

Glossary of Terms

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

403(b) Plan Information

403(b)

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

403(b) Plan

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

Tax-Sheltered Annuity (TSA)

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

403(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 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 company that offers mutual fund custodial accounts or insurance company that offers annuities that meet the investment option requirements of IRC 403(b). The only permitted investment options in 403(b) plans are custodial accounts and annuities. Only approved providers that have established an Information Sharing Agreement (ISA) with the employer may receive contributions, transfers or rollovers.

Contributing to a 403(b) Plan

Catch-up Contribution

Contribution in excess of the annual basic contribution limit set by the IRS. Catch-up contributions may be made beginning the year in which you are age 50 or older.

Contribution

Money deposited into your 403(b) retirement plan account.

Maximum Allowable Contribution (MAC)

Maximum salary deferral contribution dollar amount a plan participant may defer to a 403(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) 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) 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.

Distributable Event

Events that occur that may qualify you to receive a distribution from your 403(b) retirement plan account. Examples are becoming age 59 ½ or separation from service from your employer.

Distribution

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

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.

**Eligible Rollover**

Transfer of assets from your 403(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.

Loans

Loans are permitted, and many 403(b) providers permit loans. In most cases, you can take out a 403(b) 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) 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) or 401(k) account with a previous employer to the 403(b) plan of your current employer.