

Frequently Asked Questions For 401(a) Defined Contribution Match Plan

(Disclaimer: not intended to be tax advice or complete explanation of plan provisions)

1. How would this new 401(a) plan benefit me?

Currently, both the employee's and the District's match contributions goes into the 457 plan and is subject to an annual limit. For 2004, that limit is \$13,000 (\$16,000 for over 50 catch-up provisions). That means, as an example, if the Engineer Society as a group opts into this program, and its members are maximizing their contributions to the 457 program, they can only defer up to \$12,400 of their pre-tax salary while the District matches \$600 for a total of \$13,000.

Under the new 401(a), the District's match portion is put into the new plan so that the employee can defer the full amount of \$13,000 under the 457 plan and also receive the District's match in the 401(a) for a total retirement contribution of \$13,600.

So the benefit to be realized are mainly for those participants who are or will be maximizing their contributions to the 457 for the full available limit set by the IRS.

2. Who is eligible to participate?

Currently, only the unclassified group has opted to participate in the 401(a) program. If any of the bargaining units wish to opt in, they must do so as an entire group and submit their request in writing to the Trustees for the plan. The Trustees are the CAO, AAO-Business & Finance, and the Treasury Officer.

That means, for example, if Engineer Society requests that all of their membership participate in the 401(a), for those ES employees who are making volunteer contributions to the 457 program, the District will only match to the 401(a) and no longer to the 457 program. If an ES employee currently has only Cal-PERS as its investment choice in the 457, they would need to also enroll in National Deferred to get the District's 401(a) match contributions.

3. Why is the 401(a) plan limited to only National Deferred as a provider?

National Deferred was the most responsive of the current 3 providers when inquiring about setting up this 401(a) plan. They also have the largest portion (dollar-wise) of the District's total deferred comp portfolio. In order to minimize the administrative effort for establishing this new plan, it was decided to limit the number of providers to just one.

4. Can I choose not to participate?

The 457 deferred comp plan is strictly voluntary. However, if your bargaining unit has opted into the 401(a) for its group, and you choose to voluntarily participate in the 457 with your own contributions, the District match portion is made only to the 401(a) on your behalf and not to the 457.

- 5. If I'm currently signed up with National Deferred for my 457 plan, would I need to complete a new enrollment form?**

Yes, the 401(a) is a separate plan from the 457 plan and only if your bargaining group opts into the 401(a). A separate enrollment is required and allows you to make allocation to different investment options. The form is available from Payroll. If you are not enrolled, no District match can be made on your behalf.

- 5. Are there any other differences between the 457 Program and the 401(a)?**

Generally, the 457 Program allows the participant to withdraw its funds upon leaving employment with the District regardless of age, with no early withdrawal penalty. The 401(a) has a minimum age for withdrawal at 59 ½ similar to 401(k). Contributions to the 457 including the District's match are pre-tax with the exception of Medicare 1.45%. The District's match to the 401(a) is pre-tax including no Medicare. There may be some other distribution rule differences. Please check with your tax advisor or National Deferred for additional questions.

- 6. Who can I contact for detail information on the National Deferred investment options or differences between the 457 and 401(a) plan?**

Dawn Furlo is the National Deferred rep for the District. She can be reached at (877) 459-9200 ext 43394. She will also be available by appointment here at the District on Tuesday 3/23.