

Rockford Public Schools 403(b) Plan

Section 403(b) of the Internal Revenue Code regulates the Rockford Public Schools 403(b) Plan. A 403(b) retirement plan is similar to a 401(k) plan. Both plans allow participants to set aside additional money for retirement. However, the biggest difference between the two plans is that a 401(k) covers private-sector workers, and a 403(b) plan is designed for employees of public schools and certain tax-exempt organizations.

403(b) Plan in Brief

- As a participant in the Rockford Public Schools 403(b) Plan, you have the option of contributing money to either a traditional (pre-tax) and/or Roth (post-tax) 403(b) plan.
- Participation in this plan is strictly voluntary and does not reduce any of your other benefits based on full salary such as retirement, life insurance, disability or survivor benefits.
- Allows you the opportunity to accumulate additional retirement funds, as a supplement to your Teacher's Retirement System (TRS) or Illinois Municipal Retirement Fund (IMRF) pension.
- Provides you with the ability to contribute a flat dollar amount, determined by you, which is deducted from your paycheck. The amount of income that can be contributed is subject to IRS annual limitations.
- You may begin participating in the 403(b) plan at any time, as well as stop participation at any time.
- A 403(b) account is an individual account with no vesting schedule - you decide how much to contribute and how to invest your contributions.

Eligibility

To be eligible to participate in the Rockford Public Schools 403(b) Plan, you must currently receive compensation from the District. Contributions to your 403(b) account will be deducted from your pay while the plan is effective. **Note:** You do not need to be eligible for insurance benefits in order to participate in the 403(b) plan.

Why Participate in the 403(b) Plan?

Many retirement experts suggest that a retirement income level of at least 70% of your final salary is a good target for people starting to save for retirement. Many people who retire at age 65 could live 20 or more years in retirement. Proper planning for those years is essential to ensuring that you have the income you need. Depending on your personal goals, TRS or IMRF pensions alone may not meet your retirement objectives. The District has made the 403(b) plan available to you if you choose to save additional money for your retirement.

Traditional (Pre-Tax) vs. Roth (Post-tax) Contributions

You may choose to contribute on a pre-tax basis to the traditional 403(b), on an after-tax basis to the Roth 403(b), or a combination of the two.

Participating in the traditional pre-tax 403(b) option gives you the opportunity to accumulate additional retirement savings with the following tax advantages:

- The money you save through the traditional plan is automatically deducted from your pay before taxes are calculated on your income. In other words, your taxable income is lowered by the amount you save through the plan.
- Because you pay Federal taxes on your investments during your retirement years, when your income is presumed to be lower, you are able to accumulate more wealth by saving on a pretax rather than an after-tax basis.
- Another valuable tax advantage is that you pay no taxes on the investment earnings in your 403(b) account until the year you begin making withdrawals at retirement. At that time, contributions and earnings are subject to Federal taxes.

Your participation in the Roth 403(b) option allows you the opportunity to accumulate additional retirement savings with the following provisions:

- The money you save through the Roth plan is automatically deducted from your pay on an after-tax basis and is included in current taxable income.
- Although you pay taxes up front on the Roth contributions, all earnings are tax-free, if they are part of a qualified distribution. A qualified distribution is generally one that is made five years after the year of the first Roth contribution and when a participant attains age 59½, has a severance from employment, dies, or becomes disabled.
- Retirement assets from a Roth account can be transferred tax-free to your beneficiaries.

Many retirement experts suggest that the following individuals may benefit from a Roth 403(b):

- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings.
- Highly compensated individuals who are not eligible for Roth IRAs, but who want a pool of tax-free money to draw on in retirement.
- Individuals who seek to maximize flexibility in drawing their retirement benefits.
- Individuals who wish to diversify against potential tax risks associated with pre-tax savings.
- Employees who want to leave tax-free money to their heirs.

Please note: You may wish to consult with a tax or financial advisor to determine the best option for your individual situation.

To start your 403(b) contributions you must open an account with one of our approved 403(b) investment providers and complete the 403(b) Salary Reduction Form or Roth 403(b) Salary Reduction Agreement Form.

Limits on Contributions

Contributions are by payroll deduction only. The maximum that you can contribute to the 403(b) plan is limited each year by Internal Revenue Code Section 402(g). Please work with your financial advisor to determine the limit for each year. **Note:** Employees who are age 50 and over may be eligible to contribute more than the annual limit by taking advantage of the Catch-Up Provisions.

Catch-Up Provisions

In the 403(b) plan, there are two options for "catch-up" as you near retirement.

1. Employees who are age 50 and over may contribute with a higher annual limit.
2. Employees who have worked for the District for 15 years or more full-time, and have not taken advantage of all their tax-deferral opportunities in the past, may qualify for a special catch-up provision. This provision allows an additional amount (up to \$3,000 annually) to be contributed each year. **Note:** IRS regulations state that plan participants who are eligible for both catch-up provisions must first exhaust the 15-year service catch-up before making an age 50 catch-up contribution.

Investment Vendor Choices

You may choose to invest with one of 19 approved 403(b) investment providers. See this listing for details on how to contact each company. You may also review their web sites. For more information concerning what products each provider offers, see this listing of company offerings. **Note:** You are responsible for selecting an investment provider and for selecting and monitoring your investments with that provider.

More Information to Know

You may enroll in, make changes to, or terminate contributions to the 403(b) plan at any time during the year by completing a 403(b) Salary Reduction Form or Roth 403(b) Salary Reduction Agreement Form.

Contacts

Contact 815.966.3145 with questions or for help enrolling in the 403(b) plan.

This information is provided with the understanding that it is a source of information and does not constitute legal, tax, or other professional advice. If legal advice or other professional assistance is required, the services of a professional advisor should be sought.