

# NTSA

## 457(b) Plans Overview

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## Mark Turner

Vice President, Education Channel West

Mark began his career working with PEBSICO, a subsidiary of Nationwide which provided 457 programs to the public sector, before accepting a position with Hartford in 1999 as a Regional Manager in the west. In 2004, Mark moved to Security Benefit as a Vice President, and is a field manager responsible for 457 and 403(b) sales and business development in the western half of the United States. He resides in the Los Angeles area.



# Security Benefit



## Agenda

- Security Benefit and 457 Programs
- History of 457(b) Plans
- The Basics About 457 Plans
- Opportunities for Advisors
- Next Steps

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## Security Benefit and 457s

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## Who is Security Benefit?

- 122-Year-Old Kansas-based retirement services company
- Historically strong in education, governmental and not-for profit sector
  - 457(b) Gov't and Tax Exempt
  - 403(b) and 403(b)(7)
  - 401(a)
- Servicing 457 plans since 1986
- Close to thirty years of experience

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## History of the 457 Plan

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## A Brief History of 457 Plans

- **1973** – City of Lompoc, CA offers first deferred comp plan
  - Plans spread by virtue of Private Letter Ruling
- **1979** – IRS Code Section 457 effective January 1<sup>st</sup>, 1979
- **2001** – Economic Growth and Tax Relief Reconciliation Act (EGTRRA) makes a number of changes to 457
- **2002** – Final Regulations effective January 1<sup>st</sup>
- **2011** – 457 Roth becomes available

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## The Marketplace

- **Governmental**
  - States
  - Counties
  - Cities
  - Special Districts
- **School Districts**
  - K12
  - Charter Schools
  - Higher Education



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## The Marketplace

- Plan Types
  - 457(b)
  - 457(b) Tax Exempt
  - 457(f)
  - 401(a)
  - VEBA – 501(c)(9)

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## A Brief History of 457 Plans – Early Days

- Product
  - Annuities
  - Proprietary investment options
  - Shelf product only
- Pricing
  - 0.95% to 1.25% M&Es
  - Annual administration fee (\$18 to \$30)
  - Loads (up to 4% front end)
  - CDSC / MVA

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## The Marketplace Today

- Product
  - “Open Architecture” (cases of size)
  - Annuities
  - Group Funding Arrangements
  - Mutual Funds
  - Brokerage windows (cases of size)
- Pricing
  - 0.0% to 0.85%
  - No CDSC, MVA (cases of size)
  - Revenue Sharing (cases of size)

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## 457 Basics

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## 457(b) Basics

- Available to governmental and public school district organizations
- Participants may defer up to \$18,000 or 100% of salary in 2015 through payroll reduction, Roth is available
- Age 50+ catch-up: additional \$6,000 in 2015, Roth is available
- Taxes deferred until assets withdrawn (at termination of employment or later date)
- Distributions taxed as ordinary income to recipient, unless Roth

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## 457(b) Basics

### Group Contracts

- Unregistered variable annuities
  - AKA Group funding arrangements
- Mutual fund platforms
- Fixed Annuities
  - “fixed accounts”
  - “Stable value funds”

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## 457(b) Basics

Participants may withdraw funds under any of the following scenarios:

- Severance from employment (at any age)
- Retirement
- Unforeseeable financial emergency distribution
- Loan provision (if available in your plan)

Distributions from a 457 Plan are never subject to IRS 10% early withdrawal penalty tax

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## 457(b): Three Key Advantages

1. Distributions from a 457 Plan **are never subject** to IRS 10% early withdrawal penalty tax.
2. No offset: an employee may contribute to both a 457(b) and a 403(b) plan (\$36,000 combined max, \$48,000 with Age 50+ catch up).
3. Unlike 403(b) plans, 457(b) plans have no universal availability requirements, making them easier to administer.

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## 457(b) Tax Exempt Plans

- Uncommon plan type
- Non-governmental tax-exempt, non-profits
- Limited to groups of highly compensated employees or groups of executives, managers, directors or officers
- Not allowed to cover rank-and-file employees



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## 457(f) Plans

- Uncommon plan type
- Governmental and Non-Church non-profit organizations
- Designed for key Managers

"An eligible employer is a state, political subdivision of a state, and any agency or instrumentality of a state or political subdivision of a state or a nonchurch tax-exempt organization. Such organizations can establish 457(f) (ineligible) plans that are tax deferred and that allow contributions exceeding the annual deferral limit. These plans and the associated deferrals are possible only if there is a "substantial risk of forfeiture" – when the risk has been removed, the participant's deferral amounts become taxable."

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# Opportunities for Advisors

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## Three Key Principles

- ▶ Advisors in the 457 market should remember three principles for success:
  1. Avoid large plans
  2. Don't try to replace a provider – go in alongside
  3. Leverage relationships, local credibility and enhanced service

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## Targets for the Independent Agent

- Cities
- Counties
- Special Districts
- School Districts
- Non-Profits
- Hospitals



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## Benefits of School District 457 Plans

- Many employees = large opportunity for secondary sales and personal wealth planning
- Opportunity for 403(b) and 457(b) means employees can double their max contributions
- Advisor may enjoy an existing relationship in a School District, making it easy to add a 457 plan

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## In Summary

- A 457 plan can create tremendous opportunity for participants to save
- 457 plans can also be very beneficial for advisors
- Best way to start is to work with your local School Districts or other agencies and use the Security Benefit name
- We are happy to work with you to get started

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## Next Steps

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## Getting Started

- ▶ If you have any questions about setting up a 457 plan for a school district or governmental organization where you have a relationship, please contact us at:

**Security Benefit**  
**800-888-2461**

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## Getting Started

**Thank You**  
**Questions?**

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TO AND THROUGH RETIREMENT

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38-10902-03 (2014-11-18)

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## About Security Benefit

- Security Benefit has become one of the fastest-growing companies in the U.S. retirement market
  - Through a combination of innovative products, exceptional investment management and a unique distribution strategy, Security Benefit has become a leader in a full range of retirement markets and wealth segments.

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