403b/457
Flyer

As a public school employee you have the ability to supplement your retirement by payroll deducting monthly contributions to either a 403b or 457 plan.

A 403b is a retirement account you can set up in your name. Your monthly contributions can either be pre-tax or post-tax. The pre-tax account allows the contributions and the accrual to be tax exempt until withdrawn. At retirement, once you take a withdrawal, that amount will be added to your taxable income. You must wait until age 59 ½ to take withdrawals with no government penalties. During your employment you can not take any withdrawals. You can take a loan against your account, and it must be paid back. If you default on the loan you will pay income tax and a 10 percent government excess tax. If you leave employment and have not reached age 59 ½ you can take a withdrawal, it will be subject to income tax and the 10 percent excise tax.

The post-tax or ROTH account contribution is made with after tax dollars. The account value at retirement then comes to you income tax free assuming you are age 59 ½ and held the account for 5 years.

A 457 or "Deferred Compensation Plan" is like a 403b plan as far as your choice of pre-tax or post-tax contributions. Like the 403b pre-tax account, your withdrawals will be taxed at your tax rate. The primary difference is when you are eligible to withdraw from the account. To get access to your account you must sever your employment, you do not have to reach age 59 ½ (For Roth accounts you can access your contributions only assuming you have been in the plan for 5 years). This plan is sponsored by your employer, Mesquite ISD.

In the state of Texas 403b providers are subject to approved status by TRS. These providers fall into four categories.

1. Fixed Annuities
2. Variable Annities
3. Fixed Index Annuities
4. Mutual Funds

Here is a brief overview of each type.

Fixed Annuities are investments offered through insurance companies. Fixed annuities offer guaranteed interest rates. They usually have a base rate of interest and can fluctuate if rates go up or down. With this type of investment your principal is guaranteed. The interest rate is based on the solvency and ability to pay claims by the insurance company offering the investment. Fixed annuities also have a company imposed surrender charge. Should you terminate your contract prior to the completion of the surrender time line you will be assessed a surrender penalty by the issuer of the contract.

Variable Annuities are offered through insurance companies. As opposed to a fixed annuity that offers guaranteed interest rates, variable annuities offer investors the opportunity to generate higher rates of returns by investing in equity and bond sub accounts. Since a variable annuity account performance can fluctuate, due to the stock or bond market, the account has a "guarantee death benefit". This guarantees that the account owners beneficiaries receive no less than what has been invested. When reviewing internal costs there is a an additional "Mortality & Expense" fee that guarantees the principal/invested monies in the event you pass away while the contract is in force. The "Mortality & Expense" fee can be the result of other "features" or "benefits" included within the terms of the contract. Also in reviewing costs there will be annual expenses for the stock or bond sub accounts. To have a complete outline of these internal expenses read the "Prospectus" for full terms and conditions. Variable annuities also have a company imposed surrender charge. Should you terminate your contract prior to the completion of the surrender time line you will be assessed a surrender penalty by the issuer of the contract. Again, you should always request form the representative a prospectus which should consider the investment objectives, risks, charges and expenses of the variable annuity and its underlying investment options carefully before investing.

Fixed Index Annuities are a fixed annuity with a call option on an index, usually the Standard and Poor's 500 Index. The vast majority of the call options are one year in length. These call options allow you limited participation in the upside of the index.
When indexed annuities were developed a couple of decades ago, they were designed to compete with CD returns, not market returns. These annuities have "Income Riders", for a target date income planning. Potential gains are attached to a "call option", if the markets go down and at the call option target date an investor will not lose any money. On the upside, if the market is up at your target date you have gains from your index option. This gain is locked in but is "capped". What does capped mean; here is an example. If the Standard and Poor's 500 index returns in one year are up 15% and the cap on your account is 2%, you will only receive 2%. The company retains the difference of 13%. If the Standard and Poor's 500 index loses 10 % your account will return 0% for that time period. As long term investments Index annuities will not provide stock market like returns. Index annuities are designed to compete with CD type investments. Index annuities also have a company imposed surrender charge. Should you terminate your contract prior to the completion of the surrender time line you will be assessed a surrender penalty by the issuer of the contract.

A Mutual Fund is a professionally managed investment fund that pools money from many investors to purchase securities, such as stocks and bonds.
In the United States mutual funds must be registered with the U.S. Securities Exchange Commission. The mutual fund company has individual funds that have a professional manager who buys and sells the fund's investments in accordance with the fund's objective. Objectives are usually oriented towards growing an investors assets or giving income to an investor. Mutual funds do have internal expenses that are outlined in a "prospectus". Since all mutual funds are tied to the stock or bond markets there is no way to tell a person what the future returns will be. A fund can look back and show historical returns. When your monthly contributions goes into a fund it buys "units". For example you contribute $100.00 and a unit is valued at $1.00. You have bought 100 units. You will all ways have 100 units and these units can fluctuate in value. When markets rise the value of your "units" typically rise as well. Thus showing and increase in value. When markets decline the value of your units often decline. As mentioned you will still have the same number of units. Gains and Losses are only realized when you redeem your shares (units). Thus the phrase buy low and sell high is used to describe realizing gains in an investors mutual fund account. One of the benefits of investing on a monthly basis is that the investor benefits from buying through dollar cost averaging. If a person has time on their side and they want their account to grow then a mutual fund can be a good investment. You should carefully consider the investment objectives, charges and expenses of any mutual fund before investing. For a prospectus containing this and other information you should contact your representative. Please read prospectus carefully before investing.

Again, this has been an overview of the for types of investments that are offered here in MISD. Hopefully this has been an educational tool.