FINANCIAL AWARENESS SEMINAR

- SOUTH COUNTRY CENTRAL SCHOOL DISTRICT

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- December 4, 2019
What is 403(b)?
(e.g. VOYA)

- 403(b) is a voluntary tax deferred retirement savings plan.

- Originally created to help school employees supplement their state retirement system benefits.

- State of New York retirement systems (NYSTRS and NYSERS), like Social Security were never intended to be the only source of income at retirement.

- Participation is available to all employees.
Current 403b Regulations - Main Points

- Information sharing must exist between the Employer and the Investment Company
- Loans, transfers, exchanges, distributions and hardship withdrawals are possible
- Universal availability, all employees are eligible to participate
- Annual meaningful notification and education, including Plan document and statement(s)
What is 457(b)?
(e.g. NYS Deferred Compensation)

- A Section 457(b) plan is a program in which employees can defer compensation to a later date.

- Originally created to help school employees supplement their state retirement system benefits.

- State of New York retirement systems (NYSTRS and NYSERS), like Social Security were never intended to be the only source of income at retirement.

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## Differences Between 403b and 457b

<table>
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<tr>
<th>403(b)</th>
<th>457(b)</th>
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<tbody>
<tr>
<td>Access to funds at 55 or separation from service, or 59 ½ if still employees</td>
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<td>Premature distribution 10% tax penalty if taken prior to age 59 ½ (early withdrawal)</td>
<td>No premature distribution tax (early withdrawal)</td>
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<td>Financial hardship withdrawal is restrictive in 403b</td>
<td>Unforeseeable emergency withdrawal is more restrictive than 403b</td>
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Distributions must occur, regardless of investment plan at age 70 ½. This is an IRS Regulation.

At 70 ½, minimum withdrawal is based on a sliding scale schedule

The earliest time you may withdraw without penalty is 59 ½

The only way to invest in stocks, is through an IRS self-directed plan.

403b and 457 plans are pre-taxed. You will be taxed upon withdrawal.
Distributions

- You may take money out of your 403(b) or 457 account when one of the following “qualifying events” happens:
  - You have reached age 59 1/2
  - You have separated from service
  - You have become disabled

- If your age is less than 55 when you separate from service, you must pay a 10% tax penalty for early withdrawal (403(b)) only. This does not apply for 457(b) accounts.

- If your distribution is not going to a pre-tax account (such as an IRA), income tax will be assessed on the amount you withdraw in that tax year. Make sure to always consult a tax professional.
Hardship Withdrawals (403)

- Hardship withdrawals from your 403(b) may be requested for the following reasons:
  - Unreimbursed medical expenses
  - Down payment on your primary residence
  - Tuition and fees for post secondary education for the upcoming 12 calendar months
  - If you are facing eviction or foreclosure on your primary residence
  - Burial expenses for an immediate family member

*Complete documentation is required for all Hardship Requests*
Withdrawals from a 457(b) during employment and prior to age 59½ can only occur if the participant qualifies under the “unforeseeable emergency” rule. Circumstances are as follows:

- a sudden and unexpected illness or accident
- a casualty loss to the participant’s property not covered by insurance
- imminent foreclosure of or eviction from the participants primary residence
- medical expenses not reimbursed from other sources
- funeral expenses for a family member or a beneficiary

*Complete documentation is required for all Hardship Requests listed above
Some companies allow you to take a loan against your 403(b) or 457 account.

- The aggregated amount of your loan(s) cannot exceed 50% of your total 403(b) assets above $10,000.

- The maximum aggregated loan amount is $50,000.

- If you have a defaulted on a previous 403(b) loan, and a balance remains, that loan must be repaid before a new loan application may be submitted.
Standard Employee Contribution Amounts and Provisions – Employee only

- General contribution limits for 2020 are $19,500 for the basic limit.
- An additional $6,500 contribution if over the age of 50 by 12/31/2019. You may also be entitled to increased limits in your final three years.
- Individuals with at least 15 years of service with their current employer may be entitled to contribute up to an additional $3,000 above their age-based limit, potentially increasing the limit to $29,000 for a participant utilizing both the age based and the full amount of the service based catch-up provisions.
Maximum Allowable Contribution Limits (Employee and Employer)

- The IRS has defined the following 403(b) employee contribution limits for 2020 as follows:
  - The basic Maximum Allowable Contribution (MAC) limit is $19,500.
  - If you are age 50 or older by 12-31-18, the limit is increased $6,500 totaling $26,000.
  - Individuals with at least 15 years of service with their current employer may be entitled to contribute up to an additional $3,000 above their age-based limit, potentially increasing the limit to $29,000. Note: 457(b) contribution limits are the same as 403(b).
  - Including employer contributions, the combined limit for basic contributions, 15-year catch-up provision (if eligible), and employer contributions up to $57,000 (or 100% of includible compensation if less) if an employee contributed between $0 and $6,000 per year.
  - Including employer contributions, the combined limit for basic contributions, 15-year catch-up provision (if eligible), and employer contributions is $63,500 (or 100% of includible compensation if less) if an employee did previously contribute.
Example of Contribution(s) to an account

- You are set to retire and are eligible for a payout of $100,000, that includes the $40,000 retirement incentive and payout for unused sick days.

- In July of the year you retire, a contribution of $57,000 will go to your VOYA 403b account. That is the maximum allowable contribution for the calendar year.

- The balance of $43,000 will appear in your VOYA account in the following January (six months later).

*Note - all contributions to a 403b/457 are on a calendar year basis (1/1-12/31).
Tier 1 members may retire at any age with 35 years of service, or at age 55 with five or more years of service. Retirement may also occur at age 55 with less than five years of NYS service, if two years of NYS service are rendered after their current membership date and since they reached age 53.

Tier 2, 3 and 4 members may retire at age 55 with five years of credited New York State service credit.

Tier 5 - If you retire prior to age 57 (regardless of how much service you have), or if you retire between ages 57-62 and have less than 30 years of service, the pension factor is reduced based on your age.

Tier 6 - If you retire prior to age 63, you will receive a reduced benefit (without exception).
NYSTRS – PENSION FACTOR
TIERS 1 & 2

- Pension Factor x Age Factor (if applicable) x Final Average Salary = Maximum Annual Pension.

- Tiers 1 and 2 – Tier 1 dates before 7/1/73; Tier 2 - 7/1/73 and 7/26/76

- Your pension factor equals the sum of: a) 1.8% per year of credit for NYS service before 1959, and b) 2% per year for NYS service after 1959, and c) if eligible*, 1% per year for prior out-of-state service, as long as this service does not bring your total service above 35 years. The maximum pension factor is generally 79% (which includes 4% for two years of credit under Benefit Enhancement/Article 19).

- If you are a Tier 1 or Tier 2 member, the pension factor is reduced by 5% for each year your New York State service totals less than 20 years.

- If you are a Tier 2 member and retire before age 62 with less than 30 years of service, the pension factor is also reduced based on your age at retirement.

- *All Tier 1 members are eligible for a maximum of 10 years of credit for out-of-state public school teaching prior to joining NYSTRS, provided a benefit for this service will not be paid by another state or the federal government. Tier 2 members can only receive credit for out-of-state service if it was credited under a previous Tier 1 membership in NYSTRS.
NYSTRS – TIERS 3 & 4

- Tier 3 - For membership dates between 7/1/73 and
- Tier 4 - For membership dates between 9/1/83 and 12/31/09;

- Your pension factor equals either: a) 1⅔% per year if you have less than 20 years of service, or b) 2% per year if you have between 20 and 30 years of service. Under Tier 4, you would receive 1 ½% for each additional service year beyond 30.

- If you retire before age 62 with less than 30 years of service, the pension factor is reduced based on your age.

- If you are a Tier 3 member, you may retire under either Tier 3 or 4. You automatically receive the better benefit, which is usually Tier 4 because:
  - Tier 3 benefits are reduced at age 62 (or immediately if you retire on or after age 62) by half the Social Security benefit you accrued in NYS public service;
  - Tier 4 has better reduction factors if you retire before age 62 with less than 30 years of service; and,
  - Your maximum pension factor is unlimited under Tier 4, but limited to 60% under Tier 3.
NYSTRS – TIERS 5 & 6

Tier 5 - For membership dates between 1/1/2010 and 3/31/12

- Your pension factor equals either: a) 1 ⅔% per year if you have less than 25 years of service, or b) 2% per year if you have between 25 and 30 years of service. Under Tier 5, you would receive 1 ½% for each additional service year beyond 30.

- If you retire prior to age 57 (regardless of how much service you have), or if you retire between ages 57-62 and have less than 30 years of service, the pension factor is reduced based on your age.

Tier 6 - For membership dates on or after 4/1/12.

- Your pension factor equals either: a) 1.67% per year if you have less than 20 years of service, or b) 1.75% per year for all service if credited with 20 years. Under Tier 6, you would receive 35% plus 2% per year beyond 20 years if credited with more than 20 years of service.

- If you retire prior to age 63, you will receive a reduced benefit (without exception).
NYSTRS – AGE FACTOR

Age Factor

- Depending on your tier, age and service credit at retirement, an “age factor” may be applied to your benefit calculation.

- No age reduction applies to Tier 2-4 members who retire either at: age 62 or later; or, at age 55 with at least 30 years of service credit.

- No age reduction applies to Tier 5 members who retire either at: age 62 or later; or, at age 57 or later with at least 30 years of service credit.

- No age reduction applies to Tier 6 members who retire at age 63 or later.
NYSTRS – FINAL AVERAGE SALARY

Final Average Salary (FAS)

For Tier 2-5 members, your FAS is generally the average of your highest three consecutive school years of salary earned, whenever they occurred in the salary history.

If you are a Tier 1 member, you are also eligible for a five-year FAS calculation, which (if you have a membership date before June 17, 1971) can include termination pay and non-regular compensation.

Tier 6 members must use a five-year FAS with restrictions on includable salaries.

Refer to the FAS section of the Active Members’ Handbook for a complete explanation of what may be included in your FAS.
RETIRED CALCULATOR

- NYSTERS – FINAL AVERAGE SALARY * TIER PERCENTAGE (e.g. 60%)
- 2018 SOCIAL SECURITY - $1,404 MONTHLY AVERAGE (PRIOR TO FULL RETIREMENT AGE OF 66)
  - AT AGE 62 - $2,265 MAXIMUM MONTHLY BENEFIT
  - AT AGE 65 - $2,857 MAXIMUM MONTHLY BENEFIT
  - AT AGE 67 - $3,011 MAXIMUM MONTHLY BENEFIT
  - AT AGE 70 - $3,790 MAXIMUM MONTHLY BENEFIT


THE END
CONCLUSION

- Questions?

- Thank you!!!