Tax Sheltered Account (TSA) Information
403(b) and 457(b) Plans

**Q: What is a TSA and what are the benefits of participating in a TSA?**

A: A Tax Sheltered Account (TSA) is generally a tax deferred retirement investment plan such as the 403b and 457 plans offered through SPPS. The terms “403b” and “457” refer to sections of the IRS code which define rules by which "pre-tax" investments may be made through payroll deduction. Pre-tax investing allows money to be deducted from your pay without current taxation. The result is that, depending on your federal withholding, your investment will be larger than the amount by which your paycheck is reduced. In the long run, this may help maximize your retirement nest egg while minimizing the impact on your current take-home pay. Tax-deferred retirement investment programs are a valuable part of your employee benefits. These voluntary savings plans supplement the mandatory defined benefit pension plans (such as SPTRFA or PERA) to which you already belong. Together they will help you be prepared for a more comfortable and secure life after you retire.

**Q: What is the difference between a 403b plan and a 457 plan?**

A: Each of these plans is governed by different sections of the IRS code. Because of this, there are some differences between 403b and 457 plans including eligible reasons for hardship withdrawals and payout options. One of the primary differences that an active employee would notice between a 403b and 457 plan is that employer contributions to a 457 plan are subject to FICA taxes, whereas employer contributions to a 403b plan are not. Also, SPPS does offer a ROTH 457 plan as well, which allows employees to contribute after-tax dollars.

**Q: What is meant by pre-tax or after-tax dollars when referring to elective deferral contributions?**

A: Pre-tax means the deduction is taken after Social Security and Medicare, but before federal and state withholding. After-tax deductions (for the ROTH 457 plan) are taken after Social Security, Medicare, federal, and state is calculated and withheld. The benefit of having pre-tax deductions is that it reduces your current taxable income and you are taxed at a later date when you withdraw your money from your account at retirement age. The benefit of having after-tax deductions is that, while you pay taxes on the contribution now, the funds in your account (including earnings) are not taxed later.

**Q: Am I eligible to participate in a TSA plan?**

A: SPPS allows any employee to participate who is willing to comply with IRS regulations pertaining to contribution limits and participation rules. This includes full time, part time, regular, and temporary employees.

**Q: Am I eligible for a district match and if so, how much?**

A: District match eligibility and amounts are a negotiated benefit, so refer to your collective bargaining agreement for current employer match information. For most employee groups, the match is only available to regular (not temporary) employees who were hired in 1996 or later. Part time employees working at least 50% time (.5FTE) may be eligible for 50% of the regular match amount. In all cases, employees must actively request the employer match – it is NOT automatic with initiation of the employee deduction.

**Q: Can I participate in both a 403b plan and a 457 plan?**

A: Yes, you can contribute to MNDCP 457 plan and either VOYA or Fidelity 403b plan. (You cannot contribute to both VOYA and Fidelity at the same time). If you are eligible for a district match and participating in both types of plans, it is important to know that payroll can only match one plan at a time. Payroll will apply your match amount to the 403b contributions unless you specifically request otherwise, since employer contributions to a 403b are non-taxable to you, but employer contributions to a 457 plan are considered FICA taxable.

**Q: How do I get started?**

A: Begin by reviewing the information provided about each of the three vendor choices (Fidelity, VOYA, and MNDCP) to determine which vendor and plan is the right fit for you. Information and links to each vendor’s information are on the district website. Once you decide which provider to use, set up an account with that provider. (Each provider has its own set of enrollment paperwork.) For either Fidelity or Voya, you will then need to complete a salary reduction agreement form after your account is set up and send that form to Payroll to start deductions. For MNDCP, that vendor will send a report to payroll on your behalf to initiate the payroll deductions. If you are eligible for the district match, you must actively request this match on the applicable form, available on the district website. The employer match is NOT automatic with the initiation of the employee deduction.

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Q: When can I enroll and how often can I make changes to my payroll deduction amount?
A: You can start or make changes to your TSA contributions at any time and the change will be processed within 1-2 payroll cycles, depending on when the payroll team receives your change request.

Q: What if I can’t decide which TSA provider to use?
A: Contact each of the providers and ask questions. Possible questions include “What would the charges be to my account?” and “How are the funds you are investing in rated by agencies such as Morningstar or Lipper?” Another important factor to consider when selecting a provider is how much investment assistance you need/expect. For example, Fidelity is geared towards proficient investors with on-line information. VOYA provides more personal assistance through their representative, Capital Street Financial Services.

Q: What are the annual contribution limits to 403b and 457 plans?
A: The contribution limits may change each year. For calendar year 2020 the general employee contribution limit to either type of plan is 100% of includable compensation up to $19,500. Employees over age 50 can contribute an additional $6,500. Plus, the 457 plan has an additional catch-up provision for employees nearing retirement. Contribution limits for 403b and 457 plans are separate, so you can maximize your retirement savings by investing in both types of plans. Please note: It is the employee’s responsibility to monitor their contribution amounts to prevent exceeding their IRS maximum allowed contribution.

Q: Once I am participating in a TSA plan, how do I change the amount I am contributing?
A: You can increase or decrease your contribution amount any time during the year. For VOYA or Fidely 403(b) plan, complete a new salary reduction agreement form available on the SPPS payroll website. For MNDCP 457 plan, either call NN Deferred Comp at 1 (800) 657-5757 or go to their website at www.mndcplan.com to make your change. MNDCP will send payroll a report on your behalf to make changes to your deduction amount.

Q: If I am already receiving the match amount, do I need to request an increased match if my elective deferrals increase or if my eligible match amount is increased as the result of union contract negotiations?
A: No, you should not need to manually request an increase on your match once you have initially requested the match and are receiving it. When you increase your deduction amount, payroll will review and update the employer match amount as well. If you become eligible for a higher match amount as a result of a new collective bargaining agreement, payroll will also audit and update this for you. However it is still recommended that you review this and notify payroll if you do not see the increased match amount after one pay period following the increased deduction or contract settlement.

Q: What happens if there is an error in either the amount of my payroll deduction or employer match amount?
A: Notify payroll right away when you detect a problem. SPPS strongly recommends that employees review their paychecks regularly, especially after a newly requested deduction, change, or recent contract settlement. Because TSA plans must follow strict federal regulations, it can be difficult to correct an error or missed match amount, particularly in a subsequent tax year after the issue occurs. The payroll team makes every effort to minimize errors; however there is still the possibility of something happening like faxed paperwork not actually being received in the payroll department. Ultimately, employees are responsible for reviewing their paychecks to ensure their requested changes are received and processed.

Q: Will I have the option to access my funds while I’m still employed at SPPS?
A: Since the purpose of a TSA is to save money for retirement, access to funds while still employed is limited. The 403(b) plans allow employees to take a loan against their existing balance up to the lesser of $50,000 or 50% of the balance. Both 403(b) and 457 plans allow for hardship withdrawals if criteria for the hardship meet the requirements under each type of plan. Employees should connect with their TSA vendor or financial advisor to understand the criteria, rules, and consequences of loans or hardship withdrawals against their TSA plan dollars.

Q: What happens when I leave the district?
A: At the time you separate from employment with SPPS you can either leave the funds in the (403b or 457) account, or roll them into another retirement account. You also have the option to take a distribution from (cash out) your account, however there are generally penalties and/or higher tax consequences of withdrawing your money before eligible retirement age (for 403b plans, this is age 59 ½). If you need a District representative to sign a rollover or withdrawal form from your 403b or 457 plan provider, you can e-mail it to payroll@spps.org or fax it to (651) 221-1495.

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