



State of Iowa
Retirement Investors' Club (RIC)
Looking forward to retirement!



Feathering the Nest Egg

Enhancing retirement savings benefits with the 457/401a



RIC 457/401a advantage

As an education-related employer, you have the **unique opportunity** to offer your employees the 457 and 401a plans along-side your 403b plan.

Responses to a recent RIC survey of participating employers indicate that the average 403b participation rate is 15%. Adding the RIC 457/401a plan option to your benefits package provides an opportunity for you to encourage employees to consider the benefits of retirement savings plans.



- **Plan Basics**
- **Contributions/Roll-ins**
- **Distributions**
- **Implementation**



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Plan Basics

Iowa RIC administrators 457/401a plans for several Iowa public sector employers.

Cedar Falls Utilities	Indian Hills Comm College	Pocahontas Comm Hosp
Clay County	INRCOG	Shelby County
Coon Rapids Muni Utilities	Jones County	Waterloo, City of
DM Area Comm College	LeMars, City of	Wayne Cnty Hospital
Harlan Municipal Utilities	Madison County Mem Hospital	WDM Water Works
Hawkeye Comm College	Marengo Mem Hospital	

Each employer added the RIC 457/401a plans either as a new savings option, an alternative 457 savings option, or in place of an existing 457 plan.

Plan Basics

RIC maintains a 457/401a website and email newsletter to keep employees and employers educated about the plan features, benefits, and changes.



Plan Basics

457/401a plans have plan-specific fiduciary obligations that do not exist in 403b plans. RIC handles these obligations and manages other aspects of the plans on your behalf. Our services include:



- Immediate availability of plan services
- Compliance with federal and state requirements
- Customized payroll deduction form and webpage
- Processing of participant transaction requests (without pwe)
- Employee education on request
- 457 Roth benefit (January 2012) with in-plan conversion option
- Competitively bid investment products/services and annual reviews of all fund offerings by outside investment consultant



Plan Basics

The same providers and investments offered in the 403b plan are available in the 457/401a plans. Each provider offers 25+ diversified investments with no restrictions or surrender charges.



Employers may select any number of RIC providers to offer investments in their 457/401a plans.



Plan Basics

Investments in various categories help investors diversify to spread risk and maximize return-choose one or many.

<p>Bond (Income)</p> <ul style="list-style-type: none"> - Fixed Rate - Money Market - Interm-Term High-Quality Core Bond - High Yield Bond - TIPS (Treasury Inflation-Protected Securities) - Global Bond <p>Stock/Bond (Balanced)</p> <ul style="list-style-type: none"> - Traditional Balanced - Lifecycle (target date) 	<p>Stock (Growth)</p> <ul style="list-style-type: none"> - Large Cap Stock Index - Large Cap Value Stock - Large Cap Growth Stock - Mid-Cap Stock Index - Mid-Cap Value Stock - Mid-Cap Growth Stock - Small Cap Stock Index - Small Cap Value Stock - Small Cap Growth Stock - Total US Stock Mkt Index 	<p>International</p> <ul style="list-style-type: none"> - Intern'l Developed Mkts - Intern'l Emerging Mkts - World <p>Alternative</p> <ul style="list-style-type: none"> - Real Estate - Socially Responsible - Self-Directed Brokerage Accounts (SDBA)
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Plan Basics

Variable rate investments are professionally managed by top-performing investment managers such as:



Total fees for variable rate funds range from .06% - 1.83%. Fixed rate account has no fees.



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Contributions

Although similar in purpose, the 457 (traditional and Roth), 401a and 403b plans, when offered together, enhance the contribution options for both the employee and employer as well as distribution options for the participant.



Contributions

Elective contributions are determined as shown below. Employees may make pretax and/or post-tax contributions to the 457 and 403b plans.

	403b		457		401a
	Pretax	Roth	Pretax	Roth	Pretax
ER	Determined by ER	NA	NA		Determined by ER
EE	Determined by EE		Determined by EE		NA

Contribution Limits

The combination of all pretax and Roth (post-tax) elective contributions in a tax year is limited to the IRS maximums declared annually.

IRS Contribution Limits

Employee	403b		457		401a	Combined Maximum
	Pretax	Roth	Pretax	Roth	Pretax	
Regular	\$16,500 (2012-\$17,000)		\$16,500 (2012-\$17,000)		NA	\$33,000 (2012-\$34,000)
50+	\$22,000 (2012-\$22,500)		\$22,000 (2012-\$22,500)		NA	\$44,000 (2012-\$45,000)
Catch-up*	\$ 3,000 (2012-\$3,000)		\$33,000 (2012-\$34,000)		NA	\$36,000 (2012-\$37,000)
Total Max	\$25,000 (2012-\$25,500)		\$33,000 (2012-\$34,000)		NA	\$58,000 (2012-\$59,500)
Employer	IRC sec 415(c) limit		NA		IRC sec 415(c) limit	IRC sec 415(c) limit

*Must meet IRS qualifications

Roll-ins

Eligible outside plan assets may be rolled in and out of all plans at anytime.

Eligible Roll-in Assets

	403b		457		401a
	Pretax	Roth	Pretax	Roth	Pretax
Most pretax (403b, IRA, 401k, etc.)	403b Roth	457 pretax	457 Roth	Most pretax (403b, IRA, 401k, etc.)	

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Distributions

A distributable event must occur in order to take distributions*.

Distributable Events

403b		457		401a
Pretax	Roth	Pretax	Roth	Pretax
<ul style="list-style-type: none"> • Loans • Hardships • Service purchase • Termination • Disability • Age 59.5 	<ul style="list-style-type: none"> • Loans • Hardships • Service purchase • Termination • Disability • Age 59.5 	<ul style="list-style-type: none"> • Unforeseeable emerg • Cash out • Service purchase • Termination • Disability • Age 70.5 	<ul style="list-style-type: none"> • Unforeseeable emerg • Cash out • Service purchase • Termination • Disability • Age 70.5 	Termination

*All plans require minimum distributions to begin no later than April of year following attainment of age 70.5 or termination, whichever is later.

Distributions

457 plans add the option to take eligible distributions without an age penalty.

Pretax distributions are taxed as ordinary income and reported on IRS 1099R form.



Tax Treatment of Distributions¹

403b		457		401a
Pretax	Roth ²	Pretax	Roth ²	Pretax
Taxable (possible 10% penalty prior to age 59.5)	Tax-free if held for 5 years & age 59.5*	Taxable (no age limitation)	Tax-free if held for 5 years & age 59.5*	Taxable (possible 10% penalty prior to age 59.5)

¹ All plans require minimum distributions to begin no later than April of year following attainment of age 70.5 or termination, whichever is later.

² Post-tax Roth earnings distributions are only tax-free if qualified.

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Implementation

Items that may affect your decision to offer the RIC 457/401a:

- Determination of current plan conditions (if applicable)
- Ability and possible cost to make necessary changes to your payroll system
- Cost to participate (\$100-\$400 initial, \$50-\$500 annual)

Implementation

Implementation

Steps to begin offering your 457/401a:

- Complete Employer Data Sheet (includes provider election)
- Sign Agreement
- Prepare payroll system
- Offer the new benefit to your employees



More information

Learn more about RIC 457/401a plans

- Email: jennifer.sandusky@iowa.gov
- Phone: 515-281-0569

- Email: robbie.stoecker@iowa.gov
- Phone: 515-242-6846

- Visit the RIC website at http://ric.iowa.gov/457/index_employers.html


