

DATE: February 13, 2009

TO: Faculty and Staff

FROM: Jeff Strese, Director of Human Resources

SUBJECT: SMU 403(b) Retirement Savings Plan – New IRS Regulations

As a faculty/staff member of SMU, you have the opportunity to accumulate savings for your retirement years through the SMU 403(b) Retirement Savings Plan. Once you meet certain age and service requirements, you are able to make contributions to a 403(b) account and SMU makes contributions to your account based on your age. You have the option to defer paying taxes on the amounts you contribute, as well as any investment earnings, until you begin taking distributions when you retire.

The purpose of this communication is to summarize SMU's current 403(b) provisions and the changes that have been made in response to the new IRS regulations.

403(b) OPTIONS

Regular Retirement Account: Eligible faculty and staff may participate beginning at age 26 by making a 5% contribution through payroll reduction and SMU makes an 8 or 10% matching contribution determined by age.

Supplemental Retirement Account: Eligible faculty and staff may contribute a flat-dollar amount (vs. a percentage of pay) each pay period on a pre-tax or after-tax basis. Pre-tax contributions (including pre-tax Basic Retirement Account contributions) may not exceed annual IRS 403(b) maximums, addressed below. SMU does not contribute to the Supplemental Retirement Account.

Roth 403(b): During the first quarter of 2009, SMU will introduce a new option, the Roth 403(b).

How does the Roth differ from our traditional 403(b)?

- With SMU's current 403(b), contributions are made on a pre-tax basis – so you don't pay taxes on the money you contribute (or investment income) until you retire and begin taking distributions, at which time the distribution is treated as taxable income.
 - With the Roth 403(b), contributions are made on an after-tax basis.
 - SMU does not make contributions to the Roth 403(b) accounts.

457(b): Highly compensated persons earning at least \$150,000 annually may elect to participate in additional tax-sheltered accounts.

ELIGIBILITY RULES

In order to meet IRS nondiscrimination requirements, the opportunity to elect a salary deferral in the 403(b) must be extended to all employees, with a few exceptions. This is known as “universal availability”. Employees who may be excluded include non-resident aliens and employees who normally work less than 20-hours per week.

- Full-time benefit eligible employees (i.e., working 35 or more hours per week) age 26 or older are eligible to participate immediately in the University’s Regular Retirement Plan. Part-time faculty and staff (working 20 or more hours per week or 1,000 hours within a plan year) age 26 or older may begin participating after one year of employment. Visiting professors are eligible to participate.
- Faculty and Staff who are at least age 36 and have one year of employment are required to participate.
- Temporary employees, Post-Doctoral Fellows and Adjunct Professors are eligible to participate in the Supplemental Retirement Account which is a voluntary elective deferral plan. This employee group is also eligible to participate in a 403b Roth.

CONTRIBUTION LIMITS

The IRS has very strict limitations on the amounts that can be contributed on a pre-tax basis.

All plan participants are responsible for ensuring that they do not exceed IRS maximums.

This requires regular review of your Access.SMU pay statement and, for new employees, tracking of any contributions made through a former employer during the calendar year.

Important Limits	2009
403(b) elective deferrals	\$16,500
457 Plans	\$16,500
15-Year Catch-Up Contribution (\$15,000 lifetime limit)	\$3,000
Age 50+ Catch-Up Contributions for 403(b)	\$5,500
Annual	\$49,000

- **Elective Deferral Ordering Rule:** The amount deferred in excess of the elective deferral limit is counted first against the 15-Year Catch-up Contribution \$15,000 lifetime limit and second against the Age 50+ Catch-Up Contribution.
- **15-Year Catch-up Contribution:** Under the 15-Year Catch-Up, if an employee’s elective deferrals in prior years were less than the elective deferral limit, he or she may be able to make additional deferrals of up to \$3,000 for the current year; subject to a lifetime limit of \$15,000 (lifetime limit includes all employers). This 15-Year Catch-Up is in addition to the Age 50+ Catch-Up discussed below.
- **Age-50+ Catch-Up Contribution:** \$5,500 for 2009. Available to participants age 50 or older to make additional contributions to their 403(b), in addition to the 2009 \$16,500 elective deferral limit.

Mandatory 403(b) Participation

Participation in the SMU 403(b) Retirement Plan is mandatory at age 36 and one year of employment. If you have not enrolled in the 403(b) at the time you meet the mandatory participation criteria, you will be automatically enrolled as follows:

- Pre-tax payroll deductions in the amount of 5% of base salary will begin on the first day of the month following the month you reach age 36 and one year of employment.
- The mandatory 5% contribution does not count towards the elective deferral limit of \$16,500 for elective deferrals.
- SMU will contribute 8% of your base salary through age 40, and will increase to 10% effective on the first day of the month following your 41st birthday.
- A 403(b) account will be set up in your name with Vanguard and include your contributions, and contributions made on your behalf by SMU. These funds will be invested in the Vanguard Targeted Retirement Fund that is closest to the year you will reach age 65. (See separate notice to faculty/staff re: QDIA)
- Once your account is set up, you will receive a letter from Vanguard regarding your new account and you will have the opportunity to make new investment elections within Vanguard, or you may choose to invest with Fidelity or TIAA-CREF.

Loans

Effective January 1, 2009, loans (available to TIAA-CREF and Fidelity participants) may not exceed 50% of your **total** 403(b) balances, up to a maximum of \$50,000. For example, if you have accounts with TIAA-CREF and Fidelity, total loans cannot exceed \$50,000.

- All loan requests must be authorized by the University.
- Faculty/Staff have a responsibility to monitor their loan activity to ensure they do not exceed the \$50,000 maximum limit.

QUALIFIED DISTRIBUTIONS

The IRS imposes a 10% penalty on non-qualified distributions. Generally, penalty-free distributions from a 403(b) account are limited to:

- Attainment of age 59½
- Severance from employment
- Death
- Disability
- Financial hardship (see Hardship Withdrawals below)
- Qualified reservist distribution (made to a member of a reserve component called or ordered to active military duty for at least 180 days after September 11, 2001, during the period between when the individual was called to duty and returned from duty).

HARDSHIP WITHDRAWALS

This provision allows withdrawal of funds from a 403(b) if you are under severe financial duress and have no other resources available. A hardship withdrawal may be made for:

- Un-reimbursed medical expenses of the participant or his/her spouse and dependents.
- Down payment on primary residence
- Tuition, related educational fees, and room and board expenses for the next 12-months of post-secondary education for the employee, the employee's spouse, dependent, and anyone designated as a beneficiary
- Burial or funeral expenses for the employee, the employee's spouse, dependent, and anyone designated as a beneficiary
- Eviction or foreclosure on a primary residence

Hardship withdrawals are not exempt from the IRS 10% early withdrawal penalty. Furthermore, withdrawals are subject to ordinary income taxation in the year withdrawn. You are also restricted from contributing to the 403(b) for the six months following a hardship withdrawal.

- To qualify, you must certify that you have no other recourse, including the possibility of taking a loan.
- The SMU Department of Human Resources must certify your "immediate and heavy financial need" based on written information provided by you as to the nature of the hardship.

INVESTMENT REBALANCE AND DIVERSIFICATION

To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often cause another asset category, or another particular security, to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

ENROLLMENT PROCEDURES

Employees may enroll in the 403(b) Retirement Plan by completing the SMU 403(b) Retirement Savings Plan Enrollment Form (to activate payroll reductions) and the application(s) for the chosen investment company(ies), TIAA CREF, Fidelity and/or Vanguard. **All** forms are available on the SMU Benefits U website <http://smu.edu/hr/Benefits/Retirement.asp> and must be submitted directly to the Department of Human Resources.

- For monthly-paid employees, completed forms received prior to the 15th of the month will be processed in the current month, effective on the first day of that month. For bi-weekly paid employees, completed forms will be processed in the ***following*** payroll cycle.
- Employees who reach *age-36 mandatory participation* must complete the necessary forms and submit them to the Department of Human Resources, 30-days prior to their 36th birthday.

How and When Contribution Amounts Can Be Changed

You may change your contributions amounts on a monthly basis, provided you do so by the 15th of the month prior to the month in which you wish the change to take effect.

Sources for Additional Information

SMU provides information to new faculty and staff in the Total Compensation Package sent prior to their hire date, and additional information via on-line New Hire Orientation.

All employees have access to detailed information regarding the 403(b) Retirement Savings Plan on the SMU Benefits U website <http://smu.edu/hr/Benefits/Retirement.asp>. This website provides links to enrollment applications, loan and hardship withdrawal forms, and links to the TIAA-CREF, Fidelity and Vanguard websites.

TIAA-CREF

Participant Services: 800-842-2776
www.tiaa-cref.org

Fidelity

Participant Services: 800-343-0860
www.mysavingsatwork.com

Vanguard

Participant Services: 800-523-1188
www.vanguard.com