

# The new opportunity for public school employees

whose schools make it available is a 457(b) retirement plan, named after the section of the Internal Revenue Code that governs it. Now you can have both a 403(b) retirement plan and a 457(b) plan and double the amount you defer.

For more information, contact

MEA Financial Services

at

1-800-292-1950

or your local

MEA Financial Services

Representative.

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P.O. Box 2501 • East Lansing, MI 48826-2501

1-800-292-1950 [www.meafs.com](http://www.meafs.com)

# 457(b) Deferred Compensation Plan



MEA Financial Services

Paradigm Equities, Inc.

MEA Financial Services

- In providing for a better retirement, public school employees have used a 403(b) plan to invest using pre-tax dollars. With a 403(b) plan, your investment grows tax-deferred until you take distributions, at which time the initial investment plus all interest, dividends, and capital gains are subject to income tax. A 10% penalty beyond normal tax rates may apply for withdrawals taken before age 59½. For those who have a 403(b) plan, your contribution limit for 2006 is \$15,000, with annual increases indexed at \$500 increments through 2010.
- A 457(b) is a district-sponsored deferred compensation plan that also allows you to invest pre-tax dollars but provides access to your money if you separate from service prior to age 59½. Like a 403(b) your investment grows tax-free until you take distributions, at which time the initial investment plus all interest, dividends and capital gains are subject to income tax. It's also a good way to shelter accumulated vacation and sick pay that has been earned but not yet received when you decide to terminate. With a 457(b) plan, you're able to defer another \$15,000 in 2006, then annual increases are indexed at \$500 increments through 2010.
- Two special 457(b) catch-up provisions add extra incentive. There's a \$5,000 special Age 50+ catch-up provision for 457(b) plan holders who reach age 50 at any time during the calendar year. A special 457(b) Pre-Retirement Catch-up is available in the last three full taxable years ending before the year the participant attains normal retirement age under the District's 457(b) Plan. (Note: this special catch-up contribution may not be used in the final year of service.) The catch-up allows employees the opportunity to contribute twice the annual deferral limit for each of the three years. Since this catch-up is considered a "missed opportunity", the 457(b) Plan must have been established by the school district for the full time period prior to election. Unlike the 403(b) Catch-up rules, if the 457(b) Pre-Retirement Catch-up is elected, the Age 50+ Catch-up can't be used simultaneously and vice-versa.
- Your employer may also contribute to your 457(b) plan subject to the annual rules regarding 457(b) contribution limits (i.e., \$15,000 plus either of the catch-ups if they apply). And with the MEA Financial Services 457(b) program, you have a choice of investments.
- With 457(b) plans, distributions can be taken if you're separated from service, regardless of age, or have attained age 70½.
- If your school plan permits, you can take a loan against your 457(b) plan or take distributions for unforeseen emergencies.
- Also, regardless of age, a special low-balance distribution can be requested provided that your school plan permits it and your account is less than \$5,000, you have made no contributions into the account for at least two years, and you have never taken a distribution from your account.
- If your school has adopted a 457(b) plan, a simple payroll reduction procedure should be in place. Once your 457(b) is established, the funds may be rolled over into other retirement plans including 403(b) plans, 401(k) plans, IRAs, etc. if permitted by your school's plan.

Greater income deferral, no penalty for early distribution, and attractive catch-up opportunities make a 457(b) an important part of your retirement plan.\* Start now and have the freedom to relax during your retirement.

\*Remember, when considering a deferred compensation program that may be right for you, please check with your tax advisor to determine how these changes may affect your tax situation.