

DEFERRED COMPENSATION PLAN

"Commonly Asked Questions with Answers"

Q. What is "Deferred Compensation"?

A. Participation in the Deferred Compensation Plan allows you to "defer", or delay, receiving a portion of your income until a later date, generally when you retire. The primary purpose is to help you establish a sum of money from which you may withdraw, helping to supplement your retirement income. This income will be in addition to the benefits you are expecting to receive from the Florida Retirement System (FRS) and the Social Security Administration (SSA). The State has established this Plan under Internal Revenue Code (IRC) 457.

Q. Who is eligible to enroll in the Plan?

A. Persons who are appointed elected, or under contract, and who provide a service for the State of Florida for which compensation or statutory fees are paid by the State Comptroller may participate in the Plan. A person's payroll must be scheduled for the regular monthly or bi-weekly payroll or one of the approved supplemental payrolls. The State of Florida 457 Deferred Compensation Plan is also available to State university employees, employees of the State Board of Administration, Tri-County Commuter Rail Authority, Suwannee River Water Management District, and Division of Rehabilitation and Liquidation.

Q. Why should I enroll?

A. This is an excellent way to help provide for a comfortable retirement, as well as realize a variety of tax advantages. The benefits you will receive from the FRS and Social Security Administration will most likely provide less income than you are normally accustomed to. In fact, retirement experts estimate that the average person's benefits from pension plans and social security will provide for only 50%-75% of the yearly income earned in your working years. For example, a person who has worked for the State for 30 years, with \$30,000 being the average of the highest five annual salaries achieved during those years, will on average receive \$14,400 annually in benefits from the FRS (under FRS option #1). The majority of employees do not work at the State for 30 years, so for many, the percentage will be even less. You should obtain a FRS handbook that will allow you to evaluate your own situation, which could be more favorable than the above example. Social Security benefits will provide you with additional income; however, the age to receive unreduced benefits continues to rise. The average Social Security benefit will most likely become smaller as more and more people reach retirement age. You are virtually unable to influence the amount of benefits you will receive from the FRS and the SSA (outside of working longer.) You can invest in your future and take control of your financial security by actively participating in the Deferred Compensation Plan.

Q. How does participation in the Plan immediately lower my Federal income taxes?

A. The entire amount that you invest in the Plan every year is not immediately subject to Federal income taxes; therefore, less money is withheld from your pay. Your investment is automatically made before Federal income taxes are withheld, thereby lowering your amount of taxable income. Your W-2 form that the State sends you will reflect a lower amount of income that you report on your Federal tax return. In addition, all interest earned on your deferred investment will not be taxed until you begin receiving distributions. To illustrate the advantage of investing "pre-tax" please review the following example, which is based on a single employee paid monthly, with zero withholding allowances. The example compares the gross taxable income and spendable income of an employee investing \$200 into a savings account after-tax, versus a pre-tax investment of the same amount into the Deferred Compensation Plan.

	<u>Savings Acct.</u>	<u>D.C. Account</u>	
Gross Income	\$2,000.00	\$2,000.00	
Pre-Tax Investment	<u>0.00</u>	<u>(200.00)</u>	D.C. investment "pre-tax"
Gross Taxable Income	\$2,000.00	\$1,800.00	You report lower income to I.R.S.!
Withholding Tax	(400.00)	(360.00)	Lower est. tax bill, Lower W/H
Social Security & Medicare	<u>(153.00)</u>	<u>(153.00)</u>	Social Security tax
After-Tax Investment	<u>(200.00)</u>	<u>0.00</u>	Savings investment "after-tax"
Spendable Income	\$1,247.00	\$1,287.00	Spendable income is increased!

Investing the same amount of money before taxes are withheld actually increases your spendable income. The bottom line is that you can invest a higher amount of money into the 457 Deferred Compensation Plan versus an after-tax program and still have the same amount of spendable income afterwards.

Q. When will I be taxed on the income that I "defer", and on the earnings?

A. You will report the income on your Federal tax return only when you begin to receive distributions from the Plan. There will be a mandatory 20% Federal income tax deduction withheld from lump sum distributions, and any distribution with less than a 10-year payout. The distributions you receive will be reported as ordinary income in the year that you receive them. Your investment provider company will provide you with a form stating the proper amount of income to include on your tax return. You will receive a form from each company from which you receive distributions.

Q. Is there any reason why I should not enroll in the Plan?

A. You should not consider this to be a savings account that you have access to at any time. **If you do not have sufficient resources to meet short-term emergencies that may occur (car repairs, normal home repairs, etc.) you should not enroll in the Plan.** Also, you should not enroll if you cannot afford to invest a portion of your salary on a **LONG-TERM BASIS**. Representatives from each of the approved investment providers are required to determine if you have sufficient extra income to participate in the Plan. Because the IRS allows you to delay paying taxes on what you invest into the Plan, as well as enjoy tax-deferred growth, there are specific requirements that you must meet in order to receive distributions from the Plan.

Q. Are OPS, FTE and Contracted Employees eligible to participate in the Deferred Compensation Program?

A. Yes. Other Public Service Staff (OPS), FTE and Contracted Personnel are eligible to participate in the Deferred Compensation Program. As long as the employee receives an earning statement from the Bureau of State Payrolls he/she may contribute. If the employee is terminated he/she can leave their assets in the program or begin taking a distribution after 31 days of separation from state employment. If the employee is hired into career or select exempt service they can continue contributing to their same plan.

Q. When can I join? Am I only allowed to enroll in the Plan during the "open window" enrollment period?

A. No. You may enroll in the Plan at any time during the year, within administrative deadlines (see later question).

Q. Does participation in this Plan affect the calculation of my benefits due from the Florida Retirement System (FRS) or the Social Security System?

A. No. Your eligibility for FRS and SSA benefits are not affected in any way. You continue to earn

creditable service towards benefits from the FRS. You also continue automatic contributions into the Social Security System each time you are paid.

Q. Can I be in the State's 457 Plan if I am currently participating in a Tax-Sheltered Annuity (403B) Plan or the Optional Retirement Plan (ORP), or an IRA (traditional, Roth, etc)?

A. Yes, you may contribute the maximum amount allowed into the 457 Deferred Compensation Plan at the same time you contribute the maximum to other pension plans. For example, if you participate in a 403(b) plan and 457 Deferred Compensation plan, you may contribute at least \$14,000 into both plans in 2005.

Q. How does the Plan work? How do I invest into the Plan?

A. Once you enroll with an investment provider company, you participate in the Plan by authorizing an amount of money or a percentage of your gross salary to be automatically deducted from your paycheck before any Federal income taxes have been withheld. On the day you receive your paycheck, the Deferred Compensation Office wires your invested amount to your chosen investment provider, where it is immediately deposited into your account. The only way you can invest in the Plan is through an automatic payroll deduction on the State Comptroller's monthly, bi-weekly, or supplemental payroll system. You cannot send in a personal contribution.

Q. What is the minimum amount that I can invest in the Plan? What is the maximum amount per year that I can invest in the Plan?

A. If you are paid on a bi-weekly basis, you can enroll with as little as \$10 every pay period. The minimum rises to \$20 if you are paid monthly. The maximum amount of salary that you can delay paying Federal income taxes on and defer into the plan is the lesser of 100% of your compensation or \$14,000 in 2005. This amount increases by \$1,000 each year through 2006, and increases in \$500 increments thereafter. If you are age 50 or older, you may participate in the "50+ Catch-up" provision. This allows a participant to contribute \$4,000 over the maximum in 2005. This amount increases by \$2000 each year through 2006 and increases in \$1,000 increments annually after 2006.

Q. Can I ever invest more than the maximum amount stated above?

A. Yes, but the earliest you are eligible to do so is the last three calendar years in which you are eligible to leave employment with unreduced benefits from the Florida Retirement System. This provision is called the "Standard Catch-up". If you have not invested the maximum allowable amount for all of the years you have been eligible to participate in the Plan, this period can be used to "catch up" any unused portion. The maximum amount you may invest during the three years is your unused portion plus the regular annual maximum for that year (\$28,000 in 2005, \$30,000 in 2006). An employee may not participate in the "Standard Catch-up" and the "50+ Catch-up" provisions at the same time. To determine if you are eligible to participate or the amount you can "catch up" contact the Deferred Compensation Office. When you are ready to enroll in either catch-up provision, contact your investment provider for the necessary forms.

Q. Am I "locked into" the Plan for a certain period of time? Can I stop or start my investment at any time? What are the deadlines for making changes to the amount of my payroll deduction?

A. You are not "locked into" the Plan for any period of time. You may stop, decrease, increase, or restart your deductions at any time. However, you cannot receive your benefits until you separate from State

employment, or incur an unforeseeable financial emergency. Of course, there are administrative deadlines associated with these changes.

Q. How safe is my money? Is there any chance that I could lose money?

A. As with any investment, there is always the possibility that you could lose your principal. There is also the possibility that your chosen investment provider's financial condition could deteriorate. As to the fixed accounts, consult the investment provider company for information regarding the safety of assets. The certificates of deposit offered by Washington Mutual Bank through Nationwide Retirement Solutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per account. Amounts at Washington Mutual Bank in excess of \$100,000 are collateralized at 150% with the Department of Financial Services. The FDIC does not insure the mutual funds offered by the investment providers. However, mutual funds are held in separate accounts at the offering investment company, and registered with the Securities and Exchange Commission (S.E.C.). These balances would not be made available to creditors of the companies in the event of bankruptcy. In addition, the Department of Financial Services analyzes the financial condition of the investment provider companies on a quarterly basis. All assets of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries. The State of Florida owns such assets and the Chief Financial Officer of Florida acts as Trustee, while the participants and their beneficiaries hold the equitable interest. This trust fund is, by definition, not subject to the claims against and the creditors of the State of Florida.

Q. Is there a chance that I could receive less than I invested into the Plan?

A. The amount and type of risk varies from one investment to another. Some products are guaranteed by the investment provider against loss of principal, but if the investment provider becomes insolvent it is possible to lose your principal. The Department of Financial Services conducts quarterly reviews of the financial condition of each investment provider company in the Deferred Compensation program. Historically, our companies have been in excellent financial condition. An investment with a low risk of loss (such as a fixed-interest fund) may have a higher risk of poor performance, relative to inflation. It is important that you understand the risks involved in your investment choices. You may wish to consult a qualified investment advisor to help you understand the risks involved in your investment options and your own tolerance for the various types of risk.

Q. What choices do I have once I have decided to join the Plan?

A. You have the opportunity to choose from five (5) investment provider companies and one (1) on-line brokerage firm. All of the companies offer some type of a fixed account. The fee structure for the companies and their products differ. Please refer to our “*Performance Report*” document for specific amounts.

Q. Can I have more than one investment provider?

A. Yes. You may choose as many providers as you like. If you do choose more than one, ensure that you are contributing enough through your deduction to offset the additional fees that are associated with having more than one provider. If you defer to more than one provider, you must specify a dollar amount or a percentage for each company, not to exceed 100%. At this time, you must either choose to defer a specific dollar amount with each provider or a percentage to each company.

Q. Is there a way to compare all 6 companies and the products they offer?

A. Yes. The Deferred Compensation Office publishes documents that present the historical rates of return for all investment products available in the Plan along with the fees assessed by each company. The name of this publication is the “*Performance Report*”. This report allows you to compare the six providers uniformly and evaluate all of the options available. We urge you to review this documents before enrolling with any of the companies in the Plan. The “*Performance Report*” is available by calling the Deferred Compensation Office or visiting our website. If you would like to be added to the mailing list to receive this report quarterly, please contact the Deferred Compensation Office.

Q. How do I enroll in the Plan?

A. Simply call or visit the website of the investment provider(s) that you have chosen. Their links can also be found under the Contact Info tab on our website at www.myfloridadeferredcomp.com. They will provide you with an enrollment package, and also answer any questions that you may have. All representatives are

licensed to enroll State employees in the Plan, and can discuss their investment products in detail.

Q. Am I able to transfer my money to another company in the Plan?

A. Yes. You may transfer between companies at any time without penalty. You also have the option of stopping your deferral and leaving your balance with one company, while enrolling with and deferring to another company.

Q. What should I do if my authorized payroll deduction was not made? Why was it not made?

A. There are several reasons why your authorized deferral would not be made, including incorrect paperwork, a wrong social security number, late submission, or a change in your pay cycle. Contact your investment provider directly and they will make the appropriate changes so that your investment can be made as soon as possible. Another reason for a stop in your deferral would be if you exceeded your maximum year-to-date contribution limit. If at any time, your requested deferral amount causes your total contributions for the year to exceed the maximum allowable amount, the payroll system will not withhold any of your scheduled amount. The scheduled deferral will not be adjusted by the payroll system automatically. You will need to contact your investment provider to make any necessary changes.

Q. Who should I call if I do not know who my investment provider(s) is?

A. You should contact the The State of Florida Deferred Compensation office at (877) 299-8002 or SunCom 293-3192.

Q. What happens to my account if I die while still employed by the State?

A. When you enroll in the Plan you name a beneficiary who would receive the balance of your account upon your death. Beneficiaries may elect to receive a one-time lump sum distribution or receive payments for the remainder of their life or another specified period of time.

Q. Am I able to invest any of my payment for accrued leave compensation into the Plan?

A. Yes. Many employees leaving the State take advantage of this opportunity, as it can temporarily shelter a large portion of their accrued leave payment from Federal taxes. You can choose to invest a portion of your accrued leave payment into the Plan, provided that you remain within your normal maximum annual limit. The Comptroller will withhold the lesser of either 25% or the amount calculated using the table taxes with exemptions.

Q. Is my deferred compensation account subject to marital court orders?

A. According to Florida Statute 61.076, all deferred compensation plans are considered marital assets and are subject to equitable distribution. The alternate payee may receive a distribution of the awarded amount even if the participant is not eligible to receive a distribution. Effective January 1, 2002, the participant will no longer be taxed on distributions paid directly to an alternate payee. The alternate payee will be responsible for the taxes incurred. For questions regarding court orders the State Office of Deferred Compensation is available for assistance.

Q. When can I begin to receive distributions from my account?

A. The most common way that you become eligible for benefits is to separate from State employment. It is important to note that you become eligible once you leave the State **regardless of your age**, and you are not subject to Internal Revenue Service "early withdrawal" penalties. If you are still employed by the State in the year you turn 70½ years of age, you may receive an in-service distribution without penalty. However, if you do not receive an in-service distribution, you must begin a distribution immediately after you terminate State employment. You may also receive a *de minimis* distribution if your Plan account value does not exceed \$5000 and no amount has been deferred for a two-year period. Each participant is allowed only one *de minimis* distribution from the Plan.

Q. What is an unforeseeable emergency? What is the process of applying for money due to an unforeseeable emergency?

A. An unforeseeable emergency is defined by the IRS as, “a severe financial hardship to the participant resulting from a sudden and unexpected illness or accident to the participant or a dependent of the participant, loss of the participant's property due to natural disasters or other similar and extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant”. Examples of unforeseeable emergencies would include funeral expenses of an immediate family member, loss of job, storm and flood damage, and incurring substantial medical expenses for you or a dependent. The Internal Revenue Service says that home and auto repairs of a non-casualty nature, educational expenses, and the purchase of a home **are not** unforeseeable emergencies. Contact our office to discuss your situation and to request an "Unforeseeable Emergency Application". Please be aware that you will be required to provide legal evidence to support your application. All approved emergencies will be paid in a lump sum distribution, and are subject to a Federal withholding tax of 10% unless otherwise indicated by participant. Remember, you have never paid Federal income taxes on this money. A request for an Unforeseeable Emergency Withdrawal will result in all contributions being suspended until reinstated by the participant.

Q. Can I transfer my other Pre-Tax Savings (Deferred Compensation) Plans into my 457 account?

A. Yes, in order to transfer your accounts, you must follow these steps:

- Enroll as a deferred compensation participant with one of Florida’s approved Investment Provider Companies and,
- Complete the “**ROLLOVER INTO/OUT OF FLORIDA PLAN FORM**” and send it back to your Investment Provider. (The Investment Provider sends these forms to the participant.)

The State of Florida has no authority in this transaction. The Florida Investment Provider must request the transfer of funds from your former plan administrator and ensure the timely completion of this transaction. The State Office of Deferred Compensation is available for assistance.

Q. Once I terminate from State employment and become eligible for benefits, what do I have to do? How quickly could I receive my benefits?

A. If you leave the State and do not wish to start your distribution, you are not required to do so. You may now leave your account with your investment provider and continue to benefit from tax-deferred growth. State law says that you are officially separated from service thirty-one (31) days after your last official workday. The earliest that you can choose to begin receiving benefits is 30 days after your official separation date (which would be 61 days from your last official day of work). You may now elect to begin your distributions when you feel it is necessary (but they must begin by the age of 70½.) For more information and to request a Distribution Guide, please call the office of Deferred Compensation and a representative will be happy to assist you.

Q. Once I leave State employment do I have to take or move my deferred compensation account balance?

A. No, you do not have to take or move your account balance once you leave State employment. Your funds may remain in the deferred compensation plan and continue benefiting from tax-deferred growth.

Q. What will happen if my current investment provider's contract is terminated or is not renewed by the State of Florida?

A. If you are enrolled with an investment provider and the contract is either terminated or not renewed, you may transfer your account to another approved investment provider. The Deferred Compensation Office also retains the right to transfer your account to another approved investment provider if necessary.

Q. When am I required to receive distributions from my account?

A. You must begin receiving distributions by April 1st of the calendar year following the calendar year in which you reach age 70½ or when you separate from service, whichever is **later**. However, if you are still employed by the State when you turn 70½, you are not required to begin a distribution. In fact, you can continue to make contributions into the Plan. If you leave the State after 70½, you must begin receiving benefits within 61 days of your last official day. Under IRS regulations your selected benefit payment period may not exceed your life expectancy.

Q. Will my company withhold any taxes from my distributions?

A. Your company will withhold the mandatory 20% for Federal income taxes. You may request that additional taxes be withheld from your benefits so that you will not incur additional taxes from the IRS. If you wish to increase the amount of your withholding, contact your investment provider company.

Q. What happens if I die after I have begun receiving distributions from my account?

A. Your beneficiary will be paid in the same manner that distributions were being paid to you. Many of the payout options available to you through this Plan offer a guarantee of income for a beneficiary after your death. If the benefit option you chose was a 'lifetime payment for yourself only', then payments will cease upon your death.

Q. Can my beneficiary name a beneficiary?

A. No. If your beneficiary dies, any unpaid balance will be paid in a lump sum to the beneficiary's estate.

Q. What options do I have once I become eligible for benefits?

A. You have the option of choosing among a variety of payments, including lifetime, lifetime with guaranteed periods, a joint and survivor payout, and also a pre-authorized distribution. This option will allow you to withdraw money at your discretion, when you feel it is needed. You can request the "***Distribution Guide***" from the Deferred Compensation Office, which gives a detailed description of each payout option.

Q. If I am with more than one company, do I have to begin receiving benefits from both companies at the same time?

A. No. You may choose to have your benefits distributed at different dates and use different distribution methods for each company.

Q. What if I return to State employment after I have chosen a date to begin receiving benefits?

A. If you return to work for the State before receiving your distribution, you have the option of breaking that election date, and contributing into the same account. If you are already receiving distributions, you can still participate in the Plan by contributing into a different account.

Q. Does the DROP affect my Deferred Compensation contributions?

A. No. The DROP has no effect on what you can contribute to the Plan.

Q. May I start receiving my Deferred Compensation benefits once I begin the DROP?

A. No. An employee has not broken service until 31 days from their last official workday with the State of Florida. Deferred Compensation benefits may commence approximately 61 days from an employee's last official workday.

Q. If I receive my annual leave hours as a result of entering the DROP, can I put that money into Deferred Compensation?

A. Yes. The first step is to contact your investment company. If you are not already participating in the Plan, it may be a great idea to enroll so that you may shelter some of your leave payment from Federal income taxes. Your investment provider company will send you paperwork to complete this process to be returned to them. This paperwork will include a page of instructions that **must** be given to your payroll office. You may invest only a **portion** of your accrued leave payment into the Plan. You must take into account the amount you have already contributed into the Plan that year. You may then defer an amount that does not exceed the maximum. Because of the mandatory deductions, it is impossible to put 100% of your leave into the Plan, though you may be able to invest a large portion of it.

Q. May I use both of the “Catch-up” clauses if I am over 50 years old?

A. Not at this time. The “50+ Catch-up” option cannot be used in the same year that you use the “Standard Catch-up” option.

Q. At the end of the DROP period, I will receive payment of my accumulated DROP benefits. May I put this into Deferred Compensation?

A. Yes. To do this, contact your investment provider for information and the necessary forms.

Q. I would like to receive additional financial guidance on my deferred compensation account and my other outside investments (i.e. FRS Pension/Investment Plan, IRA’s, etc.) Does the Deferred Compensation program offer anything like this?

A. The Deferred Compensation Office does not offer advice, but each investment provider in the Plan has resources ranging from personal investment representatives, a toll-free number dedicated specifically to the program, as well as interactive tools offered on their website to help in your planning.

In addition, you can obtain guidance through the MyFRS Financial Guidance Program, which is available to all members of the Florida Retirement System. You can use the online ADVISOR SERVICE provided by Financial Engines Company or call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377 and talk to one of the financial planners from Ernst and Young Consultant Company. These planners offer unbiased assistance and can answer your financial planning questions, as well as walk you through the use of the ADVISOR SERVICE.

For additional questions, please contact the State Office of Deferred Compensation at SUNCOM 293-3162 or (850) 413-3162 or toll free at 877-299-8002. You may also visit our website at

www.myfloridadeferredcomp.com

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