be if a half-time employee or more, or would be if not already retired, can enroll in either or both plans. FVCC employees have their own 403(b) options and are not included in the MUS 403(b) plan, but may participate in the State of MT 457(b) plan.

### How much can I defer (invest without paying federal or state taxes until withdrawn)?

The limits are set by the IRS each year. For 2009, the maximum deferral is the lesser of \$16,500 or 100% of your salary, minus Social Security & Medicare taxes and mandatory retirement payments. You may also be eligible for “catch up contributions” based upon your age and/or length of service to your employer. You may contribute to a 403(b) account, a 457(b) account, or both if you have enough discretionary income. 403(b) contributions have to be coordinated with certain other retirement contributions when calculating the annual contribution limit, while 457(b) contributions do not require any coordination. MUS employers cannot contribute to your 403(b) or 457(b) account (limited exceptions at FVCC, which is not part of the MUS 403(b) plan).

### How do I get started?

You'll need to contact your payroll office and also one of the account providers listed at [www.mus.edu/choices/tsa.asp](http://www.mus.edu/choices/tsa.asp). Montana rules for its 457(b) plan require that your election for a deferral be in place with your payroll office one full calendar month before the deduction commences. 403(b) deductions are set up at the discretion of your payroll office, but you'll need to allow at least two weeks prior to a payroll to get everything set up.

### What happens to my money once it is deducted from my paycheck?

You will have already set up investment accounts for your money to be deposited in, with a 403(b) or 457(b) provider. Generally, these accounts are stock, bond, mutual fund, and/or money market-type accounts with variable interest rates. Some providers have guaranteed or flat-rate investments available. You can see which companies are available for investments at the MUS website, [www.mus.edu/choices/tsa.asp](http://www.mus.edu/choices/tsa.asp). Your investments will be deducted from your reportable income on your paystub and on your W-2 for tax reporting.

### Can I stop the deductions?

Yes, you can, with reasonable notice to your payroll office for a 403(b) plan or to the 457(b) provider.

### Can I get my money out before retirement?

You can, but there are strings attached, depending on the circumstances. Usually, you will owe not only ordinary taxes (withheld at 20%, but you may owe more at tax time), but also a 10% penalty for early withdrawal (the penalty doesn't apply to a 457(b)). The government wants you to be sincere in your efforts toward retirement savings! If you leave your job, even if not due to retirement, you can roll your money into another qualified retirement plan, such as an IRA plan or another employer's 401(k) plan, without paying taxes or penalties.

### What if I have a financial emergency?

The MUS 403(b) plan allows loans (repayable with interest paid by you to your investment account) and hardship withdrawals under very specific, unforeseeable circumstances. Such hardships withdrawals are subject to taxes, but not a penalty. Loans usually have to be repaid within five years, unless for a home which allows ten years.

Under State of MT rules, the 457(b) is eligible for certain hardship withdrawals, but no loans.

### When can I withdraw my money with no strings attached?

This question assumes you don't consider paying state and federal taxes as an attached string. In almost all cases, you will owe taxes on any money you withdraw for the year you take it in, unless a qualified rollover is made.

With a 403(b) plan, you can withdraw your money when you retire or when you turn 59½ (even if you are still working), and you must start taking withdrawals by age 70½. Your designated beneficiaries get your money if you die, but with a different set of rules. If you leave your job, you may withdraw the money at any age with taxes and possibly penalties due (unless rolled over).

The rules for 457(b) are similar, except that you can't take withdrawals while you are still working for an MUS or State of MT employer unless you are age 70½.

### What's the catch?

The nice thing about both these supplemental retirement plans is that there really aren't any catches. You do have to follow the rules, and both your employer and your investment provider will see to that. There are some relatively small fees and costs associated with the investment side of the plans, and that's it. The federal government really wants all employees to save more toward their retirement. It recognizes that Social Security is not enough to retire on, and in many cases, neither are standard pension funds. That's where 403(b) and 457(b) plans can help – to bridge the retirement income gap.