CSU The California State University
SYSTEMWIDE HUMAN RESOURCES

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Code: **TECHNICAL LETTER HR/Benefits 2010-13**

To: Human Resources Directors
Benefits Officers

From: Evelyn Nazario
Assistant Vice Chancellor
Human Resources Management

Subject: **2011 Tax Year Update of Internal Revenue Code (IRC) Limits that Impact Retirement Plans**

Overview

Audience: Benefits Officers or campus designee responsible for:
- Communicating information to employees regarding 403(b), 401(k) and/or 457 retirement plans; or
- Administration of the California State University (CSU) Tax Sheltered Annuity (TSA) 403(b) Program; and/or
- Payroll reporting of CalPERS compensation limits.

Action Item: Information Only

Affected Employee Groups/Units: All employees eligible to participate in one or more of the above three savings plans

Summary

This technical letter provides campuses with pertinent information with regard to the following:

- 2011 Internal Revenue Code (IRC) elective deferral limits for 403(b), 401(k) and 457 plans; and
- 2011 compensation limits for retirement withholding and defined benefits.

In 2011, these limits will remain the same as the current limits for 2010.

This technical letter should be reviewed in its entirety by Benefits Officers and any designated campus designees responsible for administration of the CSU Tax Sheltered Annuity Program.

2011 Internal Revenue Code (IRC) Limits

On October 28, 2010, the IRS announced that the current Internal Revenue Code (IRC) limits for 402(g), 457(e)(15) and 414(v) limits in 2010 will remain the same for 2011. A summary of the IRC limits is listed below:

Internal Revenue Code Limit	Tax Year 2011
402(g) elective deferral limits for 401(k) and 403(b) plans	$16,500
457(e)(15) contribution limit for 457 plans	$16,500
415(c) "percentage of compensation limit" – 100% of adjusted gross salary up to:	$49,000
414(v) Age Based (50) catch-up contribution limit	$5,500
401(a)(17) Compensation Limit	$245,000
415(b) Defined Benefit Plan Limit	$195,000

Distribution:

CSU Presidents
Vice Chancellor, Human Resources
Payroll Managers
Lupe Vela, DPA Savings Plus Program
Debbie Green, State Controller's Office
Pam Keegan, State Controller's Office

IRC 401(a) (17) Compensation Limit
IRC Section 401(a)(17) caps the annual compensation that can be taken into account in determining contributions and benefits under tax qualified plans. In 2011, this amount remains unchanged at $245,000. Please be advised that CSU employees who first became members of CalPERS prior to July 1, 1996, are exempt from the 401(a) (17) compensation limit.

IRC 415(b) Defined Benefit Plan Limit
IRC Section 415(b) places a dollar limit on the annual benefit an individual can receive from a tax qualified pension plan, such as CalPERS. In 2011, this amount remains unchanged at $195,000. A reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. CalPERS offers "Replacement Benefits Plan," which will, to the extent allowed by federal and state law, replace any benefits that exceed IRC Section 415(b) limits.

Elective Deferral Limits
The Internal Revenue Code (IRC) establishes specific limits that govern amounts an individual can contribute to pre-tax salary reduction retirement plans, such as 403(b), 401(k) and 457(b) plans. Two limits determine the amount that an employee may contribute on an annual basis. The employee may contribute the **lesser** of:

1) The IRC Section 402(g) "elective deferral limit" for 403(b) and 401(k) plans, which is $16,500; or

2) The IRC Section 415(c) "percentage of compensation" limit, which is defined as 100% of adjusted gross salary up to a maximum of $49,000. (See Attachment A for the definition of adjusted gross salary.) Plus:

3) The IRC section 457(e)(15) "deferred compensation deferral limit" for 457 plans, which is $16,500.

For the 2011 tax year, a participant can elect to contribute up to $16,500 to a 403(b) or 401(k) plan, subject to the 415(c) limit, AND $16,500 to a governmental 457(b) plan, for a total contribution of up to $33,000.

Please note, participants may contribute to both a 403(b) and 401(k) plan in the same tax year, however, combined contributions across both plans cannot exceed $16,500. For example, a participant may contribute $8,250 in each plan, or any numeric combination that is equal to or less than $16,500.

The 2011 Plan Comparison Chart specifying these amounts is attached (see Attachment A).

Coordination of Additional Catch-Up Contributions
The following "catch-up" allowances are available as an addition to the IRC Section 402(g) "elective deferral limit," and apply to all or specific retirement savings plans as follows:

- IRC Section 402(g)(7): 15-Year Catch-Up Allowance Exclusive to the 403(b) Plan
- IRC Section 414(v): Age 50 Catch-Up Allowance Available for 403(b), 401(k), and 457 Plans
- IRC Section 457(e)(15): Deferred Compensation Deferral Limit Exclusive to the 457 Plan

1) IRC Section 402(g)(7) provides a special "catch-up" election for 403(b) tax sheltered annuities (TSA), which permits certain long-term employees to increase their elective deferrals over the 402(g) limit. Under this catch-up election, employees with 15 or more years of service with the same employer may be eligible to contribute an additional $3,000 per year beyond the IRC Section 402(g) limit for up to 5 years, or a lifetime maximum of $15,000.

- **For 2011, contributions made under the 402(g) limit and the 402(g)(7) catch-up provision cannot exceed $19,500 ($16,500 (402(g) limit), plus $3,000 (402(g)(7) limit)).**

- Employees who wish to contribute using this catch-up provision must demonstrate eligibility by completing the CSU Maximum Contribution Allowance Worksheet. IRC 402(g) limits and catch-up allowances are monitored by the master administrator, VALIC. Employees that are newly eligible for the

15-Year Catch-Up Allowance in 2011 or employees that were previously eligible but did not take advantage of the additional deferral, will need to complete and submit a Worksheet to the campus Benefits Office. Completed Worksheets must be forwarded to the Benefits Team in Human Resources Management (HRM) in order for the deferral limits to be updated in Retirement Manager.

- Once the usage of the 15-Year Catch-Up is documented in Retirement Manager, the employee is not required to submit a Worksheet for subsequent tax years. ***For example, participants that submitted a completed CSU Maximum Contribution Allowance Worksheet to the campus Benefits Office in 2009 or 2010, will not be required to complete a Worksheet for the 2011 tax year or thereafter.***

- Both versions of the CSU Maximum Contribution Allowance Worksheet (paper and electronic) will be updated to reflect tax year 2011, and will be released to campuses in an upcoming e-mail and placed on the Benefits Portal.

2) The Age-Based Contribution "catch-up" allowance under IRC Section 414(v), available to employees age 50 and over, remains $5,500 in the 2011 tax year. Individuals with a birth year of 1961 or earlier are eligible to participate, and can use this provision in a 403(b), 401(k), or 457(b) plan, provided that they have deferred the maximum amount available to the 403(b), 401(k) or 457(b) plan.

   - **For 2011, contributions made under the 402(g) limit, and the 414(v) age-based catch-up provision cannot exceed $22,000 ($16,500 (402(g) limit), plus $5,500 (414(v) limit)).**

   - **If an employee qualifies for both catch-up provisions, contributions in 2011 cannot exceed $25,000 ($16,500 (402(g) limit), plus $3,000 (402(g)(7) limit), plus $5,500 (414v limit)).**

3) The 457(b) plan, administered by the Department of Personnel Administration (DPA) Savings Plus Program, has a special provision that allows eligible participants to exceed the maximum annual elective deferral limit during the last three years ending before the plan's normal retirement age. Generally, participants may contribute up to twice the maximum annual contribution amount to a 457(b) plan for each of the three years. (Certain restrictions apply.) In 2011, this amount remains $33,000. To enroll in the 457(b) plan, or take advantage of this provision, participants must contact the Savings Plus Program directly. Please note: participants of the Savings Plus 457(b) plan cannot participate in this special catch-up provision and the age based catch-up allowance at the same time.

Loans and Hardship Withdrawals

All five of the current fund sponsors (Fidelity, ING, MetLife, TIAA-CREF and VALIC) offer hardship withdrawals and four fund sponsors offer loans (Fidelity is the exception). Also, only the following legacy vendors can offer loans and hardship withdrawals:

- Ameriprise Financial
- AXA Equitable
- ING Reliastar
- Great American
- I-A Pacific (Industrial Alliance Pacific Life Insurance)
- Jefferson National
- Legend Group
- Life Insurance Company of the Southwest (LSW)
- Lincoln National
- Midland National
- Oppenheimer Funds
- Security Benefit
- Symetra
- Transamerica

Loans and hardship withdrawals for all other fund sponsors not listed above are frozen.

New Marketing Brochure

To promote participation in the CSU Tax Sheltered Annuity (TSA) Program, HRM recently released a two (2) page brochure (see Attachment B) entitled "Saving Made Easy – One Step at a Time." This brochure was forwarded to each campus Benefits Officer with a pre-written employee communication for campus Benefits Officers to e-mail to employees. This brochure complies with IRS "universal availability" requirements for employer sponsored TSA programs and serves as an easy-to-follow document that captures important CSU TSA Program highlights.

Benefits Portal

A TSA section on the CSU Benefits Portal provides information for employees, including fund sponsor and enrollment information, forms, etc., and can be located at http://www.calstate.edu/hr/benefitsportal/.

CMS Processing Instructions

This technical letter has no impact on the CMS Baseline.

Questions regarding this technical letter may be directed to Michelle Hamilton at (562) 951-4413. This Technical Letter is also available on Human Resources Management's Web site at:
http://www.calstate.edu/HRAdm/memos.shtml.

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2011 INTERNAL REVENUE CODE (IRC) LIMITS AND COMPARISON CHART
TAX SHELTERED ANNUITY (403[b]), STATE DEFERRED COMPENSATION (457) AND STATE THRIFT (401[k]) PLANS

<u>Eligibility</u>: Generally, all employees are eligible to participate in the 403(b) program with the exception of certain student classifications and Special Consultants. The following employees are prohibited from joining the 457 and 401(k) plans: seasonal or temporary employees required to be enrolled in the Part-time, Seasonal and Temporary Employees Retirement Program (PST Program).

TSA PLAN (403[b])	DEFERRED COMP (457)	THRIFT PLAN (401[k])
Deferred tax on investment	Deferred tax on investment	Deferred tax on investment
$15 min. contribution per warrant	Initial investment: $50 minimum; thereafter, $20 min. contribution per warrant	Initial investment: $50 minimum; thereafter, $20 min. contribution per warrant
Variety of investment choices	Variety of investment choices	Variety of investment choices
Assets held by selected fund sponsors	Assets held in trust	Assets held in trust
The lesser of $16,500/yr, or 100% of adjusted taxable income.*	100% of compensation up to $16,500/year.*	100% of compensation up to $16,500/year.*
Hardship withdrawal for severe financial hardship.	Hardship withdrawal for unforeseeable financial emergency.	Hardship withdrawal for severe financial hardship.
Choice of payout method	Choice of payout method	Choice of payout method
Eligible roll over to another employer's 403(b), 401(k)**, or governmental 457(b)** plan, or to a 401(a) plan. In-service 403(b) plan transfers to any of the selected five fund sponsors. Eligible rollover to an IRA is based on distributable event (age 59 ½ and/or separation from CSU employment).	Eligible roll over distribution to an IRA, another employer's governmental 457(b), a 401(k), a 401(a), or 403(b) plan.	Eligible roll over distribution to an IRA, or to another employer's 401(k), a 457(b)governmental plan, a 401(a), or 403(b) plan.
Eligible rollover in from another employer's 403(b), 401(k) or governmental 457(b) plan	Eligible rollover in from another employer's governmental 457(b) plan only	Eligible rollover in from a Traditional IRA, another employer's 401(k) plan, or from 403(b)** plan
Surviving spouse of participant may roll over distributions. Non-spousal beneficiary may roll over distributions to an inherited IRA.	Surviving spouse of participant may roll over distributions. Non-spousal beneficiary may roll over distributions to an inherited IRA.	Surviving spouse of participant may roll over distributions. Non-spousal beneficiary may roll over distributions to an inherited IRA.
No tax averaging available	No tax averaging available	See #3 under Notes
15-year "Catch-up" provision may be available for up to $3,000 per year, for a lifetime maximum of $15,000. Participants must prove eligibility by submission of completed Maximum Contribution Calculation Worksheet. Additional $5,500 age based catch-up deferral available to participants who have reached age 50 by the end of the calendar year and who have hit plan or dollar limit, including15 year catch-up, if eligible.	Special 457 "Catch-up" provision available. Contact the Savings Plus Program for details. Additional $5,500 age based catch-up deferral available to participants who have reached age 50 by the end of the calendar year and who have hit plan or dollar limit. Participants in this plan cannot utilize both catch-up provisions listed above in the same calendar year.	15-year "Catch-up" provision is not available. Additional $5,500 age based catch-up deferral available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit.
At least age 55 and retired, or 59 ½ (regardless of employment status) - receive plan payout without tax penalty.	Plan payout upon retirement or separation from State service without tax penalty (no age requirement).	Distributions prior to age 59 ½ may be subject to an early withdrawal tax penalty.

*403(b) plans apply the 100% limit to the employee's <u>taxable income **PLUS** employee pre-tax contributions to 403(b), 132(f) (pre-tax parking) and 125 plans (Dependent Care Reimbursement Account, Health Care Reimbursement Account, and Tax Advantaged Premium Plan)</u>. Employee pre-tax contributions to CalPERS retirement are **not** included. For 401(k) and 457(b) plans, limits are based on 100% of compensation up to $16,500.

Please note: The Savings Plus Program 457(b) plan <u>does not</u> accept rollovers from 403(b) plan distributions. 403(b) rollovers into the 401(k) plan can only be accepted if the employee has an existing 401(k) plan with assets and has a distributable event (reaches age 59-1/2 and/or separates from CSU employment).

NOTES:

1. **Maximum contribution limits for these plans are all interrelated.** If an individual participates in more than one plan in the same calendar year, he/she may be limited by the <u>lowest</u> maximum. Please note: 401(k) and 403(b) deferrals do not count against the 457(b) dollar limit and 457(b) deferrals do not count against the 401(k) and 403(b) dollar limit.
2. **These statements are general comparisons only.** For specific information refer to your tax advisor. For the Deferred Compensation and Thrift Plans, additional information is available from the Department of Personnel Administration's Savings Plus Program (SPP) Office at (866) 566-4777 or <u>www.sppforu.com</u>.
3. **Averaging treatment is still available for lump sums paid from a 401(k) plan to grandfathered participants born before January 2, 1936.**

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SAVING MADE EASY

One Step At A Time

WHAT IS A TSA PROGRAM?

The CSU TSA Program is a voluntary 403(b) plan that allows eligible employees to save for retirement by investing monthly, pre-tax contributions in tax-deferred accounts, under Internal Revenue Code Section 403(b). A TSA can help you save money on taxes now AND invest in your future at the same time!

WHY PARTICIPATE?

The sooner you start saving toward your retirement the better. The earlier you start, the more you benefit from "compounding." Compounding happens over time as your money generates earnings, which are re-invested to generate MORE earnings.

WHAT ARE MY OPTIONS?

The TSA Program features five Fund Sponsors, each offering quality investment options. They are:

- Fidelity
- ING Life & Annuity
- MetLife
- TIAA-CREF
- VALIC

You can choose to invest in one or split your monthly contribution between two (2) or more Fund Sponsors.

HOW MUCH?

That depends on you.

The IRS allows you to invest up to $16,500 of your annual salary per year, but you can decide to invest as little as $15 per month. Plus, if you are or will be age 50 or older this year, you can invest up to $5,500 more per year.

And, if you have been employed by the CSU for at least 15 years and didn't take full advantage of TSA contribution maximums over the course of your employment, you may be able to "catch-up" and invest even more.

www.calstate.edu/hr/benefitsportal

Take A Step Toward Your **Future** with the California State University **Tax Sheltered Annuity** (TSA) Program.

SAVING MADE EASY

One Step At A Time

STEP 1:
EXPLORE YOUR OPTIONS.

There are five (5) Fund Sponsors to choose from, and each Fund Sponsor has a number of retirement savings plans and investment vehicles with your goals in mind.

STEP 2:
GET ADDITIONAL INFORMATION.

You should feel comfortable with your decision to enroll in a TSA. If you need additional information, contact your Benefits Office to obtain the contact information of the TSA representatives assigned to your campus. Each of the Fund Sponsors has campus representa-tives available.

STEP 3:
DETERMINE THE MAXIMUM YOU CAN INVEST.

You can defer up to $16,500 per year toward your TSA, and if you will be age 50 or older this year, you can defer another $5,500. In addition, if you have 15 years of CSU full-time employment and under-contributed over the course of your CSU employment, you may be able to defer an additional $3,000 per year for up to $15,000. Not sure if you qualify? Complete the online Maximum Contribution Worksheet (www.calstate.edu/benefits/carrier.materials/MaximumCatchUp-AutoV.xls).

STEP 4:
DETERMINE HOW MUCH YOU WANT TO INVEST EACH MONTH.

Enter your figures into the SCO paycheck calculator (www.sco.ca.gov/ppsd_se_paycheck_calc.html) to see how much you can afford to invest. You can invest as little as $15 per month for each Fund Sponsor you choose, and you can choose to invest in all five. The choice is yours!

STEP 5:
CHOOSE YOUR FUND SPONSOR(S).

STEP 6:
ENROLL (SET UP) YOUR TSA ACCOUNT.

Each Fund Sponsor (with one exception) has a CSU-dedicated website for you to enroll in its TSA plan. This is an important step—don't overlook this. Here are their websites and toll-free customer service numbers:

- Fidelity (800-343-0860): http://enrollonline.fidelity.com
- ING (800-525-4225): www.ingretirementplans.com/custom/csu403b
- MetLife (866-294-0807): www.metlife.com/csu
- TIAA-CREF (800-842-2888): www.tiaa-cref.org/csu
- VALIC (888-569-7055): www.valic.com/calstate

STEP 7:
CHOOSE YOUR INVESTMENT OPTIONS.

Each Fund Sponsor has a unique platform of investment choices, and they all offer Target Year Lifestyle Funds where the Fund Sponsor selects a suite of invest-ment products based on the year you plan to retire.

STEP 8:
SET UP YOUR PAYROLL DEDUCTIONS VIA RETIREMENT MANAGER.

This is very important because the Fund Sponsors can only set up your TSA account and your investment options. Deductions, however, are set up online via Retirement Manager at www.myretirementmanager.com. You can make changes every month if you choose to, and changes made by the 5th of each month are effective on your pay warrant the following month.

STEP 9:
CONFIRM YOUR CONTRIBUTIONS ON YOUR PAY WARRANT.

If you don't see the changes you made in Retirement Manager, please see your Benefits Office for assistance.

STEP 10:
REVIEW YOUR SAVINGS STRATEGY EACH YEAR TO ENSURE YOU ARE REACHING YOUR RETIREMENT GOALS.

A WORD ABOUT LOANS AND HARDSHIP WITHDRAWALS

All five of the current Fund Sponsors offer hardship withdrawals and four fund sponsors offer loans. If you want a loan or hardship withdrawal, you can request it from the Fund Sponsor and then download the appropriate transaction certificate from Retirement Manager.

If you have investments contributed to a TSA company prior to January 1, 2009, you may be able to obtain a loan and/or hardship withdrawal if the TSA company has been certified as a Legacy Vendor by the CSU. To access these funds, you would follow the same steps as above.

For more information on the CSU TSA Program, please visit the systemwide Benefits Portal at www.calstate.edu/hr/benefitsportal.