

Dearborn Public Schools 403(b)-457(b) Comparison

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) allowed certain employers, including public school districts, to establish 457(b) Deferred Compensation plans *in addition* to existing 403(b) Tax-Sheltered Annuity plans.

The Dearborn Public School system adopted a 457(b) Deferred Compensation Plan, effective April 23, 2002. As the school system also sponsors a NonERISA 403(b) plan, the following information is provided to allow Dearborn schools employees an opportunity to compare features of the two plans, and determine whether to invest in both, or either of the two plans.

Under EGTRRA, employees can contribute the maximum allowable to either plan, regardless of their participation in the other; i.e., in 2004, employees can contribute \$13,000 (or 100 % of includible compensation) to each plan.

The following paragraphs discuss similarities, and differences, between the 403(b) and 457(b) plans.

Eligibility:

403(b) Plan: All Dearborn Public School employees are eligible.

457(b) Plan: All Dearborn Public School employees are eligible.

Contribution Limits:

403(b) Plan: Participants may contribute up to \$13,000, or 100 % of includible compensation* for 2004. Most 403(b) account custodians require a minimum contribution of at least \$25 per pay.

457(b) Plan: Participants may contribute up to \$13,000, or 100 % of includible compensation* for 2004. A minimum voluntary contribution of \$25 per pay is required to participate in the Dearborn Public Schools 457(b) plan.

Limits on elective deferrals to 403(b) plans and contribution limits to 457(b) plans are subject to the following maximums for the next several years.

2004	2005	2006	2007+
\$13,000	\$14,000	\$15,000	Indexed

* Under EGTRRA, includible compensation for 403(b) purposes equals salary earned in the most recent period that counts as a full 12 months service, reduced by mandatory pre-tax contributions to other retirement plans of the employer (such as MIP). Includible compensation for a 457(b) plan is the taxable wages on your Form W-2.

Aged 50+ Catch-up:

403(b) Plan: Individuals who have attained at least age 50 at any time during the calendar year can increase their elective deferral by the amount set forth in the chart below.

457(b) Plan: Individuals who have attained at least age 50 at any time during the calendar year can increase their contribution limit by the amount set forth in the chart below.

2004	2005	2006
\$3,000	\$4,000	\$5,000

Thereafter, the aged 50+ catch up limit is indexed in \$500 increments, based on cost-of-living adjustments.

Additional Catch-up Provisions:

403(b) Plan: *The Increased Elective Deferral Limit For Certain Employees With 15 Years of Service* - Employees with 15 or more years of service with the current employer (years of service are counted to the end of the year for which the calculation is being done, and they are counted proportionately for part time employees, or for partial year employees) can contribute up to \$3,000 above the elective limits if they meet the following requirements. They must not have contributed an average \$5,000 or more for each of the years of service to any elective deferral plan of the employer. And, the employee must not have used up the \$15,000 "aggregate extra amount" permitted under this option with the current employer.

457(b) Plan: *Final 3 Year Catch Up Limit* - Eligible 457 plans may permit the contribution limits to increase in one or more of a participant's last three tax years ending in the calendar year before the participant attains normal retirement age under the plan. Note that the three-year period is not calculated from her or his termination date, but applies during

the final three years ending *before* attainment of normal retirement age. The Dearborn Public Schools 457(b) plan has established normal retirement age as 62; so, this provision would be available to employees at ages 59, 60 and 61. During these three years, a participant may increase her or his contribution to an amount that does not exceed the lesser of 200% of the applicable limit for the year (\$13,000 in 2004), or the applicable limit plus that portion of the normal limit that was not used in prior years. Therefore, *the catch up limit is only available if the participant did not always fully fund his eligible 457 plan in previous years.* In addition, if, for each year you were eligible to participate in both a 457 plan and a 403(b) plan, you elected to defer the maximum amount, through elective deferrals to your 403(b) account, you cannot use the 457 catch-up limit. Consult your tax professional for guidance.

Loan Provisions:

403(b) Plans: Many providers include loan provisions to allow limited access to 403(b) account balances.

457(b) Plans: The Dearborn Public Schools 457(b) Deferred Compensation Plan does not include loan provisions.

Distributions:

403(b) Plans: Withdrawals are allowed from *restricted** 403(b) account values if one of the following qualifying events occurs:

1. Attainment of age 59 ½
2. Severance from employment (retirement, change of employer)
3. Death or Disability
4. A qualified domestic relations order
5. A qualified hardship withdrawal
6. Corrective distributions of timely corrected excess deferrals
7. Distributions of excess amounts under IRS correction programs.

Withdrawals are allowed from non-restricted account values at any time. *All withdrawals* from 403(b) account values may be taken in any form allowed by the custodian of the 403(b) account.

Please note that some distributions could be subject to a 10 percent tax for premature distribution. Consult your tax professional for guidance.

(* post-1988 values derived from salary reduction contributions to a 403(b) account, and all 403(b) 7 custodial mutual fund accounts are considered "restricted")

457(b) Plans: Withdrawals are allowed from 457(b) account values if one of the following qualifying events occurs:

1. Severance from employment (including retirement, death or disability)
2. Unforeseeable emergency hardship (subject to approval by employer)

Withdrawals from 457(b) account values may be taken as lump sum payments, single or joint life annuities or fixed period payments.

Tax-Free Transfers:

403(b) Plans: Tax-free transfers from 403(b) account values are allowed if the transfer is to another 403(b) account or 403(b)7 custodial account, or if the transfer is to a defined benefit governmental plan for the purchase of additional years of service credit.

457(b) Plans: Tax-free transfers of 457(b) account values from other eligible deferred compensation plans into the Dearborn Public Schools 457(b) Deferred Compensation Plan are allowed. Tax-free transfers out of the Dearborn Public Schools 457(b) Deferred Compensation Plan into another eligible deferred compensation plan are allowed *only* after severance from employment.

Rollovers:

403(b) Plans: Tax-free rollovers of account values from an eligible retirement plan into a 403(b) plan are allowed. Tax-free rollovers of account values from 403(b) accounts into an eligible retirement plan are also allowed. Eligible retirement plans include; IRAs, qualified plans, 403(b) plans and 457 plans.

457(b) Plans: Tax-free rollovers of account values from an eligible retirement plan into the Dearborn Public Schools 457(b) Deferred Compensation Plan are allowed; however, the amounts from such rollovers shall be accounted for separately under this plan. Rollovers out of the Dearborn Public Schools 457(b) Deferred Compensation Plan are allowed *only* after severance from employment into an eligible retirement plan. Eligible retirement plans include; IRAs, qualified plans, 403(b) plans and 457(b) plans.
