

# RETIREMENT SAVINGS PLANS: FREQUENTLY ASKED QUESTIONS

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## **What is a 403(b)?**

The 403(b) is a retirement plan available to employees of public school systems, tax-exempt organizations, and certain ministers. It is similar to a 401(k) plan for private sector employees. The 403(b) is named after the section of the IRS code governing it. It is an excellent way to save money for retirement to supplement the Maryland State Retirement and Pension System.

## **Who is eligible?**

All employees of Cecil County Public Schools are eligible to participate.

## **How is a 403(b) different from a defined benefit pension plan?**

Pensions are formula-based retirement plans in which payout at retirement is based upon such factors as vested years of service and average salary. Eligible employees are automatically enrolled in one of these plans upon employment. All investment decisions and employee contributions for these pensions are determined by plan officials. In contrast, the 403(b) is a voluntary, self-directed plan in which payout at retirement is based upon how much money an individual employee accumulates in the 403(b).

## **How does a 403(b) work?**

Employees make contributions to a 403(b) on a pre-tax basis through a Salary Reduction Agreement. This is an arrangement where the participating employee agrees to take a reduction in salary. The amount by which the salary is reduced is directed to investment funds offered through the plan. These contributions are called elective deferrals and are excluded from the employee's taxable income. Contributions grow tax-deferred until the time of retirement, when withdrawals are taxed as ordinary income.

## **What is a Roth?**

This is a provision that permits employees to designate all or a portion of their 403(b) and 457(b) as an after-tax Roth contribution. This type of contribution will not lower the employee's taxable income. However, distribution of Roth designated funds in retirement will not be subject to taxation. Participants have the option of making pre-tax contributions, Roth contributions, or a combination of the two. Total contributions cannot exceed the year's 403(b) and 457(b) contribution limit.

## **What is a 457(b)?**

The 457(b) is a retirement savings plan available to employees of state and local governmental agencies, including public school employees. It is sometimes referred to as a deferred compensation plan. The 457(b) is named after the section of the IRS code governing it.

## **Who is eligible?**

State and local governmental employees are eligible to participate in public 457(b) plans. This means that all public school employees are eligible to participate.

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## **What is the difference between the 403(b) and 457(b)?**

The primary difference between a 403(b) and 457(b) is the withdrawal provisions. Distributions from a 457(b) are not subject to the 10% early withdrawal penalty that applies to the 403(b).

## **Why does CCPS offer both 403(b) and 457(b) Plans?**

CCPS offers both plans so that employees may choose the plan that is best for their individual retirement goals. By offering both plans, CCPS employees have the option to maximize the amount of contributions to their retirement plans by contributing to either the 403(b) or 457(b) Plans, or both plans.

## **Who is the provider of the 403(b) and 457(b) Plans?**

Lincoln Financial Group is the sole provider of the 403(b) and 457(b) Retirement Savings Plans.

## **How much can I contribute to the Plans?**

The amount that you can contribute to the 403(b) and 457(b) plans is governed by IRS Regulations. These regulations limit the employee contributions, also called elective deferrals, which can be made to the Plans on an annual basis. For 2020, the limit for elective deferrals for the 403(b) and 457(b) is \$19,500. This amount can be increased by \$6,500 if you attain age 50 by the end of the calendar year. Employees may contribute the maximum to both Plans, increasing the annual contribution limit to \$39,000. Contributions to the Plans are made as a percentage of the employee's salary.

## **When may I begin contributing?**

Employees may begin contributing to the Plans immediately.

## **When may I begin withdrawing from the 403(b) Plan?**

Because the 403(b) Plan is a retirement plan, access to the funds are limited. You may not withdraw funds while you are working for CCPS before you attain age 59 ½. However, you may withdraw funds upon separation from service with CCPS, or upon reaching age 59 ½ while still employed with CCPS. If you separate from service with CCPS and withdraw funds, the IRS imposes a 10% penalty if you separate prior to age 55. IRS Regulations allow other provisions for withdrawal including death, disability, and financial hardship. To determine eligibility for these provisions you must contact the CCPS account representative.

## **When may I begin withdrawing from the 457(b) Plan?**

Unlike the 403(b) Plan, you may begin withdrawing funds from the 457(b) account without penalty when you separate from CCPS employment, regardless of your age.

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## **Can the rate of contribution be changed or cancelled?**

Yes. You may change or cancel the percentage of contribution to either plan at any time by accessing the Plan website, or meeting with the account representative.

## **Can I change the investment funds to which the contributions are allocated?**

Yes. You may change investment funds at any time by accessing the Plan website, or meeting with the account representative.

## **How are investment funds selected for the Plans?**

CCPS has an Investment Review Committee that reviews fund performance to ensure that employees have sound investment options in the Retirement Savings Plans. We also use an investment consultant to guide us with important Plan decisions.

## **What investment funds are available in the Plans?**

Visit <https://www.ccps.org/Page/270> for plan enrollment booklets or contact one of the Lincoln Financial representatives listed below.

## **How do I enroll?**

Lincoln Financial Group will provide a welcome letter which contains information necessary to login to either the website at [www.lincolnfinancial.com](http://www.lincolnfinancial.com) or through the Interactive Voice Response (IVR) system at 800-234-3500. You will need to know how you would like to allocate your contributions to the above funds.

If you are more comfortable working with a Certified Financial Planner, you may contact:

Elaine Norris  
Senior Retirement Consultant  
410-751-6851 Office  
866-347-6851 Toll-Free  
[elaine.norris@lfg.com](mailto:elaine.norris@lfg.com)

or

Dave Weiland, CRPC®, CRPS®  
Senior Retirement Consultant  
410-663-1744 Office  
866-755-9771 Toll Free  
410-236-2494 Mobile  
[dave.weiland@lfg.com](mailto:dave.weiland@lfg.com)

An enrollment kit is available that includes an enrollment book, Participation Agreement, and a retirement calculator to help you determine the amount of contributions that you would like to make to the plan. Once you have elected to make contributions, you will be permitted to change or cancel the contribution amount at any time via the Lincoln Financial website.