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LOCAL 66



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To: All BTU Members Who Are Retiring This June

From: Richard Stutman, BTU President

Re: Sheltering Severance Pay; Meeting at the BTU on Tuesday, May 26, 2009, from 4-6
and/or Thursday, June 11, 2009, from 4-6

Date: May 11, 2009

I am sending this DRAFT memo out to all BTU members who applied for the ERI \$1500 payment this past winter. The memo, however, applies to **all** who are retiring at the end of this school year, whether he/she received the \$1500 or not. Some of the language in this memo may be updated as more information becomes available from the school department. But this memo will remain essentially as is, and the governing principles of the sheltering of your severance will remain the same.

A new IRS ruling (as of 6/06) has made it easier to shelter your severance pay using either a 403.B (Tax-Sheltered Annuity) Plan or a 457 Plan. The new ruling allows this tax-sheltering device to be used up to 2 ½ months after completion of service. Formerly, the contribution had to be completed prior to service departure.

Your severance currently is divided into two parts, and you will only be able to shelter, if you wish, the first half of your severance pay, which will be paid to you on or about 9/15/09 according to current plans. The 2nd half of your severance will be paid in 2010, prior to 12/31/10, in accordance with a long-standing contract provision.

Teachers, nurses and paras who wish to do so may shelter the first half of their severance pay subject to individual IRS (calendar 2009) limits currently in place, taking into account what contributions you have made to date this year, if any.

Why shelter your severance? To postpone paying both federal and state income taxes on the amount received. Although you will eventually pay both state and federal taxes on the amount 'sheltered,' you may be in a lesser tax bracket at the time you make the withdrawal. When withdrawn, the contribution and any income or growth it has generated will be taxed as income using the tax rates in effect at that time. Another reason to shelter or defer part of your severance is that the contribution (or deferral amount) will grow tax-deferred, i.e., you will not have to pay yearly taxes on the growth or income the contribution earns. You may shelter your severance using either of the common savings vehicles available to Boston teachers—a 403B or a 457 plan. Both plans accept pre-tax deferrals and allow the employee a range of savings options. You may use your current plan, subject to IRS-deferral limits, or open a plan of the other type. There is an essential difference in the plans: In a 403B, you choose the vendor (insurance company or mutual fund company) and there are a dozen or so to choose from; in a 457, the homework is done for you, as the state has awarded the contract to Great West. The state also monitors the operation of the plan. For more information on Great West, see <http://www.mass.gov/treasury/smartplan/> if you wish. Other than this difference the plans operate essentially the same way.

Both income deferral and tax-deferred yearly growth are tax-advantaged benefits to you, but it not the intent of this piece to give individual financial advice. Nor is it the intent here to suggest that any particular retiring member of the BTU take advantage of this plan, ING or any particular 403b company. That is a personal decision for each to make after consultation with a financial professional. The purpose of this memo is to announce that the BTU is setting up a meeting with Great West the company awarded the state's 457 plan. The 457 Plan is also known as the Mass Deferred Compensation SMART Plan.

The Deferred Comp Plan, also known as a 457 Plan, works essentially similarly to a 403B or a TSA. Teachers, Nurses (others, too), and Paras are allowed to contribute to either or both. Deferral limits for each are cumulative and contribution to one does not interfere with a contribution to the other.

Why did we invite Great West only to the meeting? There is only one 457 plan for Mass and city of Boston employees, while there are many 403b companies and literally many dozens of salespeople for the firms. It was easier to set up the meeting this way. If you want to set up the severance deduction with any of the 403b companies or with your particular representative, you are encouraged to do so. Do not wait to begin to do so.

(In the last few years our office received a small number of last-minute calls from 403b salespeople seeking to set up a plan for their clients (our members). In some cases, the 403b sales staff was able to pull this off; in other cases, sales staff ran out of time and the sheltering could not be accomplished at the last minute.)

We invited Great West for one other practical reason: Many people have a 403B Plan, and they may be unable to make any further contributions to that plan for this year.

They may need to find another savings vehicle to shelter their severance, and as the plans do not interfere with each other, they *may* have no choice but to set up a 457 Plan.

(The meeting is for Great West only, which is the sole city vendor for the 457 plan. No other company will be allowed to speak, though we do not object to anyone else coming to the meeting.)

Again, this memo is not meant to offer financial advice. You are strongly advised to seek the help of a financial professional before taking any of the steps outlined above.

Last year the school department's Office of Human Resources sent out written instructions as to how to proceed. The instructions will come out on the reverse side of the severance application form and will be sent later. When you receive the application from the school department, sometime around mid July 09, you will have to let the school department's payroll office know into which account (403b or 457) you wish it to deposit the first half of your severance. By that date, mid-July, you will have had to set up the account you wish to receive the payment.