

FREQUENTLY ASKED QUESTIONS (FAQ)

CSSU 403(b) & 457 RETIREMENT PLAN

(Updated Friday, Friday, December 12, 2008 at 4:00 PM)

The purpose of this document is to provide all employees with a list of the commonly asked questions we are receiving regarding the changes being made to 403(b) retirement accounts due to changes in federal government laws and regulations and regarding the new CSSU 403(b) and 457 Retirement Plans. The information here is based on our best knowledge of the situation as of the date and time of its publication. This document will be updated as we continue to receive new information and as additional questions are received. If you have any questions that are not answered here, please contact either Cindy Koenemann-Warren (ckwarren@cssu.org) or Bob Mason at (bmason@cssu.org).

Please note that CSSU employees (particularly members of the Central Office staff or members of the Retirement Advisory Committee) cannot provide investment advice. For specific questions about your investment choices you will need to contact a qualified financial advisor.

In 25 words or less, can you explain to me what's going on?

New IRS regulations, effective January 1, 2009, require that if your employer provides a 403(b) plan that it be legally compliant with new law.

As a result, employees will have access only to a 403(b) plan offered by their employer. CSSU has selected the Vermont State Teachers Retirement System 403(b) plan as its provider under our plan. In addition, we will begin providing the state's 457 plan on January 1, 2009. Both of these plans are administered by Great West.

Starting January 1, you will no longer be able to contribute to your current 403(b) provider through payroll deduction. If you wish to make a contribution via payroll it will have to be to CSSU plan.

What is a 403(b) Plan?

According to www.investorglossary.com, a **403(b) plan**, named for section 403(b) of the Internal Revenue Code, is a retirement savings plan funded by employee contributions and employer matching contributions (though the latter are not required). The 403(b) plan is offered by tax-exempt entities such as churches, charities, and schools. The allowable contribution limit to a 403(b) plan changes over time, and contributions to a 403(b) plan are taken out of the employee's payroll. As with many retirement plans, withdrawals from a 403(b) plan that are taken before the allowable age are subject to a 10% penalty. Contributions to a 403(b) plan are made with pre-tax income, but are

taxed once they are withdrawn from the plan. All contributions to a 403(b) plan become the property of the employee once they are made.

What is a 457 Plan?

According to www.investorglossary.com, similar to a 401K and a 403(b) plan and based on section 457 of the Tax Code, a **457 plan** is a non-qualified tax-deferred compensation scheme for governmental employees and employees of non-church controlled tax-exempt organizations. Only eligible employers can establish a 457 plan. A 457 plan allows their employees to defer compensation on a pre-tax basis through payroll deduction. Through a 457 plan, holders defer federal and sometimes state taxes until the assets are withdrawn. An eligible 457 plan includes limits on the amounts deferred. Annual contribution to a 457 plan cannot exceed the lesser of 100% of the employee's compensation or \$14,000 in 2005 rising to \$15,000 in 2006. After 2006, the applicable dollar amount for a 457 plan will be adjusted for cost-of-living increases in increments of \$500. With a 457 plan, distributions are made only when the employee reaches the calendar year of age 70, is severed from employment, or has a great financial need due to an unforeseeable emergency. Participants in a 457 plan may rollover distributions into an Individual Retirement Account. In addition, 457 plan holders may rollover a 457 plan to another 457 plan without incurring income tax on the amount rolled over.

Who do I contact if I want to stop my 403(b) contribution?

All employee contributions will automatically stop for all 403(b) contributions with the final payroll of the 2008 tax year which is December 26, 2008.

To begin making contributions to the CSSU 403(b) or 457 plans, employees will need to complete the required forms to participate. Those forms are the Participant Enrollment Form and the Salary Deferral Agreement. Both forms are available on the CSSU Webpage. If you wish to participate in both the 403(b) program and the 457 program, you will need to complete the forms specific to each plan.

Once you have enrolled, you can stop payments by contacting the CSSU Payroll department in writing. To ensure prompt processing, letter or forms should be sent to Melinda Marshall at Central Office. Email notifications to stop your payments will be accepted. All enrollments, changes and cancellations must be received two weeks prior to the payroll date you wish for it to be in effect.

What if I want to rollover my existing account balances from eligible plans to the new CSSU plans?

You will need to complete the Incoming Transfer/Direct Rollover Form for the plan you wish to rollover your funds. If you have not already enrolled in the plan you will also need to complete a Participant Enrollment Form. These forms are also available on our website.

There may be fees or other costs associated with rolling over your current accounts to the CSSU plans. Please contact your current plan to determine what those costs may be as we do not have that information available to us.

What if I want to leave my money in my current accounts?

The only thing changing is where your money can go in the future, i.e. new money contributions made after December 31, 2008. You are not required to rollover your current accounts to the CSSU plans. Please note that there will be restrictions on your ability to make withdrawals or take loans from your current accounts after December 31, 2008. These restrictions are still being clarified and we will continue to update you as we learn more information about this. Loans and hardship withdrawals will be available under the CSSU plans as permitted by law.

Where can I get a copy of the CSSU 403(b) Plan Document?

We made our final changes to the plan document this week and expect to receive the final document by December 19th. We will distribute it and the summary as soon as possible after receiving it. It will also be available on our website.

Why is all of this happening now? It feels rushed?

We have been working on this issue for 2+ years. Had all the rules and regulations been in place earlier, we would have notified employees earlier. The law and deadlines for these changes are still changing as are the regulations. What we do know is that we have to be ready by January 1 to assume full responsibility for the plan and be making all possible efforts to be compliant with what we do know. We are still receiving changes and clarifications even today.

In addition, the pace of the Vermont Legislature's action to allow the creation of a 403(b) plan via the Vermont State Teachers Retirement system caused some delays. The final details were not available until late November. This caused us to have to review our work on the selection of a compliant vendor/provider.

Will I be able to continue to use my current financial advisor?

Yes, you can keep your current financial advisor. However, you will not be able to use payroll deductions to make contributions to the plans you and your advisor previously used.

Will the professional support and advice that I currently get with my current provider match what I will get with this new plan?

WE have made every attempt to ensure that the service provided by the state's provider (Great West) will be equal or better than the level that you have been accustomed to

with your current provider and will continue to review the level of service received by our employees to be sure our expectations are met.

Will I be able to contribute to my existing accounts if I do not want to contribute to the CSSU plan?

You will not be able to make contributions to your existing accounts via payroll deduction. If you want to make pretax contributions via payroll deductions you will need to participate in CSSU 403(b) and/or 457 plans.

What if I cannot make a decision right now?

You are not required to join the CSSU plan by January 1. You can opt to join in or opt out at any time so long as we receive your enrollment paperwork or cancellation notification by two weeks prior to the paycheck you want to see the changes made. If you do nothing, you will automatically be opted out and no contributions will be made to any account starting January 1, 2009. If you need some time, our payroll department will work with you to ensure that your desired annual contribution amount goals can still be met even if you do not start right away.

Who can attend the Great West information sessions?

All current employees can attend any of the sessions at any of the schools regardless of where you are employed within CSSU. Spouses/partners are also welcome.

If you cannot make any of the sessions at any of schools, we are working on setting up some additional dates and times for the representative to be available.

Why did CSSU choose this plan? My vendor says they will be compliant, why not pick them? Other schools are picking other vendors. Why so many differences?

As stated above, the information we are receiving regarding our obligations with what will now be an employer sponsored plan changes often and rapidly. Worst case scenario – if we pick a provider that ends up being disqualified by the IRS, all contributions would then be deemed ineligible. You will be subject to penalties on the improper pretax contributions and we would be required to pay penalties. We have determined that the regulations and legal compliance issues are too complex for us to manage more than one vendor. CSSU is now becoming fiduciarily responsible for the 403(b) plans.

We selected the VSTRS plan because of its low fees, competitive group status and the oversight that will be provided by the both the Vermont State Teachers Retirement System board and the legislature, among other reasons. We did not believe that any of the other vendors could provide the same level of service to our employees, particularly a board with teacher representation and oversight over the program.

We established a Retirement Advisory Committee and they are assisting and advising us on the recommendations we are making to the CSSU board as they implement this new plan. We will continue to use their feedback to make adjustments to our programs as needed.

Many private companies provide what is known as a 401k plan to its employees. These plans are the model for the changes that are being made to the 403(b) plan. Most of those plans also have a single provider.

Do we have an employer match to the employee contribution?

No.

How do I know which of my accounts are annuities?

If you need clarifications regarding your current plans and accounts, you should contact your current financial advisor or vendors.

Will I be able to use my current provider?

Not through CSSU payroll deductions.