

Why MEA Financial Services?



Because, we're a little different.

2010 Collective Bargaining Guide

Overview of this Bargaining Guide

This bargaining guide offers helpful information and suggestions for negotiating employee benefits to enhance compensation and retirement benefits using 403(b) Retirement Plans.

The concepts and topics discussed, focus on the advantages to both the employer and employee of negotiating employer-paid contributions that provide the foundation for funding a financially secure future.

MEA Financial Services is available to provide assistance to you and your bargaining team to answer your questions and help in the development of your specific negotiating strategies and proposals.

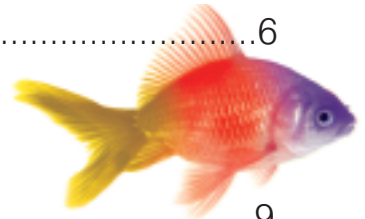
The discussions on any one topic are in summary form and not intended to be exhaustive. For more detailed explanations, contact MEA Financial Services to examine the specific facts as applied to your particular situation.

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MEA Financial Services/Paradigm Equities does not give tax or legal advice. The comments regarding the law and tax treatment reflect our understanding of current interpretations of such laws. Since laws are always subject to interpretation and possible change, we recommend that you seek the counsel of an attorney, accountant, or other qualified tax advisor regarding these matters as it applies to your particular situation.

Why MEA Financial Services?

MEA Financial Services is your member owned, member governed financial services company. Through MEA Financial Services members can obtain competitive investment and insurance programs for themselves and their families. MEA Financial Services supports local bargaining teams by providing assistance and expertise in understanding how the new IRS regulations impact the collective bargaining process when negotiating plan administration, benefits and investment options.

MEA Financial Services' primary focus is the member. Participating in one of our programs makes you more than a client, you are family.

Successfully investing for retirement requires a long term prospective and a commitment to achieving your goal. Since the every day demands of your profession require your full attention, the choice of the right investment partner in to assist you in achieving those goals is essential. MEA Financial Services is that partner dedicated to providing both the advocacy and attention you require as you build for your future.

403(b)

What is a 403(b) Plan and how does it benefit you?

A 403(b) Retirement Plan is that section of the IRS tax code which permits you as an education employee to save for a better retirement on a tax deferred basis. By being able to save tax deferred, you gain the advantage of delaying the income tax on both the amount you invest and the earnings on the investment until the time you take a distribution of your funds.

Why is it good for you?

- Money deposited into your 403(b) account by either you or your employer is treated as a pre-tax contribution.
- No federal or state income tax is owed during the time your investment grows.
- Federal income tax is owed only at the time you take distribution of your investment.
- It's your account. Your employer or creditors can't touch it.
- Regular deposits by your employer into your 403(b) account count in your final average compensation calculation for MPSERS.
- You choose the investments.
- If you need to, you can borrow from your account providing your plan permits loans.

403(b) Regulation Changes

Effective January 1, 2010, the new IRS Regulations covering 403(b) plans are now in effect and clearly mandate the employer as being responsible for compliance of the 403(b) Plan. These new regulations did not remove the right of the participants to

403(b)

bargain the terms and benefits of the plan. Therefore, care should be exercised that the bargaining rights of the employee participants are not overlooked.

Following is a synopsis of the key provisions of the new regulations.

Written Plan Document Required:

A written plan document is required establishing employee participation eligibility rules, the benefits of the plan, applicable limitations, the investment vendor options available and the time and form under which benefit distributions may be made. The plan document must also allocate the responsibilities between the employer and any other party administering the plan. No employee self-certification for plan loans or hardship distributions (if permitted under the plan) are allowed.

MEA Financial Services has available at no charge a 403(b) plan document to which complies with all IRS approved language. This plan document is available in MEA Financial Services' Third Party Administrator Web Site at: <http://www.schoolemployeesresource.com>. Go to the Employer Forms link.

Exchanges between investment options under the Plan.

The ability of the employee to move funds to any investment vendor in the market place is no longer permitted. After September 24th 2007, such exchanges may only be made to specified investment vendors approved by the employer where an information sharing agreement has been established between the employer and the vendor. This information sharing arrangement



will provide for the mutual sharing of information regarding employment status, hardship withdrawals and plan loans.

Plan Loans and Hardship Withdrawals

All plan loans and hardship withdrawal requests must be approved by the employer or their designee before any distribution is permitted. Employee participants are not permitted to self-certify.

Universal Availability

If a 403(b) plan is offered to just one employee then the 403(b) plan must be offered to all eligible employees. Limitation on eligibility applies to student workers, non-resident aliens, employees eligible for other plans of the employer and to employees working less than 20 hours per week. In addition, meaningful notice must be made to employees at least once per year advising them of the availability of the 403(b) plan.

Life Insurance

After September 24, 2007 no new life insurance contracts may be purchased under a 403(b) plan.

Third Party Administration

The employer is permitted to appoint a third party designee to administer the terms, benefits and conditions of the plan.

MEA Financial Services is available to assist school districts as a third party administrator with the necessary oversight and services required to comply with the new 403(b) regulations. Visit us at www.meafs.com or call us at 1-800-292-1950.

CREATIVE IDEAS in Bargaining Compensation, a Better Retirement

FACT: Bargaining salary increases today may mean an increase in your retirement income tomorrow.

The Advantages of Employer Paid Contribution

Employer paid contributions can not only save employers money, they have the potential to positively impact your retirement benefit through MPSERS. Beyond that, they are simple, offer growth potential, and are immediately vested.

Savings to the Employer

Direct employer contributions into employee deferred retirement accounts are not subject to FICA taxes for either the employer or the employee, a mutual savings of 15.3%.

Counts toward Final Average Compensation

Consistent employer compensation contributions into a 403(b) retirement program of the employee may be included as part of the compensation calculation for final average compensation through MPSERS.

Simple to Administer

Enrollment and contribution deposits are simple to administer. MEA Financial Services through the Paradigm Remittance Program can provide a single source deposit service without charge.

Growth Potential that is Meaningful

Through the power of compounding, even a small and consistent contribution has the potential to grow into a meaningful retirement fund. For example, an employer contribution of \$50 per pay, 26 pays per year, compounded at an assumed 8% rate of return, over a 30-year career can potentially grow to over \$162,000.

Vested and Secure from Creditors

Employer contributions to 403(b) employee retirement accounts are immediately vested and owned by the employee. Amounts contributed to 403(b) employee accounts are not subject to creditors of the district.

Bargaining Higher Salaries:

1. The following bargaining ideas may help increase or add salary schedule improvements.
 - a. Increase the salary schedule for cost of living adjustments
 - b. Front load the salary schedule
 - c. Add salary schedule steps
 - d. Truncate and smooth the existing salary schedule steps and expand the salary step compensation ranges
 - e. Reward the attainment of advanced degrees, additional education accreditation or certificate proficiencies
 - f. Compensate for additional duties
 - g. Add a series of longevity steps

Ideas

2 . Bargain direct employer contributions to 403(b) retirement plans

- a. Employer matching of elective contributions for all employees
- b. Scheduled direct payments to all employees' retirement accounts
- c. Payments into the 403(b) for service duties performed
- d. Create a longevity retirement account with payments into the 403(b)

FACT: Employer contributions into a 403(b) account may be made for five years after separation from service.

ADVANTAGES:

1. Early retirement incentives
2. Employee settlements
3. Provides additional retirement income streams
4. Provides a stream of income to delay taking social security benefits thus allowing for an increased benefit at a later time
5. Not subject to Michigan state income tax



ERI

Early Retirement Incentives

An Early Retirement Incentive (ERI) is a good option if you want to defer and lower taxes, save on FICA payments, and have accessible funds when you retire. The administration of this retirement program is simple when done through a 403(b) plan, and the immediate tax savings and flexibility may be significant. Available only to public school employees and certain other tax-exempt organizations, 403(b) retirement plans offer the flexibility of allowing both employee contributions through payroll deductions and direct employer contributions.

Simple Administration

- **No special notification** or IRS approval is required for any subsequent bargaining changes or modifications.
- **No third-party custodial trustee control** over investment selection or eligible retirement distributions is necessary.
- **Individual participant accounts** are protected from creditors of the district.
- **Money Saving.** Using a well-bargained 403(b) ERI may result in significant savings for school districts for each year a school employee's retirement is moved up.
- **FICA Saving.** In addition to the potential salary schedule savings, FICA payments are not required on contributions to a 403(b) ERI program, thus saving 15.3% (considering both employer and employee FICA contributions).
- **Meaningful for Employees.** Maximum annual employer contributions governed by IRS Code Section 415(c) may be up to the 415(c) limit (\$49,000 for 2010) or 100% of includible com-

ERI

pensation, whichever is less. (These maximums are reduced by the amount an employee elects to contribute to their 403(b) plan in their final year of service only.) If the ERI extends over a multi-year agreement, the maximum 415(c) allowance applies for each year of the agreement.

- **Multi-year.** Employer contributions may continue for up to five years after an employee's separation from service. At the maximum 415(c) contribution level (see above), that equates to \$245,000.
- **Secure.** Employer contributions are directly deposited into employee-vested 403(b) accounts and may not be accessed by either the employer or the district's creditors.
- **Flexible.** No mandated or regular schedule of payments is required, nor are there limitations regarding group eligibility.
- **Accessible.** Upon retirement, employees may access their 403(b) account funds subject to normal 403(b) distribution requirements and company contractual rules, if any, for employees separating from service. With the MEA Financial Services plan, no company contractual charges are assessed when an employee separates from service. Since this may not be true with other plans, please check for any plan restrictions.
- **Convenience with choice.** Using MEA Financial Services' Paradigm Remittance System allows for a wide choice of investment options through both annuity and mutual funds using a single remittance check. Contact your MEA Financial Services Representative for details of this program or to find out if your district is already participating.

Flexible Group Determination

The complications of mandated ERISA discrimination testing do not apply to exempt governmental entities such as public schools. This allows flexibility in determining eligible groups, simplifies ERI payment options, and gives bargainers tremendous flexibility in bargaining special compensation for selected eligibility or a broad group of eligible employees. And again, the ability to have pay-outs up to five years beyond employees' separation from service is beneficial to employers and employees alike. In addition, individual structured settlements and compensation for special services are possible.

Expanded 403(b) “Includible Compensation”

Definition

“Includible compensation” refers to the amount an employee can count toward the full-year equivalent for the “100% compensation limit” rule. Recent legislation has expanded the definition of includible compensation, which now increases the “100% compensation limit” rule for the benefit of part-time schedule employees. For example, an employee working 50% of full time can use 24 months to satisfy the one-year requirement. An employee working 33% of full time can use 36 months to satisfy the requirement.



ERI

Ideas for Making the 5-Year Post Retirement Severance Payment Work for You

With the latest change in 403(b) regulations issued in 2007, the IRS has finally established the eligibility of contributions by an employer into an individual's 403(b) account for up to five years following separation from service. Depending on the date of separation from service, these post-retirement contributions could extend for nearly six years.

Consider the 5-Year Post Retirement Severance Payment benefit as an Early Retirement Incentive or as a post-retirement transition payment.

Constructive Receipt Limitation **The IRS rule on “constructive receipt”**

still applies. Constructive receipt is the IRS term to describe a compensation arrangement when an individual has choice to receive either a specific benefit or the cash value of that benefit. If such a choice is permitted, the value of the entire benefit would be taxable (both income tax and FICA) as income to all eligible participants of the benefit, not just the individual making the choice. In bargaining ERIs using a 403(b) plan, contributions must clearly be deposited to the participating employee's 403(b) account and that employee must have no choice to elect to take the contributions as cash at the time of contribution. For those employees seeking access to these funds, normal 403(b) distribution rules would apply.

Bargaining Language

For the suggested 2010 bargaining language see the MEA Financial Service website or go directly to http://www.meafs.com/bargaining_language.cfm

For more complete collective bargaining information, contact your MEA Financial Services Regional Manager or MEA Financial Services directly at **1-800-292-1950**. Our Web site makes us accessible 24 hours a day, so visit us at www.meafs.com at your convenience. Our knowledgeable staff and field-based Financial Services Representatives are ready to assist our members.

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This bargaining guide is not intended to be tax advice. Members should check with a tax advisor to determine how these changes may affect their tax situation.

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- **Third Party Administrator Program**



Investments

- **403(b) Tax-Deferred Investment Programs**
 - Fixed/Variable Options Available
 - MEA 19.3 Plan
- **457(b) Deferred Compensation Program**
- **Mutual Funds**
- **Individual Retirement Accounts (IRA)**
- **Roth IRA**
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