



The Variable Annuity Life Insurance Company
P.O. Box 15648
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**SECTION 457(b) DEFERRED COMPENSATION PLAN
(for GOVERNMENTAL EMPLOYERS)
EXPLANATION OF
BASIC PLAN DOCUMENT**

ARTICLE I - INTRODUCTION

This article provides that this document sets forth the terms of a Section 457(b) eligible deferred compensation plan of a governmental employer. **This document may not be used to create or restate a Section 457(b) plan of a tax-exempt entity.** Governmental entities may adopt this document to create a new plan, or to bring an existing plan into compliance with legislation and regulatory guidance that has been enacted or issued since the specimen VALIC plan document was last updated. Some of the legislative changes must be adopted before December 31, 2011.

ARTICLE II - DEFINITIONS

This article defines certain terms used in the Plan document. Generally, most capitalized terms in the document will be defined in this article. **Some of the more significant definitions include:**

Section 2.04 - Beneficiary or Beneficiaries

This section provides that a Participant may name one or more primary beneficiaries as well as one or more contingent beneficiaries (who will be treated as the Participant's beneficiary if the primary beneficiary(ies) predeceases the Participant). It also provides that if a Participant fails to name a Beneficiary, the Participant's interest in the Plan will be payable to the Participant's estate.

Section 2.06 - Compensation

This section defines "Compensation" as the amount that would have been payable to the Participant but for the Participant's election to defer compensation under the Plan. Compensation also includes any pre-tax deferrals to another tax-favored plan, such as a Section 125 cafeteria plan. For years after December 31, 2008, the term "Compensation" shall also include "differential wage payments" (as defined in Section 2.17).

Section 2.13 - Employee

This section provides that for years after December 31, 2008, the term "Employee" includes certain individuals on military leave if such individuals are receiving "differential wage payments" as that term is defined in Section 2.17.

Section 2.17 - Includible Compensation

This section defines "Includible Compensation" as the Participant's compensation from the Employer for the year, including 401(k), 403(b), SEP and SIMPLE elective deferrals and other amounts contributed or deferred by the Employer at the Participant's election and excluded from the Participant's gross income under Code sections 125, 132(b)(4) or 457. For years beginning after 2008, it also includes "differential wage payments," which are payments by the Employer to an individual while the individual is performing service in the uniformed services on active duty for a period of more than 30-days, and which represent wages the individual would have received from the Employer if the individual were performing service for the Employer.

Section 2.18 - Maximum Limitation

This section sets forth the contribution limits under the Plan. For most years, the maximum amount that may be deferred under the Plan (*i.e.*, the "Normal Limitation") is the lesser of the dollar amount under Section 457(b) (\$16,500 for 2011, indexed for future years) or 100% of the Participant's Includible Compensation (as defined in Section 2.17). However, for the last three years before the year the Participant attains his/her "Normal Retirement Age" (as defined in Section 3.12), the maximum deferral limit (which is referred to as the "Catch-Up Limitation") is the lesser of (i) twice the dollar limit under Section 457(b) (*i.e.*, \$33,000 for 2011), or (ii) the Normal Limitation plus the unused portion of the deferral limit for post-1978 years that the Participant was eligible to participate in the Plan. Section 2.18(g) provides that any deferrals in excess of these contribution limits (and any income attributable to those excess deferrals) must be distributed to the Participant as soon as administratively practicable after the Plan determines that the amounts are excess deferrals.

Section 2.19 - Normal Retirement Age

This section provides that the Participant may choose (within certain limits) what age he/she wishes to use as the "Normal Retirement Age" under the Plan. This is the age that determines in which Plan years the Participant may use the Catch-up Limitation rather than the Normal Limitation. If the Participant does not elect an alternative age,



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the "default" Normal Retirement Age will be 70½. The Participant may elect an earlier age, but no earlier than age 65 (or, if earlier, the earliest date the Participant may retire and receive an unreduced benefit under the Employer's defined benefit or money purchase pension plan), unless the Participant is a qualified police officer or firefighter, in which case the age elected can be as early as age 40.

Section 2.22 – Severance from Employment

This section provides that "Severance from Employment" means termination of the Participant's employment relationship with the Employer. For years after 2008, solely for purposes of the withdrawal restrictions under Code Section 457(b), an individual will be treated as having been severed from employment during any period the individual is performing service in the uniformed services.

ARTICLE III - ADMINISTRATION

This article provides that the Plan shall be administered by either (i) the Employer or (ii) one or more persons appointed by the Employer. However, the Employer may enter into an agreement with a Service Provider (such as VALIC) to provide administrative services under the Plan.

ARTICLE IV - PARTICIPATION IN THE PLAN

This article explains how an employee becomes a Participant, how the Participant elects to defer compensation, and what types of compensation may or may not be deferred. Significant sections of this article include:

Section 4.02 - Enrollment in the Plan

This section provides that, in order to defer salary for a given calendar month, a Participant must enter into a Deferred Compensation Agreement before the first day of the month in which such Compensation is paid or made available. However, a new Employee may defer salary for the calendar month in which he/she first begins employment by entering into a Deferred Compensation Agreement on or before the first day of employment.

Section 4.06 – New Deferred Compensation Agreement Upon Return to Service or After Revocation

This section provides that a Participant who returns to active service with the Employer after a Severance from Employment, or who has revoked his Deferred Compensation Agreement, may again become an active Participant by executing a new Deferred Compensation Agreement with the Employer prior to the beginning of the calendar month as to which it is to be effective. **If, however, an individual elected to receive a distribution because he/she was treated as having been severed from employment during any period he/she was performing service in the uniformed services, then such individual may not elect to defer compensation during the 6-month period beginning on the date of such distribution (see Section 6.13).**

Section 4.08 - Deferrals of Sick, Vacation and Back Pay

This section provides that a Participant who has not terminated employment may defer accumulated sick pay, vacation pay, or back pay only if an agreement providing for such deferral is entered into before the beginning of the month in which the amounts would otherwise be paid, and the Participant is still an Employee on the date the amounts would otherwise be paid.

Section 4.09 - Deferrals of Amounts Paid After Severance from Employment

This section provides that, if the Employer allows, a Participant may elect to defer certain amounts that are paid after Severance from Employment. This includes regular pay and payments of accrued sick, vacation or other leave, so long as the amounts are paid by the later of 2½ months after Severance from Employment or the end of the calendar year that includes the date of Severance from Employment. It also includes certain amounts that are paid to Participants on military leave, and amounts paid to Participants who are permanently and totally disabled (regardless of how long after Severance from Employment those amounts are paid).

Section 4.10 - Designated Roth Contributions

If elected by the Employer in the Adoption Agreement, the Plan allows a Participant to designate all or a portion of his/her elective contributions to the Plan as Designated Roth Contributions, which are after-tax contributions with special attributes.

Section 4.11 - Employer Contributions

This section provides that, if elected by the Employer in the Adoption Agreement, the Employer may make matching or non-matching Employer Contributions to the Plan as additional Deferred Compensation. These Employer Contributions must be accounted for separately from Designated Roth Contributions, rollover contributions and amounts converted to Roth contributions through an in-Plan conversion described in Section 6.12. If the Employer elects to contribute to the plan in lieu of withholding and paying FICA taxes for certain employees, the Employer must contribute (or mandate that the Employee contribute) at least 7.5% of Compensation for each pay period that the Participant is intended to be exempt from FICA taxes.



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Section 4.12 - Compliance with HEART Act

This section provides that, in compliance with the requirements of the Heroes Earnings Assistance and Relief Tax Act of 2008 (“HEART”), in the case of a Participant who dies on or after January 1, 2007, while performing qualified military service, the Participant’s Beneficiary shall be entitled to any additional benefits (other than benefit accruals during the period of military service) provided under the Plan as if the Participant had resumed employment and then terminated employment on account of death. However, if the Employer so elects in the Adoption Agreement, the Plan shall also treat an individual who dies or becomes disabled while performing qualified military service as if that individual had resumed employment (for purposes of that individual’s right to certain benefit accruals under USERRA) on the day preceding death or disability and terminated employment on the actual date of death (or disability).

ARTICLE V - INVESTMENT OF DEFERRED COMPENSATION

This article describes how a Participant’s Account under the Plan is credited with earnings (or losses) based on the investment options selected by the Participant, and how the benefits payable to a Participant under the Plan are based on the value of that Account. It also provides that Plan Assets are held for the exclusive benefit of Plan participants and their beneficiaries in one or more annuity contracts, trusts, or custodial accounts.

ARTICLE VI - BENEFITS

This article describes how and when benefits are distributed to Participants under the Plan. Significant sections of this article include:

Section 6.01 - Distribution of Benefits

This section provides that benefits are distributable on the earlier of Severance from Employment or attainment of age 70½. If the Participant has had a Severance from Employment, distribution of his/her Account must commence by no later than April 1 of the calendar year following the calendar year the Participant attains age 70½. The Participant may change the distribution date at any time.

Section 6.03 - Payment Options

This section provides that a Participant (or a Beneficiary) may elect to have the value of the Participant’s Account under the Plan distributed in any one of several forms of payment, including (i) a lump sum, (ii) installments of a specific amount or for a specific period, or (iii) a single life or joint life annuity. The election as to the form of payment may be made at any time prior to the date benefits are scheduled to begin.

Section 6.04 - Required Minimum Distributions

This section reflects the requirement that the Participant’s account be distributed, or that distributions commence, no later than April 1 of the calendar year following the calendar year that the Participant attains age 70½, and that the Participant’s entire interest in the Plan be distributed over a period that is not longer than the Participant’s life expectancy (or the joint life expectancy of the Participant and his/her designated Beneficiary).

Section 6.05 - 2009 Required Minimum Distributions (“RMDs”)

This section describes how the Plan handled required minimum distributions (RMDs) for the 2009 calendar year. Under the Worker, Retiree, and Employer Recovery Act of 2008 (sometimes referred to as “WRERA”), such distributions were technically “optional” for the 2009 calendar year. However, Employers are generally required to document how distributions were actually handled for the 2009 year. **Section 6.05(a) (which is the “default” option under the Adoption Agreement) describes how required minimum distributions were handled operationally by plans administered by VALIC.** Under this option, participants receiving installment payments continued to receive such payments unless they affirmatively elected not to receive such payments, but RMDs were suspended for all other participants. Sections 6.05(b) and (c) describe other options that the Plan may have used to handle RMDs for 2009 (that the Employer may elect in the Adoption Agreement). If none of these options accurately describes how RMDs were handled for 2009, the Employer may choose “Other” in the Adoption Agreement and specify exactly how such distributions were handled for the 2009 year.

Section 6.06 - Post-Retirement Death Benefits

This section reflects the requirement that if a Participant should die after benefits have commenced, but before all benefits have been distributed, payments to the Beneficiary must also comply with the minimum distribution requirements of the Code.

Section 6.07 - Pre-Retirement Death Benefits

This section reflects the requirement that if a Participant should die before benefits commence, a death benefit equal to the Participant’s Account balance will be payable to his/her Beneficiary, but any distributions to such Beneficiary must also comply with the minimum distribution requirements under the Internal Revenue Code (“code”).



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Section 6.08 - Unforeseeable Emergency Withdrawals

This section provides that, if elected by the Employer in the Adoption Agreement, a Participant may receive an in-service distribution from the Plan on account of an unforeseeable emergency. However, the amount of the distribution may not exceed the amount that is reasonably necessary to satisfy the unforeseeable emergency. An "unforeseeable emergency" is defined as a "severe financial hardship" of the Participant resulting from either (i) an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined under the Code) or, if the Employer elects in the Adoption Agreement, the Participant's primary Beneficiary; (ii) loss of the Participant's property due to casualty; or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control. Effective as of August 17, 2006 (or such later date as the Employer elects in the Adoption Agreement) an unforeseeable emergency withdrawal may be based on certain financial hardships of the Participant's primary Beneficiary under the Plan.

Section 6.10 - Participant's Election to Receive In-Service Distribution

The Employer may elect (in Item 7 of the Adoption Agreement) to allow a Participant to elect an in-service distribution from his/her Account under the Plan if the balance in the Account is small (currently \$5,000 or less), the Participant has not made any elective deferrals to the Plan for at least two years, and the Participant has not made a prior election under this section.

Section 6.11 - Distribution Without Participant's Consent

The Employer may elect (in Item 8 of the Adoption Agreement) to "cash-out" Participants described in Section 6.10 with or without the Participant's consent, if the participant's Account balance is \$1,000 or less.

Section 6.12 - In-plan Roth Conversions.

This section provides that, if the Plan allows Designated Roth Contributions, and if the Employer so elects in the Adoption Agreement, Participants may elect to convert certain pre-tax contributions (such as Elective Deferral Contributions or pre-tax amounts rolled into the Plan from another employer plan) to after-tax Roth contributions in a taxable "in-plan Roth conversion." If elected by the Employer, this option is limited to amounts that are currently distributable under Code Section 457(b) and the terms of the Plan. For example, although rollover contributions may be converted at any time, Elective Deferral Contributions may not be converted before the Participant has a Severance from Employment or attains age 70½. Amounts converted to Roth contributions will be taxable to the Participant (even though no amounts are distributed from the Plan) in the year of the conversion.

Section 6.13 - Distributions to Individuals Performing Service in Uniformed Services

Under the HEART Act, individuals who are serving in the uniformed services for a period of active duty of at least 30-days are considered to have incurred a Severance from Employment (for purposes of the rules under Code Section 457(b) that normally restrict distributions prior to Severance from Employment or attainment of age 70½). This section provides that, if the Employer so elects in the Adoption Agreement, Participants serving in the uniformed services for the requisite period of active duty may, but are not required to, take a distribution of all or a portion of their Account under the Plan. **However, if a Participant on military leave takes such a distribution, the Participant may not make Elective Deferral Contributions or designated Roth contributions under the Plan for a 6-month period beginning on the date of the distribution.**

Section 6.14 - Eligible Retired Public Safety Officer Distribution Deduction Election

Under the Pension Protection Act of 2006, an eligible retired public safety officer may elect to have up to \$3,000 of an otherwise taxable distribution from the Plan and pay non-taxable premiums for accident or health insurance (or qualified long-term care insurance) and exclude that amount from gross income. This section provides that, unless the Employer elects otherwise in the Adoption Agreement, Participants who qualify as "Eligible Retired Public Safety Officers" may designate that the Plan deduct a portion of a distribution from the Plan and pay that amount directly to the provider of an accident or health insurance plan or a qualified long-term care insurance contract.

ARTICLE VII - NON-ASSIGNABILITY

This article provides that, in general, a Participant's interest in the Plan is not subject to the claims of the Participant's creditors, and is not assignable or transferable by the Participant, except in the case of Domestic Relations Order (in which case all or a portion of the Participant's interest in the Plan may be assigned and set aside for the benefit of an alternate payee, such as the Participant's spouse or former spouse or child).

ARTICLE IX - LOANS

This article provides that, if the Employer so elects (in Item 5 of the Adoption Agreement), loans to Participants shall be allowed under the Plan, but only in the amount permitted under Code Section 72(p). The making of loans under the Plan, however, will be subject to the written terms of the Annuity Contract or other Plan investments.

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ARTICLE X - AMENDMENT OR TERMINATION OF PLAN

This article discusses how and when the Plan may be amended or terminated by the Employer. Significant sections include:

Section 10.01 - Amendment or Termination

This section provides that the Employer may amend the Plan at any time. The Employer may also terminate the Plan and distribute all Participant Accounts under the Plan as soon as administratively practicable after the termination of the Plan.

Section 10.02 - Amendment and Restatement of Previously Adopted Plan

As noted above under Section 2.01, if this plan document is an amendment and restatement of a previously adopted 457(b) plan, the plan is generally effective as of the Effective Date and the terms of the preceding plan document remain in effect through such date.

ARTICLE XI - USERRA

This article provides that the Plan shall comply with the requirements of the Uniformed Services Employment and Reemployment Rights Act ("USERRA"). Under USERRA, Participants whose employment is interrupted by (or who are on a leave of absence during) a period of qualified military service will have the right to defer additional Compensation upon resumption of employment with the Employer in an amount equal to the maximum amount of Compensation that could have been deferred during the period of military service.

ARTICLE XIII - RELATIONSHIP TO OTHER PLANS

This article simply states that the Plan is separate from, and in addition to, any other retirement, pension or benefit plan of the Employer.

ARTICLE XIV - PARTICIPATING EMPLOYERS

This article provides that, with the consent of the Employer, the Plan may be adopted by any other governmental entity that qualifies as an eligible employer under Code Section 457(e)(1)(A), and that such adopting entity shall be known as a Participating Employer. Such participation shall be evidenced by a written Participation Agreement signed by both the Employer and the adopting governmental entity. Although both employers will share a single plan document and a single funding mechanism, each Participating Employer shall be treated as the sponsor of its own separate governmental 457(b) plan.