Peach State Reserves

PEACH STATE RESERVES FAQ

Peach State Reserves – General Questions

What is Peach State Reserves – The Georgia Retirement Investment Plan?

Peach State Reserves (PSR) is a plan offered by the State of Georgia to its employees that provides an opportunity to save for retirement while reducing current taxable income and accumulating tax-deferred savings. Peach State Reserves offers 2 Deferred Compensation/Defined Contribution Plans for employees to take advantage of: a Section 401(k) Plan and a Section 457 Plan.

What is a Deferred Compensation/Defined Contribution Plan?

Deferred Compensation/Defined Contribution Plans are employer-sponsored long-term savings programs authorized by Congress. They provide a way for eligible employees to set aside ("defer") a portion of their incomes before state and federal income taxes are assessed on that income, with the deferred pay accumulating tax-free until withdrawn after termination of service. Thus, the part of your salary and whatever it accumulates in earnings and dividends are "tax deferred." Your money is invested in your choice of investment options offered through such a plan.

These plans enable participants to accumulate funds for their future security – as supplemental income for retirement, or for other long-term needs. Most financial advisors agree that Deferred Compensation and Defined Contribution plans are an excellent and smart way for employees to supplement the benefits available through basic pension plans, and help ensure a comfortable future for themselves.

Why does the State offer PSR?

By offering attractive benefit programs like PSR, the State is able to attract and retain high quality employees. The State wanted to offer this program to give you similar opportunities to save for your future as are offered in private industry. But you are the one who primarily benefits from this program - there is no financial advantage to the State. Likewise, there is no cost to the State, since the administrative expense of PSR (with the exception of the incidental cost of payroll deduction) is primarily borne by the participants in the form of modest quarterly maintenance fees.

Who is eligible to participate in PSR?

457 Plan	401(k) Plan
All full-time state and participating university and board of education employees. Part-time and hourly employees may or may not be eligible - check with your Human Resources office about benefit eligibility. Employees of Clayton and Kennesaw University are eligible for the 457 plan only.	All full-time state and participating university and board of education employees. Part-time and hourly employees may or may not be eligible - check with your Human Resources office about benefit eligibility. Employees of the Georgia Lottery Corporation and County Tax Offices/State Courts are eligible for the 401(k) plan only. Beginning January 1, 2009, any employees covered by the new Georgia State Employees' Pension and Savings Plan (GSEPS), will be eligible for the 401(k) plan.

When will I have to pay taxes?

Federal and State income taxes must be paid on any withdrawals when and as they are paid to you (except when you choose to "roll over" your account into another retirement plan or IRA).

Withdrawals are subject to Federal and State tax withholding if not rolled over into another retirement plan or IRA. However, there is a 10% Federal penalty for most early 401(k) Plan payouts prior to age 59 ½ (again, if paid out rather than rolled over into another retirement plan).

457 Plan withdrawals are not subject to any early withdrawal penalty, unless you roll your 457 assets to a 401(k), 403(b) or IRA and subsequently withdraw from the new plan prior to age 59 ½.

What is the advantage of a tax-deferred plan?

The advantage of a tax-deferred program is that, in addition to the money you might have been saving in any case, you are able to invest money that would have otherwise been deducted from your check as income tax withholding. This extra money generates more earnings, and the reduction in taxable income leaves you with extra take-home pay.

Here's an example:

Before Tax (PSR) Savings	After Tax Savings (Credit Union, Broker, etc.)
$1,000 **-$50 PSR deduction** $950 Taxable Income -$266 Federal Taxes -$57 State Taxes $627	$1,000 -$280 Federal Taxes -$60 State Taxes $660 **-$50 Taxable Savings Deduction** $610
$17 more take-home pay when you save before taxes! And your taxes are lower!	

In addition, PSR has other advantages over savings accounts at banks, brokerages or credit unions:

- The pre-tax dollars that you invest also compound on a tax-deferred basis. Since you do not pay taxes on the earnings each year, the earnings will accumulate more quickly than earnings in an equivalent after-tax investment for which you have to pay taxes each year.
- You cannot “dip into” your savings as easily as you can with other savings
- PSR does the recordkeeping. Keeping track of investments and earnings and reporting them on income tax returns can be a time-consuming, difficult job. With a PSR account there are no recordkeeping responsibilities for you until distribution. You don’t even have to report the annual amount of your contributions. PSR does.

In other words, your money goes to work for you before you pay taxes on it, so you can save more. Current taxes will not reduce those dollars, so they grow more quickly than would otherwise be possible. And not being able to access funds from your PSR account will help ensure your account will continue to grow until you will probably need it most – namely, when you are retired and no longer drawing a paycheck. Of course, this is not to say you should not also have credit union or bank savings accounts. PSR is not intended to replace your regular savings program, but rather to supplement it, in a way that is of optimum financial benefit to you.

Taxable savings programs, like those available in your credit union, are ideal and necessary for attaining short and medium term savings objectives, such as building an emergency cash reserve, accumulating the funds to buy a car, or making a down payment on a house as well as the new costs associated with owning a home. PSR is designed to fill the gap in most employees’ financial programs, by providing long-term financial growth and security that is less available for early withdrawals.

How do I sign up for PSR?

Enroll online or contact GaBreeze at 1-877-342-7339.

When will my payroll deductions begin after I enroll?

Your deductions for the 401(k) plan should begin as soon as administratively possible, subject to agency payroll closeout deadlines. 457 deductions will begin during the next calendar month after you enroll. If you enroll during the middle of August, for example, 457 deductions should begin on September 15 if you are paid semi-monthly, or September 30 if you are paid monthly.

Must I enroll in PSR during Open Enrollment?

No. Unlike the Flexible Benefits Program options, you can enroll in PSR (or stop or change contribution amounts) at any time during the year.

When I enroll, who determines how my money is invested?

You do. Not only do you get to choose into which investment options your current contributions are directed (and in what proportions), but you can also make investment transfers – switch part or all of your balance to different investment options.

In addition, another feature that makes PSR even more attractive to some people is the availability of Lifecycle Portfolios that participants can choose based on their anticipated date of retirement or desired withdrawal start date. For some participants who maintain a high enough account balance, a Self-Directed Brokerage option is also available, with access to thousands of mutual funds as well as individual stocks and bonds. Trading fees will apply to Self-Directed Brokerage transactions.

What if I participate and later have medical bills or other expenses that I can't pay because I don't have the money?

Withdrawals from the 401(k) Plan due to immediate and heavy financial need related to specific categories and, from the 457 Plan, due to a sudden, extraordinary and unforeseeable event that creates a severe financial hardship, are available under extremely limited circumstances. Loans are not available from the Peach State Reserves plans. Please read the following regarding these types of withdrawal requests:

The Peach State Reserves Section 457 and 401(k) Plans were designed by the Internal Revenue Service as a mechanism for saving towards retirement on a pre-tax basis. The Plans are not designed for emergency expenses or financial hardship. Therefore, it is very difficult to qualify for withdrawals prior to separation from state service. Withdrawals due to Financial Hardship are limited and must meet the approval of the Deferred Compensation Hardship Review Committee. The financial hardship application must be completed and accompanied by supporting documentation, such as copies of paycheck stubs, lease/rental agreements, account statements, billings, loan agreements, invoices and any other documentation appropriate to substantiate the claim of financial hardship.

Withdrawals cannot be made from the 457 Plan for the purchase of a home, educational expenses or other discretionary items or services. In addition, 457 withdrawal requests must be the result of a sudden, unforeseeable event that has created a severe financial hardship.

The only assets available for 401(k) financial hardship withdrawal are those elective deferrals made by the participant, excluding any earnings associated with those deferrals. Any employer contributions made (if eligible for employer contributions) are not available for hardship withdrawal. 401(k) financial hardship withdrawals will only by considered for the following categories:

MEDICAL CARE - Unreimbursed expenses for (or needed to obtain) medical care that would be deductible under Section 213(d) of the Internal Revenue Code.

PRINCIPAL RESIDENCE REPAIR - Expenses for the repair of damage to the Participant's principal residence that would qualify for the casualty deduction under Section 165 of the Code (determined without regard to whether the loss exceeds 10% of adjusted gross income).

PRINCIPAL RESIDENCE PURCHASE – Unreimbursed costs directly related to the purchase of a principal residence for the Participant (excluding mortgage payments and lease/rental agreements).

EVICTION OR FORECLOSURE - Payments necessary to prevent the eviction of the Participant from his or her primary personal residence or the foreclosure on a mortgage secured by that residence.

P**OST-SECONDARY EDUCATION** – Unreimbursed payments of tuition, room and board, and other ancillary educational expenses of the Participant, Participant's spouse or Participant's dependent(s) (as defined under Code Section 152, and without regard to section 152(d)(1)(B)) incurred with respect to a regular course or program of study at a post-secondary educational institution or other institution of higher learning for current or upcoming school term.

FUNERAL EXPENSES - Payments for burial or other funeral expenses incurred by the Participant with respect to the death of the Participant's parent, spouse, children or dependents (as defined under Code Section 152, without regard to Code Section 152(d)(1)(B).

No other expenses will be considered. If you are approved for a 401(k) financial hardship withdrawal, elective deferral contributions are prohibited for the 12-month period following the withdrawal. After the 12-month period, the 401(k) Contribution Limitation for that year will be reduced by the amount of contributions made in the previous year.

Employer contributions (for employees of participating Community Service Boards and the Georgia Lottery Corporation) are not eligible for financial hardship withdrawal, regardless of the vesting service completed. All employees should be setting aside savings on an after-tax basis that they can access without restriction or penalty. Only after such an emergency fund is established should someone consider enrolling in PSR. Participants should contact PSR staff if they need additional information.

Who decides if my situation meets the requirements for a financial hardship withdrawal?

The plan's Third-Party Administrator, Aon Hewitt, is responsible for reviewing each written withdrawal application and its substantiating documentation, determining by consensus whether the application meets the Internal Revenue Service (IRS) guidelines.

Can I take out a loan from PSR?

No. While many private sector 401(k) Plans offer loans, through which participants may access funds to make a down payment on a house, or to supplement educational expenses, the state of Georgia 401(k) and 457 Plans do not have loan provisions, and the money you contribute to the Plan(s) is not eligible for withdrawal in cases of financial need, except under extremely limited circumstances (and in the case of 401(k), with additional potential tax penalty). The state offers PSR as a tax-sheltered mechanism to help employees prepare adequately for retirement, rather than as a mechanism for other, more short-term goals.

If I decide to participate but later want to stop my contributions, can I discontinue them at any time?

Yes. Contributions are completely voluntary. You can stop current deductions at any time by accessing your account through GaBreeze. Under most circumstances, your request to cease contributions will take affect as early as the next available pay period.

If I stop contributions, can I start them again later?

Yes. Reenroll through GaBreeze at any time, online or at 1-877-342-7339.

If I decide to participate in PSR, how will the amount of my Social Security benefits or my retirement pension be affected?

Not at all. Your Social Security taxes will continue to be calculated and withheld just as they were before you enrolled in the Plan. Your Social Security and State Retirement benefits will continue to be based on your total gross salary. And when you retire, the amount of PSR benefit payments you withdraw will have no effect on the amount of Social Security benefits you'll be eligible to receive.

If I enroll, can I use my account balance as collateral for a loan?

No. Federal tax law does not allow a participant to assign, pledge, collateralize, sell or otherwise transfer his or her assets, except upon receipt of the funds following separation from service or other qualifying event that provides for distribution.

I don't think I make enough to contribute to a long-term savings program like PSR. How would these savings affect my take home pay?

Maybe you can't afford not to contribute to PSR. You might be surprised at how little your contribution to PSR will actually impact your take home pay. Remember that part of what you will be contributing would have been deducted from your check and paid in taxes, anyway. The exact dollar amount of the reduction depends on how much you make, how many withholding allowances you are claiming, and how much you're contributing, but it will always be less than your actual contribution amount. For example:

If you are currently subject to a marginal tax rate of 34% (28% for federal, 6% state), and elect a contribution that results in a deduction of $100 per pay period, $100 will be invested in your account, and you will be earning on that full $100. However, you'll see your take home pay go down by only $66. The other $34 that is being invested in your account is covered by dollars that were already coming out of your check as income tax withholding. The $34 simply gets swapped from Uncle Sam's account to your own to grow tax-deferred until you withdraw it!

How much can I contribute to PSR?

Both the 457 and 401(k) Plans have identical contribution limits, and you can contribute the maximum to both plans.

TAX YEAR	DEFERRAL LIMIT
2005	$14,000
2006	$15,000
2007	$15,500
2008	$15,500
2009	$16,500
2010	$16,500
2011	$16,500

Is there a minimum contribution amount that I can have deducted?

Yes, 1% of compensation each pay period.

Can I change the rate of my contributions?

Yes. You can start, stop or change the rate of your contributions at any time by accessing your account through GaBreeze.

If I make contributions to a tax sheltered annuity plan under Internal Revenue Code (IRC) 403(b), to my county IRC 457 Plan, or to an IRC 401(k) Plan with a private-sector employer, does that affect how much I can contribute to the 457 or 401(k) Plan?

Yes, in some cases. Contributions to both a 403(b) and 401(k) are subject to a combined limit equal to the normal Plan maximum (i.e. $16,500 in 2010). This combined limit does not apply to contributions to both a 457 and a 401(k) or to contributions to both a 457 and a 403(b); in both cases you may contribute the maximum to both plans (e.g. combined limit of $33,000 in 2010).

What is the Special 457 Catch-Up feature?

This is a special feature only allowed in the 457 Plan, available during each of the three years before the calendar year in which you are eligible for full, unreduced retirement benefits and plan to retire, but only IF you have not already contributed the maximum allowable annual amounts throughout your 457 eligibility period. Full, unreduced retirement benefits from both the Employees' and Teachers' Retirement Systems are defined as either 30 years of creditable service, regardless of age OR age 60 with 10 or more years of creditable service (the applicable retirement system would have to verify your eligibility for unreduced retirement benefits).

During each of these three years, you can increase your contributions above the normal plan maximum. The normal plan maximum and corresponding Catch-Up maximums are shown in the table below:

Year	Normal Maximum	Additional Amount	Total 457 Contribution
2006	$15,000	$15,000	$30,000
2007	$15,500	$15,500	$31,000
2008	$15,500	$15,500	$31,000
2009	$16,500	$16,500	$33,000
2010	$16,500	$16,500	$33,000
2011	$16,500	$16,500	$33,000

The additional amount you can contribute is limited by the amount of money available for Catch-Up, which is determined by the amount you could have contributed during your years of eligibility, less the amount you actually contributed. For example, let's say you plan to retire in 2012 with full, unreduced retirement benefits. Your total "shortfall" during all your years of eligibility for the 457 Plan (regardless of whether you actually participated) was $50,000 – this is assuming, for the sake of example, that you could have contributed a total of $100,000 across all prior years of Plan eligibility, but you actually contributed only $50,000 during those years. In that case, for 2009, 2010 and 2011, you would be eligible to contribute twice the normal plan maximum for each year. If your total "shortfall" was less than $49,500, you would not be able to take full advantage of Catch-Up because that amount is less than the additional amounts available for those years (i.e. $16,500 + $16,500 + $16,500= $49,500).

Can I make additional contributions if I am age 50 or older?

Employees who are age 50 or older may make additional contributions to Peach State Reserves. This includes anyone who will become age 50 at any time during the year. These are additional pre-tax contributions in excess of the normal contribution limits. The Age 50 Additional Contribution can be made to both the 457 and 401(k) plans, however the maximum is combined for 401(k) and 403(b) plans. If eligible, you may make these additional contributions even if you have contributed the maximum for every year in which you were eligible for the plan. The chart below outlines the limits on these Additional Contributions:

TAX YEAR	ADDITIONAL CONTRIBUTION
2005	$4,000
2006	$5,000
2007	$5,000
2008	$5,000
2009	$5,500
2010	$5,500
2011	$5,500

Can I use my Peach State Reserves account to purchase Retirement Service Credits with ERS or another retirement plan?

Only if you are eligible to purchase those credits. Eligibility for service credits is generally determined by state law for specific situations (e.g. buying back military time). You must contact your retirement system to determine eligibility. If you are eligible, you can use your Peach State Reserves assets (employee contributions only) to fund the service credit purchase. The transaction would be made as a direct rollover to your retirement system.

What happens to my investments if I stop making contributions?

Your investments continue to reflect the performance of your chosen investment options even when you are not making contributions (i.e. they may reflect a gain or a loss, depending upon the investment). Further, you retain the right to make any changes, as well as the right to re-start your contributions or change contribution amounts, for as long as you are employed by the State. If you terminate employment, you may continue to exchange value between investments; however you may not make any further contributions to your account, other than eligible rollovers from other plans.

Can I contribute to both the 457 Plan and the 401(k) Plan?

Yes, as long as you meet the eligibility requirements. Contributions can be made to both the 457 and 401(k) plans for the maximum amount (i.e. $33,000 in 2011, or $44,000 if age 50 or older). Federal tax law does not permit contributions to 401(k) and 403(b) plans, in aggregate, to exceed the normal plan maximum (i.e. $16,500 for 2011 in total to both 401(k) and 403(b), or $22,000 if age 50 or older anytime in 2011).

When am I eligible to withdraw my account and what are my options?

There are several different types of withdrawals, with different applicability to the two different Plans:

❶ RETIREMENT/TERMINATION

Distribution is available as a lump sum or partial lump sum, monthly or annual payment, or as a lifetime annuity payment, or as a rollover to another retirement plan or Individual Retirement Account (IRA).

IMPORTANT NOTE: Section 457 Plan assets do not incur a 10% penalty if withdrawn as taxable income prior to age 59 ½, unlike IRA and 401(k) and 403(b) Plan assets. This provides for greater flexibility. **HOWEVER, should you choose to rollover 457 Plan assets to an IRA or 401(k) or 403(b)Plan, your 457 assets become subject to a Penalty Tax on Early Withdrawals, should you subsequently withdraw assets prior to age 59 ½ from the IRA or 401(k) or 403(b) Plan in which you placed your 457 assets.** If you leave the assets in the 457 Plan or roll the assets to another 457 plan, you will not incur the Early Withdrawal Penalty Tax if you later decide to withdraw assets prior to age 59 ½.The assets left in PSR will continue to reflect the performance of your chosen underlying investment options, and you may continue to manage your investments through the plan. A minimum distribution amount payout must begin by the end of the year in which you reach age 70 ½, if no longer working. *Note: While the Peach State Reserves Plans do not assess any surrender charges or other fees in making distributions, other Plan providers may do so. If you participate in a 403(b), 401(k) or 457 Plan outside of Peach State Reserves, you should verify with that Plan provider any fees or other charges they might assess in making withdrawals from an account.*

❷ HARDSHIP

All plans allow for hardship withdrawals under extremely limited conditions, but the provisions differ, as defined by the IRS. Employees who are facing hardship should contact CitiStreet for additional information and the appropriate forms to fill out. See previous questions regarding hardships.

❸ INACTIVE ACCOUNT

This provision applies to withdrawal under the 457 Plan only. If you are still employed with the State and the current value of your Plan is $5,000 or less, no salary deferrals have been contributed to the Plan for at least two years, and you have never received a prior distribution under this provision of the Plan, you can request to withdraw your current balance. There is no similar provision for a 401(k) or 403(b) Plan.

❹ AGE 59 ½

This provision for withdrawal applies to the 401(k) Plan only. Upon reaching age 59 ½, even if you are still employed by the State, you are eligible to withdraw money you contributed (not employer contributions) to the 401(k) Plan without Internal Revenue Service penalty. The withdrawal will be subject to federal and state income tax withholding.

If I terminate employment with the State before I am 59 ½ years old and want to withdraw my account, will I have to pay a penalty? What about taxation?

457 Plan:

457 Plan withdrawals are not subject to any additional penalty (unless you roll the assets over to another 401(k) or 403(b) Plan or to an Individual Retirement Account (IRA) and subsequently withdraw the assets prior to age 59 ½).

401(k) Plan:

401(k) and 403(b) participants can withdraw their account without Internal Revenue Service penalty if they roll it over into an IRA or another retirement plan. Otherwise, the penalty will be 10% of the amount withdrawn, in addition to Federal and State income taxes (unless you retired at or after age 55 and are no longer working for the state of Georgia in any capacity, in which case the early distribution penalty does not apply). Note: while any distribution paid to you will be subject to withholding of federal and state income taxes, the early withdrawal penalty will not be withheld from the payment. Any such penalty due must be calculated and paid when you file your tax return for such year.Note:

May I leave my account balance in Peach State Reserves and accumulate earnings after I leave State government?

Yes, under most circumstances. The length of time that you may leave your account balance in the program depends on your age and how much you have in your account. Payment under all Plans must always be commenced by the end of the year in which you reach age 70 ½ (if you are no longer working for the state), based on the IRS Required Minimum Distribution Rules.

When should I contact Peach State Reserves if I am planning to resign or retire?

It is not necessary to contact PSR, unless you want to make a withdrawal.

What is the process for designating my beneficiary(s)?

Access your account online to make or update your beneficiary designations.

What happens to my account if I die before I withdraw my funds?

Its full value is payable to the beneficiary(ies) you designated on your latest Beneficiary Election.