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Tax Deferred Savings Plans 403(b) Policy

Effective: July 1, 2004
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Executive Summary

Tax Deferred Savings Plans - IRS 403(b)

Tax Deferred Savings Plans or 403(b)s, are tax-deferred plans available to employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity, and are primarily intended to supplement their employer-sponsored pension benefit. Employees can contribute a portion of their salary on a pre-tax basis under these plans up to certain annual limits set by the IRS. The Commonwealth publishes these IRS defined limits annually in an Office of the Comptroller Fiscal Year Memo.

Considerations

The maximum contribution amount to a 403(b) account is MAC (Maximum Amount Contributable) plus an allowable catch-up contribution. This policy applies to Institutions of Higher Education and other educational Departments.

Policy

Maximum Amount Contributable (MAC)

IRS Publication 571 (Rev. January 2009) defines the Maximum Amount Contributable (MAC). For tax years after 2001, MAC is the lesser of the limit on annual additions, or the limit on elective deferrals. Please refer to the Office of the Comptroller Fiscal Year Memo on Tax Updates and select the applicable year to obtain the deferral limits.

The annual limits are for all of a participant's elective deferrals at all of their employers' Section 403(b) and 401(k) plans.

Catch-up Contributions for Persons Age 50 or Older

Participants are eligible to make catch-up contributions if at age 50 and when the maximum annual amount of elective 403(b) deferrals has been made for the plan year. Please reference the Tax and Payroll Updates Fiscal Year Memo to obtain the limit for the applicable fiscal year.

Required Aggregation

IRC section 415 requires participants making elective deferrals to a Section 403(b) plan who own more than 50% of another employer to aggregate their 403(b) elective deferrals with contributions made to a qualified plan of the employer that they control.

Sick, Vacation, and Back Pay Deferrals*

A Participant who retires may elect to defer accumulated sick pay in accordance with M.G.L. c. 29 if the requirements of this section are met. Only a person who is retiring can defer accumulated sick pay. In addition, a retiring participant may also defer accumulated vacation pay and/or back pay. A Participant who separates from service may elect to defer accumulated vacation pay and/or back pay if the requirements of this section are met.

The amounts may be deferred for any calendar month only if:

1. The amount would have been available for use or would have been paid to the employee if employment had not terminated,
2. The amount is paid within two and a half (2 ½) months following Separation from Service, and
3. Back pay is pay received in a tax year(s) for actual or deemed employment in an earlier tax year(s). Back pay includes delayed wage payments as well as retroactive pay increases. Damages for personal injury, interest, penalties, and legal fees included with back pay awards, are not wages.

Post-Severance Compensation

Compensation for purposes of section 415(c)(3) can include Post-Severance Compensation if it's paid within (2 ½) months after separation from service. But this is only for payments that would have been paid if the participant had continued in employment or if they are for bona fide sick, vacation and other leave. The leave-related severance payments can be included only if the employee could have used the leave had employment continued.

The amounts contributed to the tax-deferred savings plan on the employee's behalf are not included in the employee's income for the purposes of federal and state income tax withholding, but they are subject to Medicare taxes.

Tax Deferred Savings Deductions:

- Are administered by the Department of Higher Education, Office of the Comptroller and UMass;
- Are offered to all employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity (not including student employees) ;
- Are available through one of the seven designated providers for departments paid through the Human Resources/ Management Compensation System (HR/CMS);
- Are available through one of three designated providers for employees paid through the UMS payroll system
- Are deducted in every biweekly pay period;
- Are available on a voluntary pre-tax basis;
- The employee is required to complete and return a Salary Reduction Agreement (SRA) form provided by the vendor
- 403b deductions should be stopped upon retirement/termination/death.

Tax Deferred Savings cannot be deducted from:

- Bonus

- Merit Pay

Internal Controls

- Job Aid: Best Practices For Payroll

Information Sources

Legal Authority

- 26 USC §403 (b) Taxation of Employee Annuities
- IRS Publication 571, "Tax-sheltered Annuity Plans (403(b) plans)" (Rev. January 2009)
- IRS Publication 553, "Highlights of 2007 Tax Changes" (Rev. April 2008)
- M.G.L. c. 7A §§ 3, 7, 8

Links

- CTR Statewide Payroll 403(b) information for HR/CMS departments
- UMass HR DIRECT
- MAComptroller.org

Contacts

- CTR Solution Desk