



Associated Faculties of the Universities of Maine



# Make Money While Sleeping: Optimizing your UMaine Retirement Plans 403(b), 403(b) Addl., 457(b)

## **Payday at AFUM - AFUM 101 – Lunch and Learn**

(hosted by Jim McClymer, PhD, Lisa Neuman, PhD, Sandy Caron, PhD, Michael Grillo, PhD)

An informational talk for UMS faculty by:

Pank Agrawal, PhD (Professor of Finance, MBS; VP AFUM, UMaine)

FFA Room, Memorial Union

4:00PM, Feb 29<sup>th</sup>, Thursday, 2024

With Pank Agrawal, PhD.  
Maine Business School & VP of AFUM



Thurs Feb 29 | 4:00PM  
Memorial Union FFA Room

Our Union,  
Our Voice

**Retirement Plan** - UMS offers a retirement plan administered by TIAA, where both the employee and the employer contribute. Employee and employer basic contributions are made to the 403(b) Defined Contribution Pension Plan. Additional voluntary employee tax-deferred contributions above the 4% may be made to the 403(b) plan or a 457(b) Deferred Compensation Plan.

- **Additionally, the University adds 10% of the salary to this plan, many incoming faculty are possibly unaware of this.**
- **The Math on the advantages of sheltering savings into a pre-tax elective account is clear [will show Excel simulation], so why don't many use it to the fullest? 1 to 1 invested pre-tax vs 1 to 0.75 invested after-tax.**
- **Tax Evasion is a crime, Tax Avoidance is not.**
- **Let's put compounding tax-free to work and show you how each one of you can accelerate growth. (Buffet's theme of Passive growth, non-lazy money, Milton Friedman's deferred consumption)**



**\$50/week = \$1.1 Million in 40 years @10%/yr, for my students**  
**\$10,000/yr = \$1.1 Million in 30 years @\$70k/yr income @age 35**  
**Setting aside 10-15% of pre-tax income is a general ballpark**

FV

PMT

I/Y

N

PV

N (# of periods)

30

I/Y (Interest per year)

10

%

PV (Present Value)

\$-1

PMT (Periodic Payment)

\$-7,000

+ Settings

Calculate

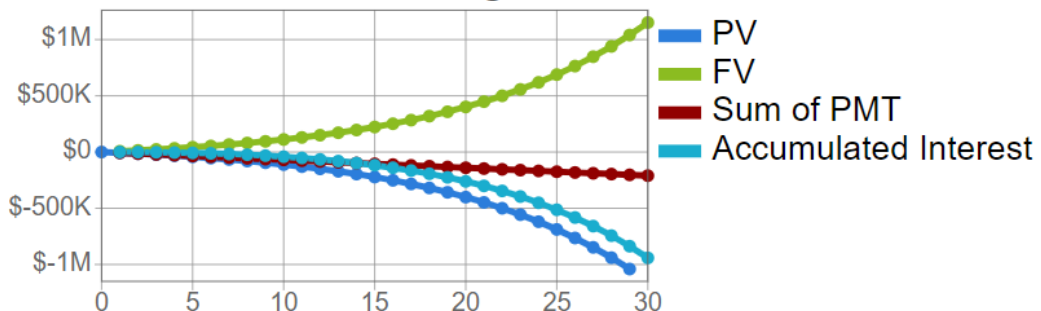
Clear

## Results

FV = **\$1,151,475.61**

Sum of all periodic payments	\$-210,000.00
Total Interest	\$-941,474.61

## Value changes over time



Inputs

First month investment, \$	\$583
Yearly increase, %	2%
Initial assets at start of year 1	\$1
Expected return on fixed	6.0%
Expected return on equities	10.0%
Fraction in equities	60%
Volatility (sigma)	15%
Inflation	2.5%

Pre-Tax

No 403 (b), Annual	\$5,250
Yes 403 (b), Annual	\$7,000
Value in year 35	\$1,087,144
Out-of-pocket contribution	\$356,961
Annualized return, %	7.91%

After Tax Simulation

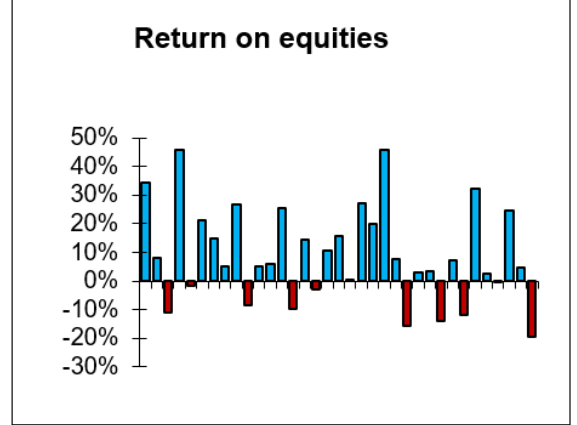
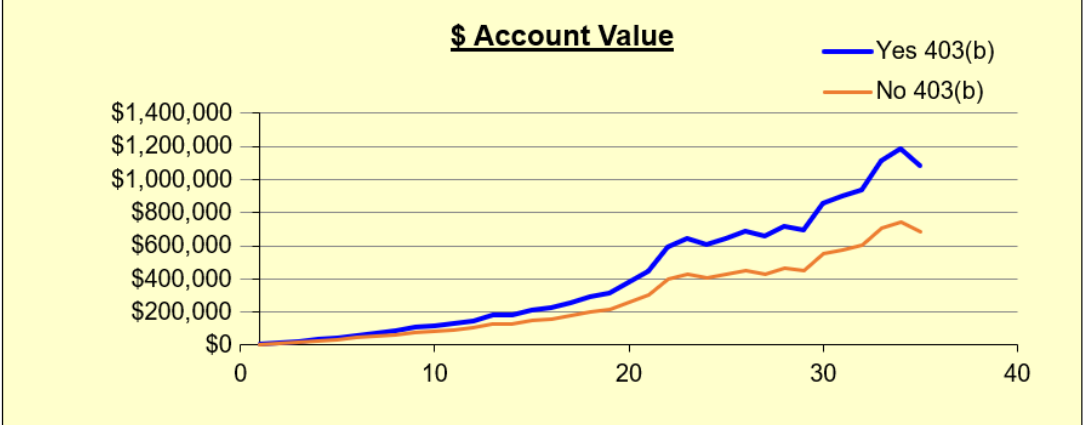
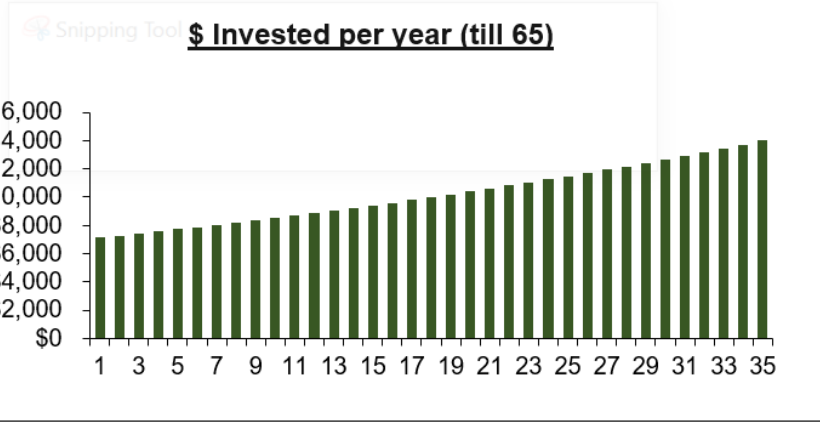
Tax Rate	25%
Savings Rate	10%
Value in year 35	\$684,548
Out-of-pocket contribution	\$267,720

Yes 403 (b)

No 403 (b)

\$ 70,000	\$ 70,000	Salary
10%	\$ 52,500	After Tax
63000	10%	Sav. Rate
\$ 47,250	\$ 47,250	In GoodMaineBank

Press F9 to recalculate



- Most stop at the 403(b) (Basic + Addl.), one can contribute an equal amount in the 457(b) as well, thus doubling the tax savings.
- Those who venture past the Login screen find the decision making and investment choices overwhelming and log out, postponing the deferrals. JFYI, 4% of your salary is an automatic non-elective deferral.
- You don't have to decide stocks or bonds or if the market is high or tanking. Just the SIMPLE act of deferring (say 10%) your salary will give you a instant Tax saving of about 25%. (at least let's postpone it for 30 years, we will deal with it then).
- Park in a money market fund until you figure out the 'Allocation' decision. That can come later. It is independent of the voluntary deduction decision. 15% of pre-tax income is a general ballpark.
- {**Low frequency event has the higher impact** in financial markets --- Elections, Tsunami, major wars, currency devaluation, 9-11, Fed Pivot, Lehman Bros}

UMS Recreation Release Form

Signed: 8/9/2022



Due again on: 8/9/2026

Time



Pay



Benefits



Open Enrollment

No Enrollment Available At This Time

Personal Details



Action Required

Talent Profile

Employee Self Service

Benefits

## Benefits Summary

Dependent/Beneficiary Info

Leave Balance

View Form 1095-C

Form 1095-C Consent

Benefits Enrollment

Benefit Statements

Review

## Short-Term Disability

Plan Short Term Disability-Faculty  
Coverage 60% of Salary

Review

## Nonelective Contributions

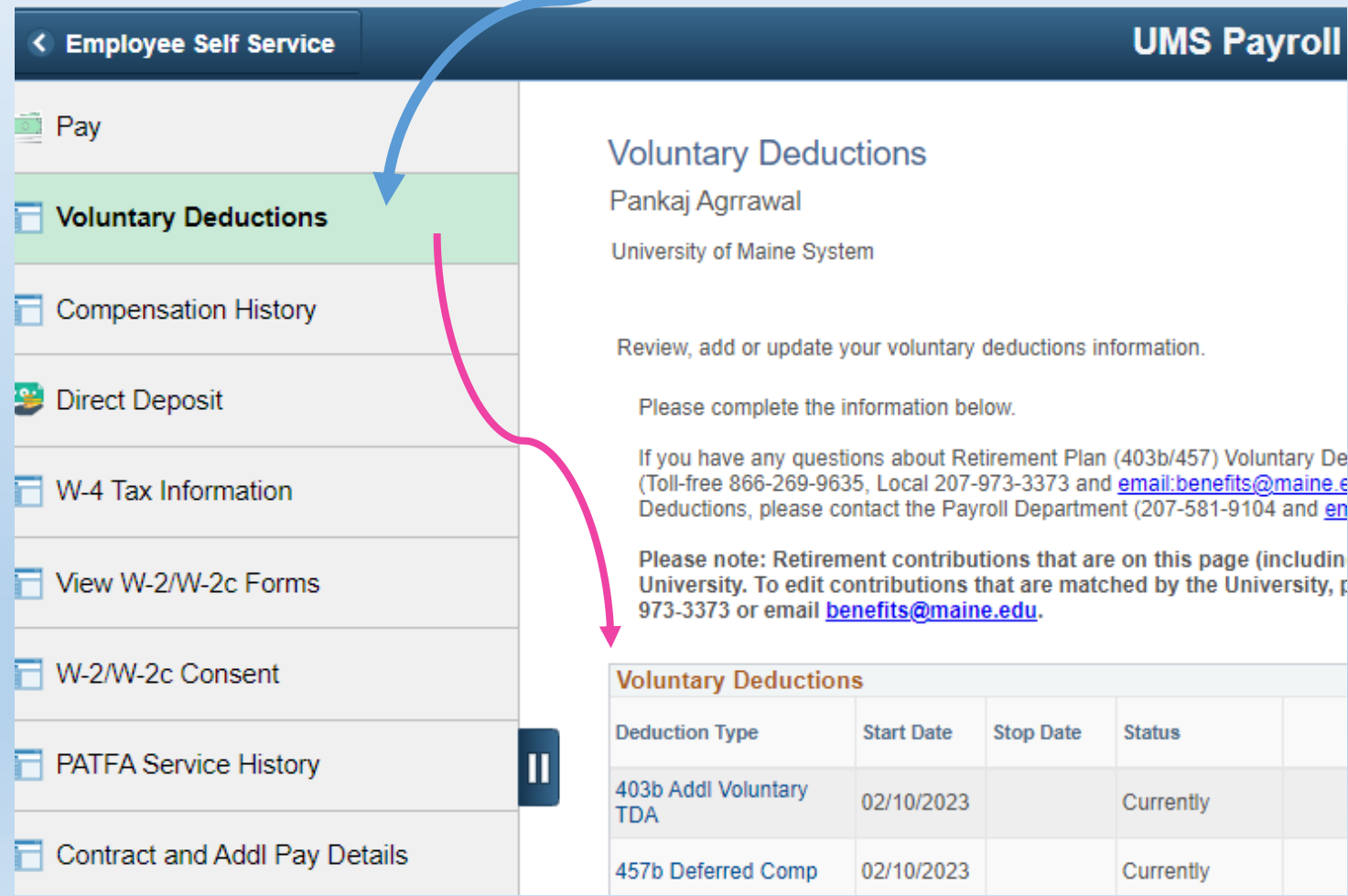
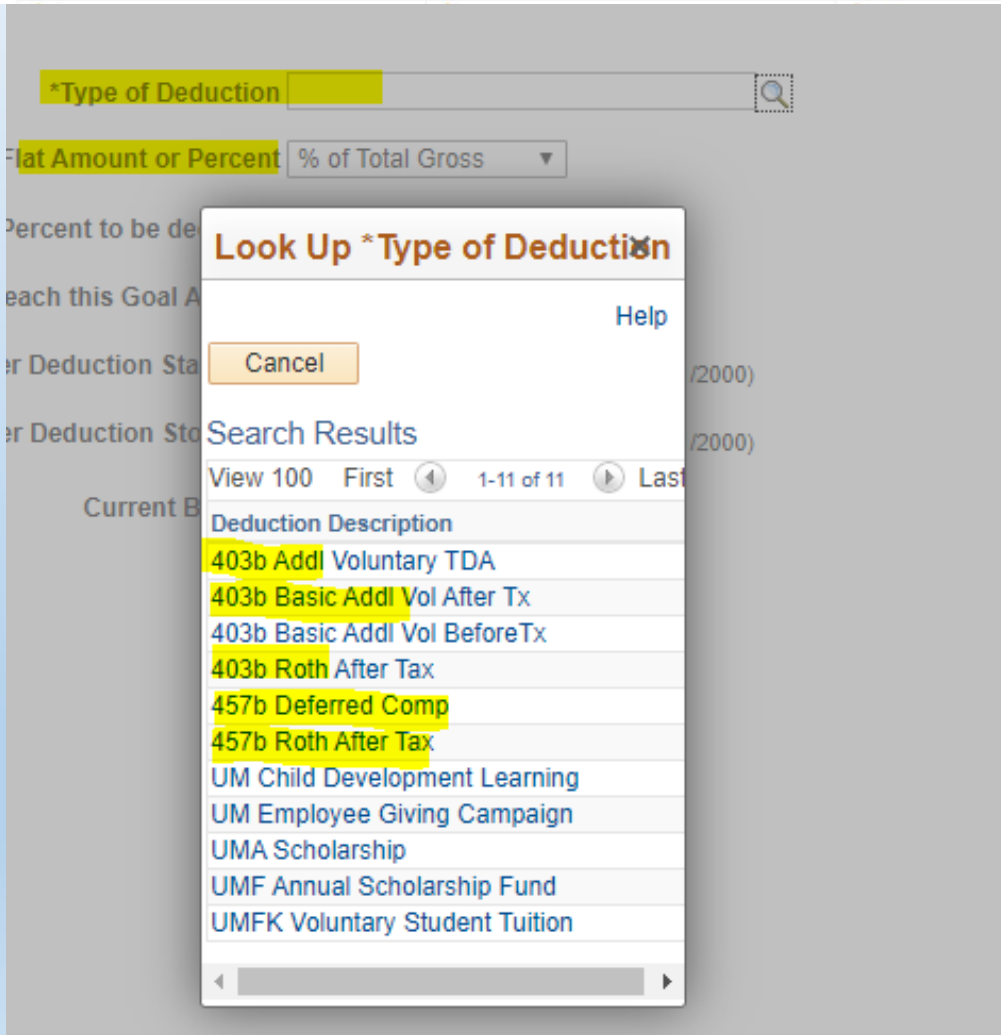
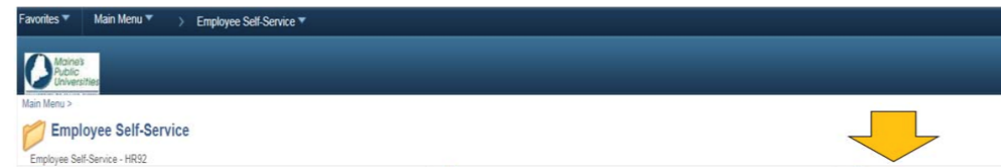
Plan 403b Basic Salaried B/T  
Coverage 4% Before Tax

Review

A couple of real screenshots from MaineStreet so you can see the implementation and how easy it is. UMS Benefits can walk you through too.

## To Add, Stop or Change your voluntary retirement contributions

Navigate to [Employee Self-Service](#) > [Payroll and Compensation](#) > [Voluntary Deductions](#)



## Minutiae:

The contribution limits for 403(b) plans are now identical to those of 401(k) plans. All employee deferrals are made on a **pretax basis** and reduce the participant's adjusted gross income accordingly. Here are the **2024 limits**:

**403(b):** if you are under age 50, you may contribute a maximum of \$23,000 in calendar 2023; if you are age 50 or older or will turn age 50 sometime during calendar year 2024, you may contribute a maximum of \$30,500 (\$23,000 plus \$7,500 age 50 catch-up).

**457(b):** Therefore, if you are under age 50, you could defer a total of \$23,000 in the 403(b) plan and \$23,000 in the 457(b) plan; if you are age 50 or older or will turn age 50 sometime during the calendar year, you could defer a total of \$30,500 in the 403(b) plan and \$30,500 in the 457(b) plan.

You also have available a Roth 403(b) and 457(b) additional voluntary employee option under your UMS defined contribution retirement plan. With the Roth contribution option, your contribution is taken out of your paycheck after your income is taxed, which does not lower your current taxable income. However, your contributions, and the earnings on them, are **tax-free upon withdrawal** in retirement provided certain conditions are met.

**Distributions** taken before age 59 ½ are subject to a 10 percent early withdrawal penalty unless a special exception applies. All normal distributions are taxed as ordinary income at the taxpayer's top marginal tax rate. Roth distributions are tax-free, although employees must either contribute to the plan or have a Roth IRA open for at least five years before being able to take tax-free distributions.



Features	403(b) Plan	457(b) Public Plan
Taxability	Amounts are taxable when distributed	Amounts are taxable when distributed
Contribution Coordination	There is no coordination between 403(b) and 457(b) plans. Employees can contribute the maximum to both.	There is no coordination between 403(b) and 457(b) plans. Employees can contribute the maximum to both.
Age 50 Catch-Up Amounts	An additional \$6,000 is permitted, for those age 50 and over, with higher amounts in future years. Can use the age 50 catch- up amount in both 403(b) and 457(b) plans.	An additional \$6,000 is permitted, for those age 50 and over, with higher amounts in future years. Can use the age 50 catch- up amount in both 403(b) and 457(b) plans. If within three years of plan's normal retirement age, employee is eligible for the greater of the age 50 catch-up or an enhanced limit (not both) – see next feature.
Other Catch-Up Amounts		For those within three years of plan's normal retirement age, additional amount up to twice the applicable limit or unused amounts from prior years, whichever is less. Employees are eligible for greater of enhanced limit or age 50 catch-up contributions, but not both.
Triggering Events To Access Funds	Separation from employment, age 59 1/2, retirement, disability, or death. Hardship distributions may also be available. Employer contributions will be restricted under the terms of the plan.	Separation from employment, age 70, retirement, or death. Distributions due to unforeseeable financial emergency may also be available.
Early Withdrawal Penalty	Yes. 10% before age 59 1/2, unless due to death, disability, or separation from service after attainment of age 55.	None.
Loans	Yes, but loans are subject to the employer's plan and there may be restrictions. Typically, you can borrow between \$1,000 and \$50,000 per plan. The amount you can borrow depends on the amount in your annuity account that is available for loans.	Yes, but loans are subject to the employer's plan and there may be restrictions. Typically, you can borrow between \$1,000 and \$50,000 per plan. The amount you can borrow depends on the amount in your annuity account that is available for loans.

- <https://gojira.its.maine.edu/confluence/display/HumanRes/Retirement+Plan>  
[2/2024, from VPN or on Campus access only, \*above table for 2023]

### 403(b) Employee Savings Plan:

Annual salary:

Percent to contribute:

Current age:

Age of retirement:

Current 403(b) balance:

Annual rate of return:

Annual salary increase:

Annual investment fee:

**Total employee contributions: \$210,000**

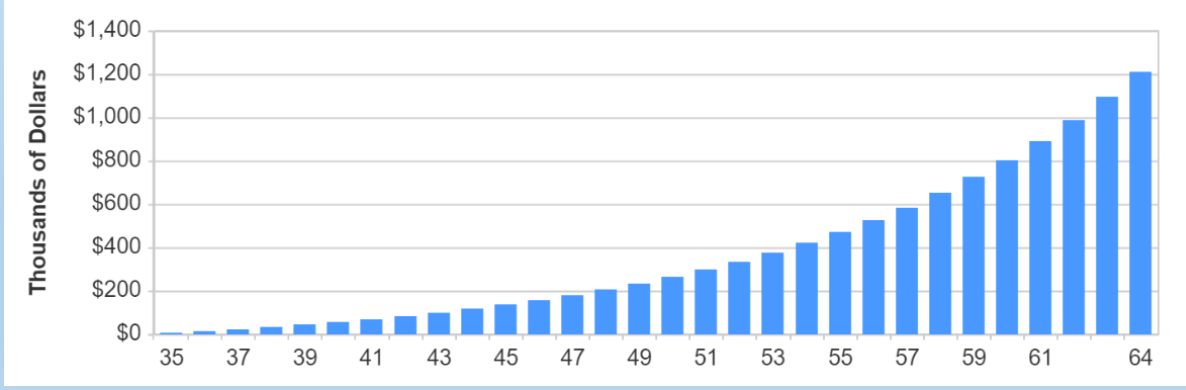
### 403(b) Employer Contribution/Match:

Percent of salary:

Amount per year:

**Total employer contributions: \$0**

Your total is \$1,212,931 after 30 years.



## Taxable vs. Tax Advantaged Investments

[View Results](#)

### Investment contributions and withdrawals:

Annual rate of return:

Years to contribute:

Years of withdrawals:

Existing balance:

New contributions:

Contribution frequency:

Withdrawal frequency:

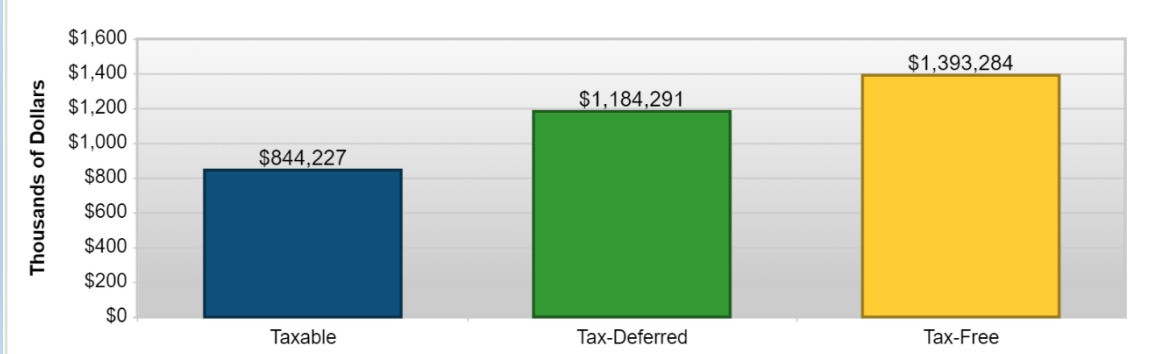
### Investment taxes:

Tax during contributions:

Tax during withdrawals:

Tax deduction: ☐ Increase tax-deferred contribution by tax deduction savings.

### Annual After-Tax Withdrawal



# RETIREMENT



## BASIC 403(b) RETIREMENT PLAN

### Salaried Employees & Faculty

- ✓ Participation mandatory/non-elective if over age 30
- ✓ Employee contribution = 4% of base salary
- ✓ UMS matching contribution = 10% of base salary

### Hourly Employees

- ✓ Participation mandatory/non-elective regardless of age
- ✓ Employee contribution = 1%, 2%, 3% or 4% of base salary
- ✓ UMS matching contribution based on length of service and collective bargaining contract

*There is a five-year vesting period for salaried and hourly employees to retain UMS matching contributions.*

UMS Employee Benefits Center Local: (207) 973-3373



## BASIC 403(b) RETIREMENT PLAN

Eligible employees will be automatically and immediately enrolled in the retirement plan:

- ✓ Contributions sent to TIAA-CREF (1-800-842-2776)
- ✓ After-tax basis
- ✓ Minimum percentage required

Contact TIAA-CREF to:

- ✓ Establish your own personal investment choices
- ✓ Assign beneficiaries

## ADDITIONAL VOLUNTARY TAX-DEFERRED ANNUITIES (TDA)

### 403(b)

- ✓ Additional 403(b) tax-deferred contributions
- ✓ Subject to 403(b) IRS limits

### 457(b)

- ✓ Additional 457(b) tax-deferred contributions
- ✓ Subject to 457(b) IRS limits

[https://youtu.be/lpQgK2DLFNg?si=5jRNQB1gT\\_oozPv8&t=920](https://youtu.be/lpQgK2DLFNg?si=5jRNQB1gT_oozPv8&t=920)



## Withdrawals:

Our 403(b) plan we can not currently access any of the 4%+10% until we leave employment. But voluntary/additional 403(b) contributions can be taken out, 59 ½ years rule.

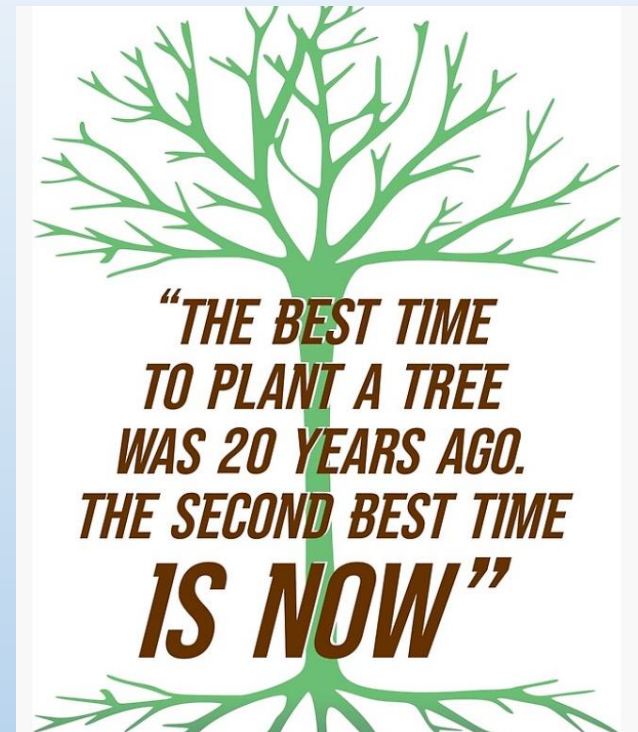
That changed starting April, 2020 when we could take a loan from this amount, currently up to 50K and no more than 25% of the amount in that plan.

RMD (Reqd. Min Distribution) age for folks is 70 ½ to 75, birth year dependent. Spousal consent may be necessary to receive any non-qualified distribution option. If still employed, past 70 ½ do not need to take RMD until after you leave employment.

A little extra now will pay off big later, if you can't swing 10%, do \$100 a month or something.

Grad students should be encouraged to open IRA's and put a bit in because of compounding.

**Jim McClymer**



**Thank You!**