CHOOSING A 403(B) PLAN

When selecting your 403(b) plan, you may have to choose from many different types of investments.
It will be up to you to choose investments that best meet your goals.
403(b) plans typically offer fixed annuities, variable annuities, and mutual funds.

Here's a quick look at each:

Variable Annuities are contracts with insurance companies under which you make salary reduction payments into a tax-deferred account. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date. You can choose to invest your purchase payments in a range of investment options, which are typically insurance separate accounts that have characteristics of mutual funds but are not mutual funds. The value of your account in a variable annuity will vary, depending on the performance of the investment options you have chosen and the amount of contributions you have made.

Mutual Funds pool money from many investors. This money is invested in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds come in many varieties. There are index funds, stock funds, bond funds, money market funds, and more. Each may have a different objective and strategy and a different investment portfolio. Different mutual funds usually come with different risks, volatility, and fees and expenses.

Fixed Annuities are contracts with insurance companies that guarantee a minimum rate of interest during the time that your account is growing. The insurance company also guarantees that the periodic payments will be a guaranteed amount. Payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime.

Equity Indexed Annuities are a special type of contract between you and an insurance company. During the accumulation period — when you make either a lump sum payment or a series of payments — the insurance company credits you with a return based on changes in an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company typically guarantees a minimum return, and these vary. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

Key Questions to Ask Yourself and Your Advisor

Will I pay any penalties if I change my investment choices? If so, how much?

This depends on the type of product you chose and when you purchased it. For example, if you withdraw money from a variable annuity within a certain period after a purchase payment (typically within six to eight years but sometimes as long as ten years), the insurance company usually assesses a **"surrender" charge** — a kind of sales charge that compensates the person who sold you the variable annuity. Generally, the surrender charge is a percentage of the amount you sell or exchange, and it will decline gradually over a period of several years, known as the "surrender period." For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on until the eighth year, when the surrender charge no longer applies. Some variable annuity contracts will allow you to withdraw part of your account value each year — 10% or 15% of your account value, for example — without paying a surrender charge.

Some mutual funds have a back-end sales load known as a **"contingent-deferred sales charge"** (also referred to as a "CDSC"). Like a surrender charge, the amount of this type of load depends on timing and typically decreases to zero. Full

(continued on next page)

ENSURE A HAPPY AND HEALTHY LIFE AFTER SCHOOL!

disclosure can be found in the fund's prospectus, but ask your advisor.

A **redemption fee** is another type of fee that some funds charge their shareholders when shares are redeemed. Although a redemption fee is deducted from redemption proceeds just like a deferred sales charge, it is not considered to be a sales load. Unlike a sales load, a redemption fee is typically used to defray fund costs associated with a shareholder's redemption and is paid directly to the fund, not to a broker. The SEC generally limits redemption fees to 2%.

What annual fees will I pay?

Fees and expenses vary from product to product and can be very important to your bottom line. An investment with high costs must perform better than a low-cost investment in order to generate the same returns. Even small differences in fees can translate into large differences in returns over time.

For example, if you invested $10,000 in a product that produced a 10% annual return before expenses and had annual operating expenses of 1.5%, then after 20 years you would have roughly $49,725. But if the investment had expenses of only 0.5%, then you would end up with $60,858. That's a big difference. Try the Mutual Fund Cost Calculators at www.sec.gov to compute how the costs of different mutual funds add up over time. For mutual funds and variable annuities, you can find information on costs and fees in the prospectuses. For fixed annuities, check the sales literature or the contract.

Does my financial advisor make more money for selling one product over another?

No matter how much you trust your financial advisor, it is always smart to ask how much he or she receives for selling a particular product. Don't be shy about asking:

- Do you receive a commission for selling Product X to me? If so, how much?
- Do you get any other type of compensation for selling Product X? If so, what? (This could include a bonus or points toward some other reward, such as a trip or a cruise.)
- Do you get more for selling Product X over Product Y? Are there any other products that can meet my financial objectives at a lower cost to me (even if you do not sell those products)?

Bottom line: When deciding what's best for you, shop around for the best fit. When brokers or insurance salespersons stand to earn more money for selling Product X over Product Y, they may steer you toward Product X — even if Product Y is a better choice for you.

FLORIDA SCHOOL EMPLOYEE SAVER

www.SchoolEmployeesSaver.com