

**Montgomery County Public Schools**  
**§403(b) Question and Answers**

*This Q&A is only a description of the plan and, while the description is intended to be accurate, the rules are complex and subject to change. The MCPS §403(b) Tax Sheltered Savings Plan document governs all questions and interpretations.*

**What are the advantages of a 403(b) over other investments?**

The 403(b) is a pre-tax savings plan funded through the convenience of payroll deductions. In addition to reducing taxable income, all earnings grow tax deferred. This tax-deferred compounding permits an account to grow faster than an account without these features.

**How much can be contributed to a 403(b)?**

For 2012, participants are permitted to contribute up to \$17,000. Additionally there is a "catch-up" provision available for participants that will be age 50 or older by December 31,

**Is there a catch up for those ages 50 and over?**

Yes. Participants age 50 or older at any time during calendar year are eligible to contribute an additional \$5,500 to their 403(b), raising their combined contribution amount to \$22,500. This is known as the Age 50 Catch-up provision. MCPS will automatically increase the standard contribution limit to include the age 50 dollar amount for those employees that will be age 50 by December 31<sup>st</sup> of the current year.

**Should I contribute a dollar amount or percentage of salary?**

Employees have the option of choosing either a specific dollar amount or a percentage of pay. However, employees categorized as "temporary part-time" may only contribute a percentage of pay. Setting up the account with a percentage of pay designated eliminates having to fill out paperwork every year, and helps employees' increase savings each time their salary increases. Participants always have the option of changing the contribution amount.

**PLEASE NOTE: if you are contributing to more than one 403(b) vendor and/or a 457(b) account, all contribution types must be the consistent. For example, if you are contributing a percentage of salary to a 403(b) account, you must contribute a percentage of salary to your 457(b) account and vice versa.**

MCPS recommends that participants limit salary deferrals to no more than a combined 72 percent of income (to vendors or plans) to ensure other pre-tax deductions are taken prior to the 403(b) contribution. The MCPS payroll system follows a sequence for pre-tax deductions. Since other pre-tax deductions (such as medical and dental plan costs) precede the 403(b) deductions, (provided the employee is making other deductions) a more practical limit on contributions to the 403(b) plan is approximately 72 percent of salary. If an employee does not have enough money remaining in his/her paycheck after the earlier/required pre-tax deductions are taken, the 403(b) plan contributions will not be withheld. It is also important to reserve money for after-tax deductions, such as mandatory union dues (if applicable).

**What investment products are available in a 403(b) plan?**

There are two categories of investment options available: annuity products and a 403(b)(7) custodial

account made up of mutual funds. Note: Exchange Traded Funds (ETF's) are not a permitted investment in 403(b) plans.

### **What companies/vendors can I invest with?**

A list of vendors that MCPS employees may invest with is found in the [Vendors section](#) of this web site.

### **What should I know before opening a 403(b)?**

Fees, operating rules, and investment objectives can vary greatly among vendors and across investments. Therefore, it is important to understand all of these before you begin contributing to any investment by reviewing disclosure documents such as prospectuses and/or contracts. These are not savings accounts and impose limitations on accessing funds once contributed. See “When am I eligible for distribution” for more details.

### **What does it cost to invest in a 403(b)?**

Fees vary greatly among vendors and across investments; what follows are general guidelines.

#### **Fixed Annuities**

There is no separate fee for a fixed annuity. Similar to the way in which a bank makes money on a certificate of deposit, annuity fees are built into the product. For example, an annuity company may believe it can earn X percent on an investment, so it will pay an investor Y percent. The company makes its money on the difference, or spread. Generally this spread is between 1 and 2 percent annually. For specific information on fees, consult the contract provided by the company offering the fixed-annuity before you begin making contributions.

#### **Variable Annuities**

Variable annuities charge on average 2.25 percent a year, according to fund tracker Morningstar Inc. For specific information on fees, consult the prospectus for the variable annuity before you begin making contributions.

#### **Mutual Funds**

Mutual funds charge on average 1.4 percent a year according to fund tracker Morningstar Inc. For specific information on fees, consult the prospectus of the mutual fund before you begin making contributions.

### **Do I need an agent or advisor to start a 403(b)?**

No. You are free to invest on your own. You may also use the services of a vendor representative or independent financial advisor. Financial representatives can provide valuable services to their clients. These services can include retirement planning, information about state retirement plans, and analysis of other financial needs. All financial professionals charge a fee for their services. In order to determine the value of the service, it is important to know exactly what services are being provided and exactly what fees are being charged.

### **Who is the MCPS third party administrator and what does the service provide?**

MCPS has retained Retirement Manager (third party administrator) to assist in administering the plans.

Retirement Manager combines account information from all approved vendors and summarizes account balances on its web site. In addition, Retirement Manager pre-approves certain withdrawal and transfer request on behalf of MCPS.

**Separation of Service Certificate:** available upon retirement or termination of employment with MCPS. This certificate provides confirmation that you are no longer employed by MCPS and eligible for a withdrawal from your account.

**In-Service (Age 59 ½) Distribution Certificate:** Active MCPS employees with a 403(b) account who reach age 59 ½ are eligible to withdraw money from their account. Retirement Manager will automatically display the In-Service Distribution Certificate the day you reach age 59 ½.

**Loan Eligibility Certificate:** Active MCPS employees wishing to obtain a loan from their 403(b) account must receive pre-approval by requesting a loan certificate from Retirement Manager. Retirement Manager confirms eligibility for the loan based on plan rules. If you have defaulted on a prior loan you will not be eligible for any new loans until you repay the defaulted loan.

**Hardship Certificate:** Active MCPS employees wishing to obtain a hardship withdrawal must receive pre-approval by requesting a certificate from Retirement Manager. You are required to exhaust all loan options available to you, in the 403(b) and/or 457(b) plans, if applicable, prior to becoming eligible for a hardship request.

Retirement Manager certificates must be returned to your vendor along with all required paperwork for the request to be processed.

### **Can I change companies/vendors?**

Yes, the IRS and MCPS allow participants to change vendors, however it is important for employees to work with both their existing and prospective vendor, in addition to informing MCPS of any changes to your account. MCPS permits exchanges of existing account balances between approved vendors to receive payroll contributions and only to available investment products.

MCPS has negotiated with all nine approved vendors for the ability to exchange accounts without incurring any surrender/withdrawal fees or limits on withdrawals. Please refer to the MCPS website for instructions, specific to each approved vendor, on how to exchange between companies.

MCPS employees wishing to move account assets from one approved vendor to another will be required to complete an In-Service Exchange Request Certificate, available from the [third party administrator web site](#). You must include this certificate when submitting your exchange paperwork to the vendor receiving assets from your former vendor. Paperwork does not require MCPS signature or review please submit all documents directly to the vendor.

Please remember to submit a new [403\(b\) Salary Reduction Agreement \(PDF\)](#) or [457\(b\) Salary Deferral Agreement \(PDF\)](#) to MCPS directing MCPS to begin remitting your contributions to the new company and stopping contributions to the old company.

### **What is an In-Service Exchange Certificate?**

MCPS has hired Retirement Manager to assist in administering the 403(b) plan. The plan permits active employees to move account balances from one approved vendor to another. Vendors require authorization

from MCPS to process these requests. Employees must login to Retirement Manager to request and print an In-Service Exchange Certificate that replaces the need for MCPS approval.

### **Can I change the amount I am contributing?**

Yes, changes can include change of dollar amount or percentages contributed, and change of vendor. Complete another [Salary Reduction Agreement](#) indicating desired change and send through the PONY or mail to the Employee and Retiree Service, Attn.: Transaction Unit, 45 W Gude Drive, Suite 1200, Rockville, Maryland 20850.

### **Can I stop contributing?**

Yes. You retain the right to stop contributing at any time. Complete another [Salary Reduction Agreement](#) indicating this change and send through the PONY or mail to the Employee and Retiree Service, Attn.: Transaction Unit, 45 W Gude Drive, Suite 1200, Rockville, Maryland 20850.

### **When am I eligible for a distribution from my 403(b)?**

If you withdraw assets prior to age 59 ½, the IRS will impose a 10 percent penalty tax, in addition to the normal tax consequences, unless you meet one of the following criteria:

- Separation of Service (note tax penalty if under age 59 ½)
- Attain age 59 ½
- Hardship
- Disability
- Death
- Made due to an IRS levy upon your participant account
- Paid to an alternative payee under a qualified domestic relations order
- Is a qualified reservist distribution as defined under the Pension Protection Act of 2006

Vendor contracts may provide for additional distribution criteria.

Note that withdrawals will be taxed as ordinary income. See information on [Loans](#), [Hardship Withdrawal](#), [Changing Employers](#), [Becoming Disabled](#), [Divorce](#), [Death](#), and [Retirement](#) for more information on accessing 403(b) money.

### **When must I withdraw money from my 403(b)?**

Generally, you must begin to take withdrawals from your 403(b) no later than April 1 of the year following the year in which you turn age 70-1/2. If you are still working, you can delay withdrawal from your 403(b) until April 1 following the year in which you retire/terminate.

### **Can I borrow money from my 403(b)?**

Yes, all MCPS vendors offer loans. The minimum loan amount is generally \$1,000. If you are an active MCPS employee wishing to take a loan, you must obtain a Loan Eligibility Certificate from the MCPS [third party administrator and include it with your vendor loan application paperwork](#). The third party administrator will review all requests and determine if they meet the Plan requirements. MCPS does not limit the number of loans available. Plan loan limits are based on IRS rules. **You are not eligible to receive a new loan if you have a defaulted loan outstanding or are no longer working from MCPS.**

Loan requests for the purchase of a primary residence that will be repaid over a period of more than five years require documentation from your title company (typically the HUD1 document). Not all vendors

may offer loans for the purchase of a primary residence that permit the loan to be repaid over more than five years.

### **May hardship withdrawals be made from a 403(b)?**

Hardship withdrawals are permitted from a 403(b) account if the employee is under severe financial distress. The employee must have no other resources available to alleviate the stress, such as selling assets or obtaining a loan from a financial institution (including your MCPS 403(b) account). Hardship withdrawals may be made for:

- Un-reimbursed medical expenses of the employee or his/her spouse and dependents
- Down payment on primary residence
- Tuition and fees for higher education needs, only for the next 12 months
- Eviction or foreclosure on your primary residence

You may only withdraw the amount that you need to meet your hardship, plus an amount to cover any taxes that apply. Hardship withdrawals can only be taken from salary reduction contributions, not earnings.

If you are an active MCPS employee wishing to take a hardship or unforeseen emergency withdrawal you must obtain a Hardship Distribution Eligibility Certificate from the MCPS [third party administrator](#). The third party administrator will pre-qualify requests (such as ensuring you are not eligible for a loan from your account) and determine if they meet the Plan or IRS requirements. If the request is pre-approved the account holder must print the certificate and include it with any vendor required paperwork, including supporting documentation. Vendors will not process any withdrawal request unless the certificate is included with the request.

**SPECIAL NOTICE:** If you are requesting a 403(b) hardship request you are **REQUIRED** to submit documentation supporting the amount requested to your vendor.

MCPS will automatically suspend contributions, per IRS guidelines, to your 403(b) and, if applicable, your 457(b) account for six months.

MCPS will not automatically restart suspended contributions due to a Hardship Distribution,

### **What happens to my 403(b) if I leave MCPS?**

Assets can be transferred to your new employer's defined contribution plan, if permitted by that plan. Check with your new employer for details.

- Assets can be transferred to your new employer's defined contribution plan, if permitted by that plan. Check with your new employer for details.
- Assets may be moved to a Rollover Individual Retirement Account (IRA). This will permit the money to continue to grow tax deferred. Check with the institution currently holding the assets and the institution you wish to transfer to for more details.
- You can leave the money in the plan and continue to enjoy the tax-deferred growth.
- You can take a lump sum distribution. If you are not age 59-1/2, early withdrawal penalties and significant tax consequences may occur

**Former employees wishing to withdraw money must [obtain a Distribution Eligibility Certificate](#) confirming your separation from MCPS.**

### **What happens to my 403(b) if I become disabled?**

Withdrawal of 403(b) money is permitted in cases of disability, as defined by the IRS. Consult your vendor or a tax professional for more details.

### **What happens to my 403(b) in the event of a divorce?**

Some or all of the balance in your 403(b) account may be transferred. Distribution to an alternate payee will be permitted if it is made pursuant to a qualified domestic relations order (QDRO). This is a decree, judgment, or order that meets the qualification requirements of the Internal Revenue Code. Those requirements include the following:

- The order must have been issued under a state's community property or other domestic relations law
- It must relate to the provision of alimony, child support, or the property rights of a spouse, former spouse, child, or other dependent (alternate payee).
- It must assign to the alternate payee the right to receive all or a portion of the participant's plan benefits.
- It must clearly specify (1) the names and addresses of each alternate payee, (2) the amount or percentage of the participant's benefit to be paid to each alternate payee, (3) the period of time over which the order applies, and (4) each plan to which the order applies. If a distribution is made to a spouse or former spouse under a QDRO, the distribution may be rolled into a qualified plan or IRA that the spouse or former spouse has. Distribution to any other alternate payee is not eligible for rollover. It is highly recommended that individuals seek the counsel of a qualified attorney in the event of divorce. It may also be necessary to speak with a tax or financial professional. Your vendor should also be able to provide information. Participants should review beneficiary designations annually and update as necessary through the 403(b) provider.

### **What happens to my 403(b) in the event of death?**

Death benefits are paid to beneficiaries on file with your vendor. How the proceeds are distributed depends upon the age of the participant upon death. Participants should review beneficiary designations annually and update as necessary through the 403(b) provider.

### **What happens to my 403(b) at retirement?**

You are free to begin penalty-free withdrawals upon retirement (at age 59 ½ or greater). Investment contracts may permit you to take withdrawals without the imposition of contractual surrender charges at retirement. Please refer to earlier question "[When am I eligible for a distribution from my 403\(b\)?](#)" for information regarding IRS penalties.

Note that withdrawals will be taxed as ordinary income.

### **Upon retirement can I defer unused sick leave (to a 403(b) plan)?**

Yes. Thirty days prior to your retirement date you must submit the required paperwork to MCPS [[Salary Reduction Agreement — Leave Payout Request \(PDF\)](#)]. You may rollover the value of the earned sick pay into your 403(b) account, up to the annual IRS contribution limit. If you are opening a new 403(b) account to receive this payout, you must follow the standard new account procedures detailed below and start the process early enough to accommodate paperwork processing both by MCPS and your 403(b) provider.

### **Can I purchase pension-service credit with 403(b) dollars?**

Yes. Contact the [Maryland State Retirement System](#) (800-492-5909) or MCPS (301-517-8100) for details.

### **Can I contribute to a 403(b) and a 457(b)?**

Yes. You are eligible to contribute the maximum allowable to each plan. See [457\(b\) FAQs](#) for information on the 457(b) plan.

### **Can I transfer 403(b) money to a 457(b)?**

No.

### **How is a 403(b) different from a 457(b)?**

The plans are similar in that pre-tax contributions are made on behalf of participants and the account grows tax-deferred until withdrawn. Differences between the plans include different distribution rules and withdrawal requests while under financial distress.

403(b) assets may be withdrawn beginning at age 59-1/2, without a tax-penalty, while 457(b) assets may be withdrawn upon separation of service with MCPS.

Withdrawals requested under financial distress are subject to different rules for eligibility. The 457(b) plan typically has stricter requirements than the 403(b) plan.

### **How is a 403(b) different from the Maryland State Teachers Pension plan or the MCPS Employees Pension system?**

The Maryland State Teachers Pension plan and the MCPS Employees Pension system are defined benefit plans (also known as DB plans) for MCPS school personnel. Employees are automatically enrolled upon employment in one of these two plans based on job classification. Generally, employees who work directly with students are enrolled in the state plan, while employees who do not are enrolled in the school's plan. The Office of Human Resources will determine your status upon employment. Both plans have the same features and provide the same benefits. Employees automatically contribute a percentage of their salary pre-tax to the plan they are enrolled in. The school system also makes a contribution on behalf of the employee. In general, pension plans provide an income in retirement based on years of service, a retirement factor determined by the plan administrators, and average final salary. A 403(b) plan is a defined contribution (also known as a DC plan). Enrollment in a 403(b) plan is voluntary. Benefits are determined by the amount accumulated by the individual.

### **How is a 403(b) different from a 401(k)?**

A 401(k) is tax-deferred retirement savings plan offered by private employers. A 403(b) is a tax-deferred retirement savings plan offered by educational institutions and certain nonprofit organizations.

### **Can I contribute to a 403(b) and to a Roth IRA?**

Yes, subject to adjusted gross income (AGI) limits. The Roth IRA presents another way to save for retirement. Contributions to a Roth IRA do not reduce taxable income, but withdrawals, subject to certain rules, are never taxed. Further details on the Roth IRA can be found in IRS Publication 590, [Individual Retirement Arrangements \(PDF\)](#). This publication may be downloaded from the [Internal Revenue Service \(IRS\)](#). It may also be obtained by calling 1-800-TAX-FORMS.

### **Does MCPS contribute to my 403(b)?**

No. MCPS provides retirement benefits through a [pension plan](#).

### **How are contributions made?**

The IRS requires contributions be made via salary reduction in accordance with a written [Salary Reduction Agreement](#) on file with MCPS. Lump sum contributions and retroactive contributions are not allowed. Twelve-month employees contribute equal amounts over 26 pay periods; ten-month employees contribute over 20 pay periods. Contributions can be set up as a percentage of salary or dollar per pay period. The IRS requires employee contributions to be remitted in a timely manner, typically within 15 business days of pay day.

*Notice: MCPS does not review, approve or endorse any of the investment options that may be offered by any vendor in connection with the plan. As a plan participant, you are solely responsible for the review and selection of any and all plan investment options. Not all investment options that may be offered by vendors may be appropriate or suitable for plan investments. You must review them carefully before making any investment decisions. Neither MCPS nor any of its employees have any liability or responsibility for investment options that you select.*

## **Montgomery County Public Schools §457(b) Question and Answers**

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### **What are the advantages of a 457(b) over other investments?**

The 457(b) is a deferred compensation savings plan funded through the convenience of payroll deductions. In addition to reducing taxable income, all earnings grow tax deferred. This tax-deferred compounding permits an account to grow faster than an account without these features. Unlike the 403(b), there is no federal 10 percent premature distribution penalty imposed withdrawals from a 457(b).

### **How much can be contributed to a 457(b)?**

For 2012, participants are permitted to contribute up to \$17,000. Additionally there is an Age 50 "catch-up" for those participants that will be age 50 or older by December 31.

### **Is there a catch up for those ages 50 and over?**

Yes. Participants age 50 or older at any time during calendar year are eligible to contribute an additional \$5,500 to their 457(b), raising their combined contribution amount to \$22,500. This is known as the Age 50 Catch-up provision. . MCPS will automatically increase the standard contribution limit to include the age 50 dollar amount for those employees that will be age 50 by December 31<sup>st</sup> of the current year.

### **Should I contribute a dollar amount or percentage of salary?**

Employees have the option of choosing either a specific dollar amount or a percentage of pay. However, employees categorized as "temporary part-time" may only contribute a percentage of pay. Setting up the account with a percentage of pay designated eliminates having to fill out paperwork every year, and helps employees' increase savings each time their salary increases. Participants always have the option of changing the contribution amount.

**PLEASE NOTE: if you are contributing to more than one 457(b) vendor and/or a 403(b) account, all contribution types must be the consistent. For example, if you are contributing a percentage of salary to a 457(b) account, you must contribute a percentage of salary to your 403(b) account and vice versa.**

MCPS recommends that participants limit salary deferrals to no more than a combined 72 percent of income (to vendors or plans) to ensure other pre-tax deductions are taken prior to the 457(b) contribution. The MCPS payroll system follows a sequence for pre-tax deductions. Since other pre-tax deductions (such as medical and dental plan costs, and 403(b)) precede the 457(b) deductions, (provided the employee is making other deductions) a more practical limit on contributions to the 457(b) plan is approximately 72 percent of salary. If an employee does not have enough money remaining in his/her paycheck after the earlier/required pre-tax deductions are taken, the 457(b) plan contributions will not be withheld. It is also important to reserve money for after-tax deductions, such as mandatory union dues (if applicable).

### **What investment products are available in a 457(b) plan?**

Currently vendors only offer annuity and mutual fund investments.

### **What companies/vendors can I invest with?**

A list of vendors that MCPS employees may invest with is found in the [Vendors section](#) of this web site.

### **What should I know before opening a 457(b)?**

Fees, operating rules, and investment objectives can vary greatly among vendors and across investments. Therefore, it is important to understand all of these before you begin contributing to any investments by reviewing disclosure documents such as prospectus and/or contract. . These are not savings accounts and impose limitations on accessing the funds once contributed. See “When am I eligible for distribution” for more details.

### **What does it cost to invest in a 457(b)?**

Fees vary greatly among vendors and across investments; what follows are general guidelines.

#### **Fixed Annuities**

There is no separate fee for a fixed annuity. Similar to the way in which a bank makes money on a certificate of deposit, annuity fees are built into the product. For example, an annuity company may believe it can earn X percent on an investment, so it will pay an investor Y percent. The company makes its money on the difference, or spread. Generally this spread is between 1 and 2 percent annually. For specific information on fees, consult the contract provided by the company offering the fixed-annuity before you begin making contributions.

#### **Variable Annuities**

Variable annuities charge on average 2.25 percent a year, according to fund tracker Morningstar Inc. For specific information on fees, consult the prospectus for the variable annuity before you begin making contributions.

#### **Mutual Funds**

Mutual funds charge on average 1.4 percent a year according to fund tracker Morningstar Inc. For specific information on fees, consult the prospectus of the mutual fund before you begin making contributions.

### **Do I need an agent or advisor to start a 457(b)?**

No. You are free to invest on your own. You may also use the services of a vendor representative or independent financial advisor. Financial representatives can provide valuable services to their clients. These services can include retirement planning, information about state retirement plans, and analysis of other financial needs. Annuity and variable-annuity products are often sold by vendor representatives who are also referred to as agents. All financial professionals charge a fee for their services. In order to determine the value of the service, it is important to know exactly what services are being provided and exactly what fees are being charged.

### **Who is the MCPS third party administrator and what does the service provide?**

MCPS has retained Retirement Manager (third party administrator) to assist in administering the plans.

Retirement Manager combines account information from all approved vendors and summarizes account balances on its web site. In addition, Retirement Manager pre-approves certain withdrawal and transfer request on behalf of MCPS.

Separation of Service Certificate: available upon retirement or termination of employment with MCPS. This certificate provides confirmation that you are no longer employed by MCPS and eligible for a withdrawal from your account.

Loan Eligibility Certificate: Active MCPS employees wishing to obtain a loan from their 457(b) account must receive pre-approval by requesting a loan certificate from Retirement Manager. Retirement Manager confirms eligibility for the loan based on plan rules. If you have defaulted on a prior loan you will not be eligible for any new loans until you repay the defaulted loan.

Unforeseen Emergency (Hardship) Certificate: Active MCPS employees wishing to obtain an unforeseen emergency withdrawal must receive pre-approval by requesting a certificate from Retirement Manager. You are required to exhaust all loan options available to you, in the 403(b) and/or 457(b) plans, if applicable, prior to becoming eligible for a hardship request.

Retirement Manager certificates must be returned to your vendor along with all required paperwork for the request to be processed.

### **Can I change companies/vendors?**

Yes, the IRS and MCPS allow participants to change vendors, however it is important for employees to work with both their existing and prospective vendor, in addition to informing MCPS of any changes to your account. MCPS permits exchanges of existing account balances between approved vendors to receive payroll contributions and only to available investment products.

MCPS has negotiated with all nine approved vendors for the ability to exchange accounts without incurring any surrender/withdrawal fees or limits on withdrawals. Please refer to the MCPS website for instructions, specific to each approved vendor, on how to exchange between companies.

MCPS employees wishing to move account assets from one approved vendor to another will be required to complete an In-Service Exchange Request Certificate, available from the [third party administrator web site](#). You must include this certificate when submitting your exchange paperwork to the vendor receiving assets from your former vendor. Paperwork does not require MCPS signature or review, please submit all documents directly to the vendor.

Please remember to submit a new [457\(b\) Deferred Compensation Agreement \(PDF\)](#) to MCPS directing MCPS to begin remitting your contributions to the new company and stopping contributions to the old company.

### **What is an In-Service Exchange Certificate?**

MCPS has hired Retirement Manager to assist in administering the 457(b) plan. The plan permits active employees to move account balances from one approved vendor to another. Vendors require authorization

from MCPS to process these requests. Employees must login to Retirement Manager to request and print an In-Service Exchange Certificate that replaces the need for MCPS approval.

### **Can I change the amount I am contributing?**

Yes, changes can include change of dollar amount or percentages contributed, and change of vendor. Complete another [Salary Deferral Agreement \(PDF\)](#) indicating desired change and send through the PONY or mail to the Employee and Retiree Service, Attn.: Transaction Unit, 45 W Gude Drive, Suite 1200, Rockville, Maryland 20850.

### **Can I stop contributing?**

Yes. You retain the right to stop contributing at any time. Complete another [Salary Deferral Agreement \(PDF\)](#) indicating this change and send through the PONY or mail to the Employee and Retiree Service, Attn.: Transaction Unit, 45 W Gude Drive, Suite 1200, Rockville, Maryland 20850.

### **When am I eligible for a distribution from my 457(b)?**

§ Upon severance of employment with MCPS

§ Attain age 70-1/2

§ After retirement under the plan (please note, if you are employed by MCPS, in any capacity, after retirement you are **INELIGIBLE** to take distribution from the 457(b) based on retirement or separation of service).

Note that withdrawals will be taxed as ordinary income. See information on [Loans](#), [Unforeseen Emergency Withdrawal](#), [Changing Employers](#), [Becoming Disabled](#), [Divorce](#), [Death](#), and [Retirement](#) for more information on accessing 457(b) money.

### **When must I withdraw money from my 457(b)?**

Generally, you must begin to take withdrawals from your 457(b) no later than April 1 of the year following the year in which you turn age 70-1/2. If you are still working, you can delay withdrawal from your 457(b) until April 1 following the year in which you retire/separate from service.

### **Can I borrow money from my 457(b)?**

Yes, all MCPS vendors offer loans. The minimum loan amount is generally \$1,000.

If you are an active MCPS employee wishing to take a loan, you must obtain a Loan Eligibility Certificate from the MCPS [third party administrator](#) and include it with your [vendor loan application paperwork](#). The third party administrator will review all requests and determine if they meet the Plan requirements. The Plan limits loans to the lesser of \$50,000 or ½ of the account value. MCPS does not limit the number of loans available. **You are not eligible to receive a new loan if you have a defaulted loan outstanding.**

Loan requests for the purchase of a primary residence that will be repaid over a period of more than five years require documentation from your title company (typically the HUD1 document). Not all vendors may offer loans for the purchase of a primary residence that permit the loan to be repaid over more than five years.

### **May unforeseen emergency withdrawals be made from a 457(b)?**

Yes. Unforeseen emergency withdrawals are permitted from your 457(b) account if the employee is under severe financial distress. The IRS definition of what qualifies as an unforeseen emergency is very specific and harder to qualify for than those for the 403(b) plan. The emergency must be unexpected and unanticipated. Furthermore, the employee must have no other resources available to alleviate the stress, such as selling assets or obtaining a loan from a financial institution. Payments may not be made to the extent that the unforeseen emergency is or may be relieved by:

§ Reimbursement or compensation by insurance or otherwise;

§ Liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or

§ By cessation of deferrals under the Plan

The following events may constitute a severe financial hardship:

§ Imminent foreclosure of or eviction from the participant's or beneficiary's primary residence;

§ Payment for medical expenses, including non-refundable deductibles and the cost of prescription medication; and

§ The need to pay for the funeral expense of a family member.

Unforeseen emergencies will not be granted for financial situations that could be anticipated, for example paying past due taxes, tuition, or child support. You may only withdraw the amount needed to meet your hardship, plus an amount to cover any applicable taxes that will apply. MCPS will require proof of the unforeseen emergency prior to approving the withdrawal.

If you are an active MCPS employee wishing to take an unforeseen emergency withdrawal you must obtain a Distribution Eligibility Certificate from the MCPS [third party administrator](#). The third party administrator will review all requests and determine if they meet the Plan or IRS requirements. If the request is pre-approved the account holder must print the certificate and include it with any vendor required paperwork, including supporting documentation. Vendors will not process any withdrawal request unless the certificate is included with the request.

**SPECIAL NOTICE:** If you are requesting a 457(b) unforeseen emergency request you are **REQUIRED** to submit documentation supporting the amount requested to your vendor.

**NOTE:** If an employee takes a hardship withdrawal from a 403(b) account IRS guidelines require a six month suspension of contributions to a 457(b) plan as well.

### **What happens to my 457(b) if I leave MCPS?**

§ Assets can be transferred to your new employer's defined contribution plan — 401(k), 403(b), 401(a), or 457(b) plan — if permitted. Check with your new employer. This will allow the participant to continue to enjoy tax-deferred growth.

§ Leave the money in the plan and continue to enjoy the tax-deferred growth.

§ Take a distribution(s). Unlike the 403(b) there is no 10 percent early withdrawal penalty for withdrawing 457(b) upon separation of service. Withdrawals will be taxed as ordinary income.

§ Assets may be moved to a Rollover Individual Retirement Account (IRA). This will permit the money to continue to grow tax deferred. Check with the institution currently holding the assets and the institution you wish to transfer to for more details. **Former employees wishing to withdraw money must [obtain a Distribution Eligibility Certificate](#) confirming your separation from MCPS.**

### **What happens to my 457(b) if I become disabled?**

Unlike the 403(b), disability itself is not a distributable event. However, it may be considered an [unforeseeable event](#) and you may be able to withdraw money, subject to certain rules and restrictions.

### **What happens to my 457(b) in the event of a divorce?**

Some or all of the balance in your 457(b) account may be transferred. Distribution to an alternate payee will be permitted if it is made pursuant to a qualified domestic relations order (QDRO). This is a decree, judgment, or order that meets the qualification requirements of the Internal Revenue Code. Those requirements include the following:

§ The order must have been issued under a state's community property or other domestic relations law.

§ It must relate to the provision of alimony, child support, or the property rights of a spouse, former spouse, child, or other dependent (alternate payee).

§ It must assign to the alternate payee the right to receive all or a portion of the participant's plan benefits.

§ It must clearly specify (1) the names and addresses of each alternate payee, (2) the amount or percentage of the participant's benefit to be paid to each alternate payee, (3) the period of time over which the order applies, and (4) each plan to which the order applies. If a distribution is made to a spouse or former spouse under a QDRO, the distribution may be rolled into a qualified plan or IRA that the spouse or former spouse has. Distribution to any other alternate payee is not eligible for rollover. It is highly recommended that individuals seek the counsel of a qualified attorney in the event of divorce. It may also be necessary to speak with a tax or financial professional. Your vendor should also be able to provide information. Participants should review beneficiary designations annually and update as necessary through the 457(b) provider.

### **What happens to my 457(b) in the event of death?**

Death benefits are paid to beneficiaries on file with the vendor. How the proceeds are distributed depends upon the age of the participant upon death. Participants should review beneficiary designations annually and update as necessary through the 457(b) provider.

### **What happens to my 457(b) at retirement?**

§ You are free to begin penalty-free withdrawals upon retirement. Withdrawals cannot begin until separation of service, and they will be taxed as ordinary income.

§ You may leave the money where it is, especially if you like your investment choices. The money will continue to grow tax-deferred until age 70 ½ when you must begin to make withdrawals.

§ You are also permitted to move 457(b) money into a rollover IRA with a financial institution of your choice. This will delay taxes until you begin making withdrawals.

PLEASE NOTE: If you are employed by MCPS, in any capacity, after retirement you are INELIGIBLE to take distribution from the 457(b) based on retirement or separation of service.

### **Upon retirement can I defer unused sick leave (to a 457(b) plan)?**

Yes, thirty days prior to your retirement date you must submit the required paperwork to MCPS [[Salary Deferral Agreement — Leave Payout Request \(PDF\)](#)]. You may rollover a payout of your earned sick pay into your 457(b) account, up to the annual IRS contribution limit. If you are opening a new 457(b) account to receive this payout, you must follow the standard new account procedures detailed below and start the process early enough to accommodate paperwork processing both by MCPS and your 457(b) provider.

### **Can I purchase pension-service credit with 457(b) dollars?**

Yes, contact the [Maryland State Retirement System](#) (800-492-5909) or MCPS (301-517-8100) for details.

### **Can I contribute to a 457(b) and a 403(b)?**

Yes. You are eligible to contribute the maximum allowable to each plan. See [403\(b\) FAQs](#) for information on the 403(b) plan.

### **Can I transfer 457(b) money to a 403(b)?**

No.

### **How is 457(b) different from a 403(b)?**

457(b) and 403(b) plans have similarities. For example, both plans allow employees of educational institutions to save money for retirement on a tax-deferred basis. You may choose to contribute to either or both plans. Contribution amounts, including the age 50 Catch-up provision, are the same. But there are differences, which include:

§ Assets in a 403(b) are held directly by the employee, while 457(b) assets are held in a trust for the benefit of employees.

§ There is no federal 10 percent premature distribution penalty imposed on withdrawals from a 457(b) plan.

§ Different rules apply for hardship withdrawals. See [403\(b\) hardship withdrawal information](#) and [457\(b\) unforeseen emergency withdrawal information](#).

### **How is a 457(b) different from the Maryland State Teachers Pension plan or the MCPS Employees Pension system?**

The Maryland State Teachers Pension plan and the MCPS Employees Pension system are defined benefit plans (also known as DB plans) for MCPS school personnel. Employees are automatically enrolled upon employment in one of these two plans based on job classification. Generally, employees who work directly with students are enrolled in the state plan, while employees who do not are enrolled in the county plan. Human resources will determine your status upon employment. Both plans have the same features and provide the same benefits. Employees automatically contribute a percentage of their salary pre-tax to the plan they are enrolled in. The county also makes a contribution on behalf of the employee. In general, pension plans provide an income in retirement based on years of service, a retirement factor determined by the plan administrators, and average final salary. A 457(b) plan is a defined contribution (also known as a DC plan). Enrollment in a 457(b) plan is voluntary. Benefits are determined by the amount accumulated by the individual.

### **How is a 457(b) different from a 401(k)?**

A 401(k) is tax-deferred retirement savings plan offered by private employers. A 457(b) is a tax-deferred retirement savings plan for employees of state and local government agencies, including public school employees.

### **Can I contribute to a 457(b) and a Roth IRA?**

Yes, subject to adjusted gross income (AGI) limits. The Roth IRA presents another way to save for retirement. Contributions to a Roth IRA do not reduce taxable income, but withdrawals, subject to certain rules, are never taxed. Further details on the Roth IRA can be found in IRS Publication 590, [Individual](#)

[Retirement Arrangements \(PDF\)](#). This publication may be downloaded from the [Internal Revenue Service \(IRS\)](#). It may also be obtained by calling 1-800-TAX-FORMS.

### **Does MCPS contribute to my 457(b)?**

No. MCPS provides retirement benefits through a [pension plan](#).

### **How are contributions made?**

The IRS requires contributions be made via salary deferral in accordance with a written [Salary Deferral Agreement \(PDF\)](#) on file with MCPS. Lump sum contributions and retroactive contributions are not allowed. Twelve-month employees contribute equal amounts over 26 pay periods; ten-month employees contribute over 20 pay periods. Contributions can be set-up as a percentage of salary or dollar per pay period.

*Notice: MCPS does not review, approve or endorse any of the investment options that may be offered by any vendor in connection with the plan. As a plan participant, you are solely responsible for the review and selection of any and all plan investment options. Not all investment options that may be offered by vendors may be appropriate or suitable for plan investments. You must review them carefully before making any investment decisions. Neither MCPS nor any of its employees have any liability or responsibility for investment options that you select.*