457(b) FICA Alternative Plan and Trust

Memo

To: Dr. Jeff Turner

From: Sid Grant

CC: Ralph Seeley, Barbara Sabedra, Kim Graham

Date: 6/14/2004

Re: **Resolution for Region 10 - 457(b) Alternative Plan and Trust**

Upon hiring full-time "new hire" teachers, paraprofessionals and other personnel, House Bill 3459 requires a 90 day waiting period before the employee can become a member of the Teacher Retirement System (e.g. TRS). Consequently, since September 1, 2003 we have been required to withhold and match Social Security (FICA) with district funds (e.g. the district matches the FICA contribution at 6.2%). Although this was a minimal cost to the district for the 2003 – 2004 school year because most new teachers were hired prior to September 1, 2003, the estimated FICA matching cost for the 2004 – 2005 school year will be approximately $20,400.

Region 10 Service Center has developed and is managing an authorized FICA alternative plan that provides for employees to participate in a 457(b) savings plan during the 90-day waiting period in lieu of contributions to Social Security at a contribution rate of 7.5 percent. Also, part-time, seasonal, and temporary employees (including substitute teachers) are eligible to participate in this plan. As compared to Social Security, this 457(b) plan has the following benefits:

1. An employee will realize immediate vesting compared to 40 quarter minimum vesting with Social Security.

2. Contributions into the 457(b) plan are pre-tax deductions, whereas social security is deducted on an after tax basis.

3. Contributing to this 457(b) plan enables an employee to start a tax free savings account.

4. Employees can rollover dollars into a 403(b), other 457(b) plan, or cash out with no penalty, whereas with social security there is no access to funds until retirement. In fact, under current law a career Texas educator may never have access to or receive any Social Security benefits if he or she does not contribute FICA for at least forty quarters.

5. Employees can use 457(b) dollars to purchase TRS service.

6. Region 10's program is a "turn-key" program with very little administration from the District.

7. The contributed dollars are invested in the Teacher/Employee Retention and Recruitment Program Trust (TERPP) managed by TCG Investment Advisory Services and the ESC Region 10 TERRP Investment Advisory Committee. The fund currently has over $25 million in assets with Union Bank (with over $25 billion in total managed assets) serving as the Trustee.

8. Fees the district is responsible for will initially be $200 per month. This will reduce as assets in the overall fund grow. Fees to the employee will be an annual fee (taken automatically out of

the account) of 2.55 percent initially but will decline to as low as 1.10 % as assets grow in the overall program (not just district funds) to over $10,000,000.

9. There are no withdrawal penalties and the district can leave program with no costs or other penalties.

10. This 457(b) plan has no relation to the "voluntary" 457(b) plan offered to our employees by ING. In fact, House Bill 3459 requires that the alternative plan and any voluntary plan be kept separate.

10. Contributions to this 457(b) plan will replace the current FICA contributions being made for the new full-time employees that are on the TRS 90-day waiting period, as well as PST retirement contributions for part-time, seasonal, and temporary employees (including substitute teachers) for an estimated minimum savings of $20,400 the first year of participation.

I have included a sheet provided by Region 10 further describing their 457(b) Alternative Plan and Trust. I encourage any board members with questions to feel free to contact me prior to the meeting at sgrant@coppellisd.com or (214) 496-6024.

RECOMMENDATION: **That the Coppell ISD Board of Trustees approve the Education Service Center (ESC) Region 10 457(b) FICA Alternative Plan Board Resolution and authorize the Director of Internal Business Services as Plan Administrator and to sign the Interlocal Agreement with Region 10 at the June 21, 2004 Board meeting.**