

# Overview and potential benefits of investing in a 403(b) or 457 Plan Account

Congratulations! You have the opportunity to make a real difference in your retirement future with the MRIC 403(b) and 457 Plan, which includes a competitive selection of Waddell & Reed investment products to help you build your financial future.

## **Importance of saving for retirement**

The amount of money you will need to save before retirement typically depends on the lifestyle you desire while in retirement. It is estimated that you'll need about 70 to 90 percent of your pre-retirement income to maintain your standard of living when you stop working.\* As such, the sooner you begin planning and saving regularly for retirement, the less money you will likely need to invest. Conversely, the longer you wait, the more you will likely need to deposit each year.

## **Importance of asset allocation and diversification**

Maximizing return and managing risk are important to most investors. Allocating your assets into different asset classes such as stocks, bonds and money market funds has the potential to help minimize the impact when one asset class is underperforming another asset class. You also enjoy the benefits when a different asset class is reacting more favorably to market conditions. Having a mix of investments allows you to diversify your portfolio, potentially better manage your risk and keep from having all of your money affected when a single fund reacts negatively. (Please remember that asset allocation and diversification do not guarantee a profit or protect against loss in a declining market.)

## **Determining your total contribution amount**

Because the maximum annual contribution limit for a 403(b) and 457 may fluctuate year to year, it is often easiest to work with your financial advisor to determine your total annual contribution limit. He or she can help you complete a 403(b) or 457 Maximum Annual Contribution (MAC) Worksheet to determine the amount you can contribute each year.

\*U.S. Department of Labor, Employee Benefits Security Administration, October 2010.

## **Additional investments for those 50 and older**

If you are 50 years or older by the end of the calendar year, and your plan allows, you have an opportunity to contribute a little extra with catch-up contributions. Talk with your financial advisor to learn more about catch-up contributions.

## **The Roth 403(b) and/or Roth 457 Option**

If your employer has made salary deferral Roth (after-tax) contributions available, this provides you the potential for tax-free distributions of accrued assets from your Roth 403(b) and/or Roth 457 account.

Contributions can be made to both a Roth 403(b) and pre-tax 403(b) account or a Roth 457 and 457 account, in the same year (combined amount contributed for the year may not exceed the annual salary deferral limit and any available catch-up provision).

# Advantages of pre-tax salary deferral and tax-deferred investing

403(b) and 457 benefits include higher contribution limits than an IRA, lowered current taxable income through salary deferral and tax-deferred investing.

If your school district also offers an IRC §457(b) Plan, you have the opportunity for increased pre-tax savings.

Participants in both a 457 and 403(b) plan have the potential to double their pre-tax salary deferral – by deferring the maximum allowed amount into both a 457 and 403(b) Plan accounts.

## Investing made easy

Having the money deposited directly into your 403(b) or 457 makes saving easier. Your employer's payroll department will send your salary deferral dollars directly to your 403(b) and/or 457, saving you time and making it more convenient.

## Taxable income decreased

Lowering your current taxable income is one of the most important benefits of a 403(b) and 457. Your contribution is made from pre-tax dollars, lowering the overall amount of salary that is taxable. A 10 percent contribution based on a salary of \$2,000 would result in an amount of \$1,800 subject to federal (and, in some cases, state) income taxation, rather than the full \$2,000. (This assumes no other deduction prior to the 403(b) contribution. The pre-tax contribution will be subject to taxes upon withdrawal.)

Federal and most state income taxes are not withheld from the amount you defer. This assumes a 5 percent state and 25 percent federal tax rate. This illustration is hypothetical only, portrays one pay period only and does not represent any particular situation.

| Paycheck analysis     | No 403(b) Plan<br>(after tax) | 403(b) Plan<br>(pre-tax) |
|-----------------------|-------------------------------|--------------------------|
| <b>Gross earnings</b> | <b>\$2,000</b>                | <b>\$2,000</b>           |
| Savings               | \$200                         | \$200                    |
| Federal withholding   | \$500                         | \$450                    |
| State withholding     | \$100                         | \$90                     |
| FICA                  | \$153                         | \$153                    |
| <b>Net pay</b>        | <b>\$1,047</b>                | <b>\$1,107</b>           |

## A bonus in tax-deferred investing

Take the salary-deferred investment one step further and consider the added benefit of tax-deferred earnings. Not only is your taxable salary reduced, you also delay taxes on the investment until you withdraw the money. This means that more of your money goes to work toward your retirement goals. 403(b) or 457 assets redeemed before age 59½ may be subject to federal and state taxes, sales charges and potentially a 10 percent premature distribution penalty.