

Deferred Compensation (457) is an additional before-tax supplementary retirement plan adopted by your school board.

First Financial Securities of America, Inc. will be assisting the district in enrolling interested full-time employees in this program. Key highlights include:

1. Elective deferrals are the lesser of 100% of the participant's compensation for the taxable year **or** the applicable dollar amount, as set forth in Code Section 457(e)(15) and the following table: (regardless of last years contributions to the Teacher Retirement System of Texas (TRS) or a tax-sheltered annuity (403(b)).

<u>Year</u>	<u>Applicable Dollar Amount</u>
2004	\$13,000
2005	\$14,000
2006	\$15,000

2. The Age 50+ Catch-Up Deferral limit set forth below:

<u>Year</u>	<u>Age 50 Catch-Up limits</u>
2004	\$3,000
2005	\$4,000
2006	\$5,000

3. A special catch-up option allows the lesser of 100% of compensation or 200% of the normal limit for the final three years prior to retirement age. **Cannot be used when doing the 50+ catch-up.**
4. Distribution of funds can be made at the time of severance of service from the district, regardless of age. There are no IRS penalties for distribution at early retirement.
5. Deferred Compensation Plans are owned by the employer for the sole benefit of employees and their beneficiaries. Even though owned by the District, this plan could be subject to divorce claims that could be imposed upon a district employee.
6. There are no loan provisions; however, there are no IRS penalties for hardship withdrawals.
7. Pension Portability is permitted.
8. FTJ Fund Choice offers our full-time employees a "Benefit Responsive" 457 Plan. This means there are no withdrawal or surrender charges when an employee receives benefits. Benefits are paid at death, disability, hardship, retirement or severance from service. There are over 500 Investments Options offered through FTJ.
9. Lincoln National Life Insurance Company offers full-time employees a plan including an interest earning account as well as benefits paid at death, disability, hardship, retirement or severance from service. Investment Options are offered through American Funds, Scudder, Putnam and additional Management Companies.

10. American United Life Insurance Company also offers our full-time employees a “Benefit Responsive” 457 Plan. Options are offered through Fidelity, Calvert, T. Rowe Price, Alger, Janus, PBHG and SAFECO Management Companies.
12. Any district employee participating in the DROP PROGRAM through TRS should examine the additional benefits offered under our Deferred Compensation Plan.

Registered Representatives of First Financial Securities of America will be available to discuss and enroll the Section 457 Deferred Compensation Plan. The following is a more complete Question and Answer Brochure to help you familiarize yourself with the benefits of Deferred Compensation.

QUESTIONS AND ANSWERS
SECTION 457 - DEFERRED COMPENSATION

1. Q. What are unique advantages of a Deferred Compensation Plan?

- A.**
1. At early retirement or severance of service from your employer, distribution of the Plan can be made to you without the 10% IRS penalty tax usually associated with early distribution from other retirement plans, such as IRA's, 403(b) annuities or 401(k) plans.
 2. Most Deferred Compensation Plans offered are "Benefit Responsive" plans. This means there are no withdrawal or surrender charges when an employee receives benefits. Benefits are paid at death, disability, approved unforeseen emergency, retirement or severance from service.
 3. You can select from a wider choice of investment options for the Deferred Compensation Plans including fixed annuities, variable annuities, and mutual funds.

2. Q. What is Deferred Compensation?

- A.** It is a voluntary salary reduction plan allowing eligible employees to defer current taxable income during peak earning years and accumulate funds for retirement savings.

These funds are set-aside for you as before-tax dollars reducing your current income tax liability and provides, through payroll deduction, the easiest way to accumulate savings for the future. Earnings on these funds are also tax deferred.

3. Q. How are contributions made?

- A.** You decide how much of your compensation you want your employer to contribute into the plan on your behalf, within limits established by the federal government.

4. Q. Are there any limits to how much I can defer each tax year?

- A.** Yes, for the year 2004 the lessor of \$13,000 per year or 100% of includible yearly compensation. Other years, refer to page one.

5. Q. I am contributing \$9,500 into my 403(b). Can I participate in the Deferred Compensation Plan?

- A.** Yes, as long as your income permits, you may contribute up to the maximum in each plan as there is no longer a coordination of benefits.

6. Q. I am putting \$10,000 a year into a 403(b) TDA and earning \$35,000 per year. How much can I defer under the 457 Deferred Compensation Plan?

A. Let's assume a gross salary of \$35,000 and look at the following calculation:

Gross Salary	.....	-\$35,000
Less TRS:(6.4%)	.....	- 2,240
Adjusted Gross Salary	.....	\$32,760
Maximum 457 allowed (2003)	.....	- 13,000
403(b)	.....	- 10,000
Total Contribution	.....	\$ 23,000

The above example is based on an employee who earns \$35,000 and contributes \$1916.66 per month, (\$23,000.00 annually), to a 403(b), 403(b)(7) or 457 (b).

7. Q. How often can I make changes once I have started contributing to the plan?

A. You may increase, decrease, stop or re-start your deferrals during the calendar year as often as provided by your Deferred Compensation Plan, usually on an annual basis.

8. Q. When are Deferred Compensation funds available from the plan?

A. Distribution could be made at the time of any of the following:

1. Death
2. Disability
3. Approved Unforeseen Emergency
4. Normal retirement
5. Severance from service

9. Q. What choices do I have regarding payout options when I become eligible, at retirement or severance from service?

A. You can elect from the following:

1. Single lump sum of the entire account balance.
2. Installment payments over a selected fixed period, such as 5, 10 years.
3. Installment payments guaranteed for your lifetime or guaranteed over joint lifetime with your spouse.
4. When you elect early retirement, payout can be deferred until a normal retirement age (not beyond age 70 1/2).
5. Account portability (transfer to TRS, IRA, 403B, etc..)
6. Partial withdrawals

10. Q. Can I take the funds without the 10% penalty tax usually associated with an IRA, 403(b) annuity or 401(k) pension plan if I terminate employment service before age 59 1/2?

A. Yes. There will not be a 10% penalty tax on your Deferred Compensation distribution regardless of your age when you terminate employment.

11. Q. What happens to my account at my death?

- A.** If you have already started receiving periodic payments, any remaining guaranteed payments will be made to your beneficiary at least as rapidly as the method in effect at your death.

If you die before receiving any payments and your named beneficiary is your spouse, your spouse may choose to receive the money at a future date (not beyond age 70 ½) or any one of the same payout options shown in Question 9.

If your named beneficiary is not your spouse, two options are available:

1. Select a single lump sum of the entire account balance.
2. Select a payment option up to but not exceeding 15 years.

12. Q. How often do I receive a statement of account for my Deferred Compensation Plan?

- A.** Quarterly statements of accounts will be provided which show the value of your account as of the end of each quarter.

13. Q. How do I enroll?

- A.** The only way to enroll is through an authorized representative of the program administrator, (First Financial Administrators, Inc.). Enrollment or changes in the program may be made during any open enrollment period as designated by your employer.

14. Q. Can I choose where the money is invested?

- A.** Yes. You may choose to have your contributions invested in any of the funding alternatives approved by your employer.

15. Q. How do I get more information?

- A.** To get more information about the program or enrolling in the program, please contact the authorized representative from First Financial Securities of America.