

## Glossary of Terms

Terms are defined as they relate to 403(b) and 457(b) retirement plans

### **403(b) and 457(b) Plan Information**

#### **403(b) and 457(b)**

Code section of the Internal Revenue Code (IRC) which governs 403(b) and 457(b) plans.

#### **403(b) and 457(b) Plan**

Retirement plan available to employees of certain tax-exempt and/or governmental employers, including schools and hospitals. Taxes on eligible 403(b) and 457(b) plan contributions may be deferred.

#### **Tax-Sheltered Annuity (TSA) Plan**

Retirement plan available to employees of certain tax-exempt and/or governmental employers. Taxes on eligible TSA contributions may be deferred. The terms Tax-Sheltered Annuity (TSA) and 403(b) Plan are generally used interchangeably.

#### **Deferred Compensation Plan**

Retirement plan available to employees of certain governmental employers, including public school employers. Taxes on eligible deferred compensation contributions may be deferred. The terms Deferred Compensation (Deferred Comp) and 457(b) Plan are generally used interchangeably.

### **403(b) and 457(b) Investment Options\***

#### **Annuity**

Contractual financial product sold by insurance companies that can provide a fixed or variable rate of return.

- Fixed Annuity - provides a fixed interest rate of return, similar to a bank savings account.
- Variable Annuity – provides a variable rate of return based on the performance of the underlying sub-accounts invested in mutual funds in a portfolio.

#### **Custodial/Trust Account Mutual Fund**

A mutual fund Investment company pools money from investors/shareholders and invests in a variety of securities including, stocks, bonds, or other financial instruments. Accounts are generally offered by a mutual fund company or brokerage firm through which investments in mutual funds can be made.

#### **Provider**

Investment companies that offer mutual fund custodial/trust accounts or insurance company that offers annuities that meet the investment option requirements of IRC 403(b) and 457(b). Permitted investment options in 403(b) and 457(b) plans are annuities, 403(b) and 457(b) custodial accounts, and 457(b) trust accounts. Only approved providers that have established an agreement with the employer may receive contributions, transfers or rollovers.

## **Contributing to a 403(b) and 457(b) Plan**

### **Contribution**

Money deposited into your 403(b) and/or 457(b) retirement plan account.

### **Catch-up Contribution**

Contribution in excess of the annual basic contribution limit set by the IRS.

### **Maximum Allowable Contribution (MAC)**

Maximum salary deferral contribution dollar amount a plan participant may defer to a 403(b) and/or 457(b) plan during a calendar year. Generally contributions may equal 100% of your compensation not to exceed your MAC.

### **Salary Deferral Contribution**

Money withheld from your paycheck by your employer via payroll deduction, which is not treated as taxable income during the year in which it was earned, and is contributed to an eligible retirement plan such as a 403(b) and 457(b) plan.

### **Salary Reduction Agreement**

A Salary Reduction Agreement (SRA) is a legally binding agreement between you and your employer setting forth the terms of your participation in a retirement plan including the amount you will defer out of your paycheck via payroll deduction and the investment provider that will receive your contributions.

## **Taking Money Out of the 403(b) and/or 457(b) Plan**

### **Contract Exchange**

The exchange or transfer of your 403(b) account assets between different investment providers that are approved providers within your employer's 403(b) plan.

### **Rollover**

The rollover or transfer of your 457(b) account assets between different investment providers that are approved providers within your employer's 457(b) plan.

### **Distributable Event**

Events that occur that may qualify you to receive a distribution from your 403(b) and 457(b) retirement plan account. An example would be when you retire.

### **Distribution**

Withdrawal of money from your 403(b) and 457(b) retirement plan account, that is generally taxable as ordinary income.

**IRS Early Withdrawal Penalty**

Withdrawals/distributions (including hardship withdrawals) from your 403(b) plan account prior to attaining age 59 ½ will generally incur a 10% excise tax penalty in addition to the ordinary income tax due on the amount withdrawn.

The IRS Early Withdrawal Penalty does not apply to 457(b) plans.

**Eligible Rollover**

Transfer of assets from your 403(b) and 457(b) account to a different retirement plan or retirement savings vehicle, such as an IRA account. A distributable event must have been met to be eligible for a rollover.

**Hardship Withdrawals**

A qualifying life event enabling you to receive a distribution from your 403(b) retirement plan account; which are taxable and may incur an IRS early withdrawal penalty excise tax. Generally, the withdrawal must be due to "an immediate and heavy financial need" and the withdrawal must be necessary to satisfy that need.

**Unforeseeable Emergency Withdrawals**

A 457 plan may include a provision to allow participants to request an in-service distribution (severance of employment is not required) from their accounts for an unforeseeable emergency. An unforeseeable emergency is defined as severe financial hardship of the participant, dependent or beneficiary. Only an amount that is reasonably necessary to satisfy the stated emergency need can be distributed.

**Loans**

If a loan provision is permitted in the plan, and the 403(b) 457(b) plan provider permit loans, in most cases you can take out a loan from your account while you are employed or after you separate from service. Loan proceeds are not taxable, and must be repaid within 5 years (or longer to purchase a primary residence).

**Required Minimum Distribution (RMD)**

IRS rule requiring 403(b) and 457(b) plan participants age 72 to receive a taxable minimum distribution from your 403(b) retirement account. RMD distributions can be received each year beginning the calendar year you attain age 72 or the calendar year following the year you attain age 72.

**Transfer (Plan-to-Plan Transfer)**

Transfer of assets from the plan of one employer to the plan of a different employer. An example would be transferring your 403(b), 457(b) or 401(k) account with a previous employer to the 403(b) or 457(b) plan of your current employer.

\*403(b) and/or 457(b) retirement plan providers' investment options may charge fees, sales charges, early withdrawal surrender charges, and other expenses that are paid by employees that participate in the 403(b) and/or 457(b) plans. It is the employees'/participants' responsibility to determine the provider(s) that meet their investment goals, objectives, cost structure, and other requirements.