


CTA Risk Management & Business Initiatives & Development Department


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Preparing for Retirement: 403(b) and 457 Plan Essentials

10 Steps to Pulling It All Together


It's time to put what you've learned today to good use. Here are some steps and decision points to help you make the most of your 403(b) and 457 plan opportunities. When you see this icon , it indicates a "planning pointer" – a resource for more information.


1. Save through a 403(b) or 457 plan

 CTAinvest.org video: "Why Participate in a 403(b) or 457 Plan?"

 CTAinvest.org consumer guide, "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – read pages 2-11.


2. Do you want to invest pre-tax (traditional 403(b) or 457 plan) or after-tax (Roth 403(b) or Roth 457 plan)?

 CTAinvest.org consumer guide, "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – read pages 5, 6, 10 and 11

 CTAinvest.org > 403(b)/457 Plans > Roth or Traditional 403(b) or 457 Plan? (<http://ctainvest.org/home/403b-457-Plans/403b-457-overview/Roth-or-Traditional-403b-or-457-Plan.aspx>)


3. Do you want to invest in a 403(b) or 457 plan or both?

 CTAinvest.org video: "Comparing 403(b) and 457 Plans"

 CTAinvest.org consumer guide, "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – pages 2-5

4. If you want/need help with your investment choices, how will you get it?

- Working with a fee-based financial planner?
- Purchasing directly from a vendor via a call center/toll-free number?
- Working with a commissioned agent/representative of a company?
- **Important:** Is the person you choose acting as a fiduciary on your behalf?

 CTAinvest.org consumer guide, "Selecting a 403(b)/457 Advisor & Understanding Plan Fees":

- Read pages 2-4
- Read pages 8-10
- Ask your advisor the questions on pages 15-18
- Have your advisor complete the information on investments he/she is recommending on pages 20-24

 CTAinvest.org video: "Finding a Trustworthy Financial Advisor"

[CTAinvest.org](http://ctainvest.org)

STOP If the advisor will not act in a fiduciary capacity (in your best interests, regardless of his or her own), ask why not.

5. How much will you contribute to your plan?

- In 2012, you may contribute up to \$17,000 *each* to your 403(b) and 457 plans.
- Find out if you are eligible for any catch-up provisions (age 50+ or special catch-up provisions for 403(b) and 457 plans - see chart on page 4).

➔ CTAinvest.org calculators:

- How much can I save in my 403(b) or 457 plan?
- How will my pretax 403(b) or 457 plan contributions affect my take-home pay?
- How much more do I need to save for retirement?

6. Do you want to invest in an annuity or directly in mutual funds?

STOP **Equity-indexed annuities** are complex investments that generally involve high fees and are difficult to compare due to their complicated indexing formulas. FINRA (the Financial Industry Regulatory Authority) has posted an investor alert on its website (www.finra.org).

STOP **Variable annuities** include subaccounts – basically mutual funds within an insurance contract. Fees may be high because you not only are paying the fees to the insurer, but the fees of the underlying subaccounts. Variable annuities also generally have surrender fees.

! **Current annuity investors:** If you are considering changing your investment(s), see the information about changing investments in the box on page 3.

➔ CTAinvest.org > Investing > Annuities > Beware of Equity Indexed Annuities (<http://ctainvest.org/home/investing/annuities/Beware-of-Equity-Indexed-Annuities.aspx>)

➔ CTAinvest.org video: “The Truth about Variable Annuities”

6a. If you want to consider a variable annuity, check into:

- Surrender fees (how long and how much?)
- Mortality & expense fee (averages 1.25% annually – would you be better off with mutual funds and term insurance?)
- Expense ratio and share class of underlying subaccounts (do they include front-end loads (sales charges) or back-end loads (contingent deferred sales charges))?

➔ CTAinvest.org calculator: How will fees affect my 403(b) or 457 plan savings?

➔ The CTAinvest.org consumer guide, “Selecting a 403(b)/457 Advisor & Understanding Plan Fees”:

- Have your advisor complete the information on investments he/she is recommending on pages 20-24

6b. If you want to consider a fixed annuity, check into:

- Surrender fees (how long and how much?)
- Liquidity restrictions
- Insurance company ratings

➔ CTAinvest.org video: “A Look at Fixed Annuities”

➔ The CTAinvest.org consumer guide, “Selecting a 403(b)/457 Advisor & Understanding Plan Fees”

- Have your advisor complete the information on investments he/she is recommending on pages 20-24

7. If you are considering a mutual fund custodial account or 403(b)(7) plan consider the following:

- Target-date funds (built-in diversification and automatic rebalancing of asset allocation over time)
- Choosing your own asset allocation:
 - Should you use computer-based models that determine an asset allocation for you (no conflict of interest)?
 - Consider professional advice (see step 4)?
 - Managed accounts?

- Do you want to invest in actively managed or passively managed funds?
- What is the share class of the fund?
- What is the past performance (consider three-, five-, ten-year and since-inception periods, not just the past year)? (Keep in mind that past performance is not a guarantee of future results.)
- Do you have a copy of the prospectus?

➔ CTAinvest.org videos: "A Look at Target-Date Funds"

➔ CTAinvest.org consumer guide, "Selecting a 403(b)/457 Advisor & Understanding Plan Fees"

- Have your advisor complete the information on investments he/she is recommending on pages 20-24

8. Now review the approved vendors or go to 403bcompare.com. What is the best option for you?

➔ The CTAinvest.org consumer guide, "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – page 28

9. Implement your investment. Be sure you have all the following documents.

- Salary reduction form
- Written plan document
- Prospectus (for variable annuities or mutual funds)
- Contract (for fixed annuity)

10. Review your statements. Rebalance at least once a year if appropriate.

➔ CTAinvest.org > Investing > Setting Your Goals > Position Yourself for Success: Rebalance (<http://ctainvest.org/home/investing/Setting-your-goals/Position-Yourself-For-Success-Rebalance.aspx>)

➔ CTAinvest.org: Complete "Your Personalized Financial Checklist" to remind you when to review and rebalance your investments as well as other financial tasks.

Do You Want to Change Your Investments?

1. If you want to exchange your contract for a new contract, it is subject to the district's rules.

➔ The CTAinvest.org consumer guide, "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – read pages 33-34

2. If you are a current annuity investor and would like to get out of your annuity contract, make sure to find out if there are liquidity restrictions or surrender fees in effect. If there are liquidity restrictions, you may be able to:

- Stop contributing to the annuity and surrender only the allowable amount each year until the liquidity restriction is eliminated.

- Stop contributing to the annuity, leave the current balance in place and redirect future contributions to another investment.

If there are surrender fees, you may be able to:

- Stop contributing to the annuity and wait out the surrender period until it reaches 0% before surrendering the annuity. Redirect any new contributions to another investment.
- Cancel the contract and pay the surrender fees. Then you can transfer your balance to a new provider subject to the rules or provisions in your district's plan.
- Keep contributing to the annuity and cancel when the surrender period is up, provided the surrender period is based on the date of the contract and not on the premium payment dates.

Contribution Limits for 2012

	CONTRIBUTION LIMIT	AGE 50 CATCH-UP	OTHER CATCH-UP PROVISIONS
403(b)	\$17,000	\$5,500	15-year rule*
Roth 403(b)	\$17,000	\$5,500	15-year rule*
457	\$17,000	\$5,500	3-year provision**
Roth 457	\$17,000	\$5,500	3-year provision**
Traditional IRA	\$5,000	\$1,000	N/A
Roth IRA	\$5,000	\$1,000	N/A

* Eligible employees with 15 or more years of full-time service may be able to contribute up to \$3,000 more for five years, or a maximum of \$15,000.

** Employees may be eligible to defer up to two times the contribution limit in effect for the final three years of service. Employees cannot participate in the 3-year catch-up and the 457 plan age 50+ catch-up during the same tax year.

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We strongly recommend that any person using the information provided in this presentation seek counsel from his/her own professional financial advisors to determine its applicability to his/her own personal situation.

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