

## State of Montana 457 Deferred Compensation Plan

# PLAN HIGHLIGHTS

### What is a 457 deferred compensation plan?

The 457 Deferred Compensation Plan (the "Plan") is a supplemental retirement plan sponsored by the Montana Public Employees' Retirement Board (the "Board") and held in trust for the exclusive benefit of public employees of the State and their beneficiaries. The Plan is authorized by Internal Revenue Code (IRC) Section 457(b) and is subject to specific laws and requirements. The Plan allows employees to voluntarily contribute a portion of their compensation as traditional pre-tax and/or Roth after-tax contributions and invest them on a tax-deferred basis. The amount invested, plus interest credited on any fixed options and any gain on the variable options, is not taxable until withdrawn at a future date.<sup>1</sup> Roth contributions and any associated earnings may be withdrawn tax-free if certain criteria are met, as described below.

### How does the Plan work?

You elect the amount you wish to defer from your gross salary each pay period and which of the offered investment option(s) you wish to utilize. The amount you elect to defer is withheld from your paycheck before taxes for traditional contributions or after taxes for Roth contributions.

### How do traditional and Roth contributions differ?

You have the flexibility to contribute to the Plan on a before-tax basis, after taxes through the Roth option, or both. With traditional contributions, deferrals are taken out of your paycheck before income tax is calculated, and those contributions and any potential earnings would not be taxed until you take a withdrawal, at which time they are taxed as ordinary income. Roth contributions are taken from your paycheck after income taxes are paid, and may be withdrawn tax-free as long as the distribution occurs after age 59½, disability, or death, and no earlier than five years after your first Roth 457 contribution.

### How much can I defer?

The minimum deferral is \$10 per month. Under the governing IRC, the annual deferral limit is the lesser of 100% of "includible compensation" or the applicable dollar limit. The applicable dollar limit for 2013 is \$17,500. If you are contributing through both the traditional and Roth options, your total (combined) contributions cannot exceed \$17,500 for the year.

### When may I join the Plan?

You may join at any time. Your deferrals may become effective as of the first day of the month following the filing of an application and Salary Deferral Agreement (SDA). To enroll in the Plan, please contact your local office to obtain the enrollment forms and information packet. Once you are enrolled, you will receive a Personal Identification Number<sup>2</sup> (PIN) via the mail to monitor your account 24 hours a day/seven days a week. You may also call or visit your Local Service Center at: (406) 449-2408 or toll free (800) 981-2786, located at 208 N. Montana Avenue, Suite 103C, Helena, MT 59601.

### When may I change my deferral amounts?

You may request increases, decreases or cessation of your deferrals at any time. Requested changes may be effective as of the first day of the month following the filing of an amended SDA.

### What are my investment options under the Plan?

The Plan provides a wide range of investment options. These are separated into two categories:

#### 1. Fixed Option:

The Montana Fixed Fund guarantees your principal and has a guaranteed interest rate. The guaranteed interest rate is set each calendar quarter and may change each calendar quarter.<sup>3</sup>

#### 2. Variable Options:

These are an assortment of mutual fund options selected by the Board with the assistance of the Employee Investment Advisory Council (EIAC) according to the criteria established in the Board's adopted Investment Policy Statement. The mutual funds do not

guarantee either principal or investment results. Values may increase or decrease based on the investment performance of the mutual fund(s) you select. Please see "Investment Options at a Glance" at [www.mperadcplans.com](http://www.mperadcplans.com) for a summary of the mutual funds currently available. Please note that these options may change from time to time based on the Board and EIAC's annual review.

### Can I utilize both fixed and variable investment options and transfer funds among options?

Yes, you may invest in both the fixed and variable options, and you may transfer funds among options at any time. To initiate transfers, you may use KeyTalk®—the automated voice response system—at (877) 699-4015 or access your account online at [www.mperadcplans.com](http://www.mperadcplans.com).<sup>4</sup> The automated voice response system also provides an option to talk directly with a customer service representative during normal business hours. When making transfers, calls placed on a business day before 2:00 p.m. MT will receive that day's closing price for dollars transferred out and purchase price for dollars transferred in. If calling after 2:00 p.m. MT on a business day or during the weekend, the transfer-out closing price and transfer-in purchase price will be the next business day's prices.

### Can my deferrals ever exceed the specified dollar limit?

Yes. Two provisions of the IRC allow you to defer amounts greater than the specified dollar limit.

#### 1. Standard Catch-Up Provision:

Under the Standard Catch-Up provision, you may defer amounts you could have deferred in prior years but did not. The maximum amount that may be deferred under the Standard Catch-Up provision is twice the applicable dollar limit. For 2013, the maximum is \$35,000 (applicable dollar limit of \$17,500 x 2). You may take advantage of the Standard Catch-Up provision for any, or all, of the last three calendar years ending before the year in which you attain your selected normal retirement age, as defined by your retirement system, but not later than age 70½.

#### 2. "Additional Age 50+" Catch-Up Provision:

If you are age 50 or older, you may make additional catch-up contributions except during years when Standard Catch-Up contributions are being made. The additional catch-up amount that may be deferred is \$5,500 in 2013. You may not use the Standard Catch-Up provision and the Age 50+ Catch-Up provision in the same year.

### What happens if I leave my employment? When am I required to withdraw my money?

The IRC allows distribution of funds only upon retirement, separation from service with the participating employer, or attainment of age 70½. At the time you sever employment, you may:

1. Keep your money invested in the Plan and, if desired, continue to manage your money within the offered investment options;
2. Withdraw your money in an elected and defined method, which may be subject to ordinary income tax; or
3. Roll your money to another eligible employer's plan that accepts rollovers, or to an Individual Retirement Account (IRA).<sup>5</sup>

### What if I need some of my funds while still working for my employer?

The IRC and the Plan contain two provisions that allow withdrawal of funds while still employed. These two provisions are limited and have strict requirements, which must first be met. They are:

1. An unforeseen emergency, which must be documented, meet the IRC definitions and criteria, and be approved by the Board.
2. A "De Minimis" withdrawal, which allows a withdrawal while employed if your balance is \$5,000 or less, you have not deferred for the last 24 months, and you have never before used this provision.

### Are any withdrawals subject to penalty?

457 Plan withdrawals—both as a terminated employee or an active employee qualifying for a withdrawal under the previously described provisions—may be subject to ordinary income tax, but there are no “penalties for early withdrawal.” However, if 401 (k), 401 (a) or 403 (b) plan assets from previous employers or Individual Retirement Accounts (IRAs) are rolled over into this 457 Plan, then a 10% penalty may apply for withdrawals of transferred assets if taken before age 59½. Additionally, 457 Plan assets which are transferred into another plan may be subject to the early withdrawal penalty when distributed from the new non-457 plan.

### Does the 457 Plan accept QDROs?

Yes; please contact the MPERA for the proper procedures and format for filing.

### Can I convert my existing account to a Roth account?

No; in-plan conversions from traditional to Roth savings are not allowed. However, you may roll over assets from a previous employer’s eligible Roth 457 plan into the Montana Roth 457 Plan. You may also roll over approved assets from eligible IRAs, 401 (a), 401 (k), 403 (b), or 457 plans into your traditional (tax-deferred) Montana 457 Plan.

### May I “roll” my deferred compensation account balance to an IRA or another tax-deferred program?<sup>5</sup>

Yes. You may roll your money—upon retirement or termination of service—into another eligible retirement plan or an IRA. If you roll over your 457 (b) account to another eligible retirement plan or an IRA and take a withdrawal from that account before attaining age 59½ or older, you may be subject to a 10% early withdrawal penalty. This 10% early withdrawal penalty does not apply to 457 (b) account withdrawals made from the 457 Plan.

### How often are Statements of Accounts generated?

Statements of Accounts are generated each quarter and include a complete history of your activity for that quarter. For each investment option it shows the contributions, earnings or losses, fees, and beginning and ending account balances. They are normally mailed within a few weeks after the end of the calendar quarter directly to the participant’s home address.

### What are the fees to participate in the Plan?

There are two “types” of fees within the Plan:

1. The annual asset-based fee varies, depending on your account balance. Quarterly, the first \$20,000 (in your account) will be charged 0.33%; the next \$30,000 will be charged 0.23%; and the next \$50,000 will be charged 0.13%. This fee is prorated across all investment options and is an explicit dollar amount on the statement.
2. Investment management fees
  - A. Each fund has its own fund operating expenses that vary depending on the investment options you select. (Refer to “Investment Options at a Glance.”)
  - B. The Montana Fixed Fund also has an investment management fee of approximately 0.40%—the quarterly declared rate is net of this management fee.

## Summary of State Deferred Compensation Plan

### Disadvantages

- Accessibility  
You may not receive your funds until you sever employment—except in the two circumstances previously noted.
- Defined Plan Investment Options  
Only those options within the Plan are available; these options may not always meet your individual criteria.

### Advantages

- Tax-Deferred Savings  
With traditional tax-deferred savings, you pay no income taxes on any contributions or their earnings until you withdraw the money, which is usually at or near retirement. With Roth savings, your contributions

and any earnings may be tax-free if the distribution occurs when you are age 59½ (or after disability or death), and at least five years after your first Roth contribution. If you withdraw from your Roth contributions prior to age 59½, the portion of your account which is attributable to earnings may be subject to ordinary income tax.

- Convenient Investing  
Payroll deduction makes it easy for you to invest regularly in the various available options, which cover all asset class categories.
- Financial Education  
Log on to the website at [www.mperadplans.com](http://www.mperadplans.com) to learn about retirement planning concepts, such as investment fundamentals, mutual funds, asset allocation, and risk tolerance. Financial tools and calculators are also available for you.
- Local Representatives  
Great-West Financial<sup>SM</sup> also has representatives available in Montana to help you determine your personal risk and return comfort level and determine investment allocations tailored to your personal objectives and strategies.<sup>6</sup>

### Selection of Investment Options

The Board, with the assistance of the EIAC and an outside consultant, reviews all offered investment options annually. The annual review ensures that the offered investment options meet the criteria established in the Board’s Investment Policy Statement and provide appropriate and sufficient opportunity to diversify.<sup>7</sup>

*Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds and disclosure documents from your registered representative. Read them carefully before investing.*

**For more information, please contact the Plan’s contracted record keeper:**

**Great-West Financial**  
208 N. Montana Avenue | Suite 103C | Helena, MT | 59601  
(406) 449-2408 | (800) 981-2786

***If there are any discrepancies between this document and the Plan Document, the Plan Document will govern.***

1 Investment return and principal value of a variable investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost.

2 The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Financial immediately if you suspect any unauthorized use.

3 The Montana Fixed Fund is a separate account product offered by Pacific Investment Management Company (PIMCO) and is not backed by the general assets of Great-West Life & Annuity Insurance Company. GWFS Equities, Inc. is not affiliated with PIMCO.

4 Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons. Transfer requests made via the website or KeyTalk received on business days prior to close of the New York Stock Exchange (2:00 p.m. MT or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment option selected.

5 You are encouraged to discuss rolling money from one account to another with your financial advisor/planner, considering any potential fees and/or limitation of investment options.

6 Representatives of GWFS Equities, Inc. are not registered investment advisers and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

7 Diversification of an investment portfolio does not ensure a profit and does not protect against loss in declining markets.

**Core securities, when offered, are offered through GWFS Equities, Inc. and/or other broker dealers.**

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