



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

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April 30, 2007

MEMORANDUM

TO: Board of Education

FROM: Melody Douglas, CFO

SUBJECT: I. R. C. 403 (b) and 457 Retirement Plans

There are two types of tax exempt retirement plans authorized by the Internal Revenue Service; 403 (b) and 457 for government employers. The District already provides 403 (b) tax sheltered annuity plans. Only District employee contributions are made to either of these plans.

With the changes in the Public Employees and Teachers Retirement Systems (from defined benefit to defined contribution programs), it would be beneficial to employees to also have access to 457 plans in planning their retirement needs. Information is attached on both 403 (b) and 457 retirement plans.

AR 3342 Payroll – Tax Sheltered Annuities will be reviewed by the Policy Committee on May 7, 2007. This regulation has been placed on the Board of Education's agenda as an action item to add 457 plans to AR 3342.

Please note that regulation changes to 403 (b) plans are expected in January, 2008; it may be necessary to update board policy and regulation as a result of those changes.

PAYROLL – IRS Retirement Plans

Deleted: Tax Sheltered Annuities

Employees hired at least half time may purchase 403(b) and 457 retirement plans with portions of their income. The Board shall offer no advice or make any recommendations or representation respecting the value or merit of any company or annuity program offered. The selection of a company or program shall be made solely by the employee who shall assume all risks of participation in the program chosen.

Deleted: tax shelter annuities

Participation in 403(b) and 457 retirement plans will conform to the following rules that are applicable such plans per the Internal Revenue Code (I.R.C.):

Deleted: tax-sheltered annuities

Deleted: to the purchase of annuities under Section 403 (b) of

The Superintendent shall act as agent for the Board in the administration of all aspects of the 403(b) and 457 retirement plans.

Deleted: tax-sheltered annuity program

The Board shall, by reduction of compensation in the amount specified, remit payment for 403(b) and 457 retirement plans, for employees pursuant to I.R.C. provided the employee submits a signed salary reduction agreement.

Deleted: tax sheltered annuities

Deleted: 403 (b)

The Superintendent will maintain a list of approved companies for 403(b) and 457 retirement plans. Purchase of these plans for employees by the District will be limited to companies on this list.

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Deleted: 403 (b) annuities

Any companies that sell 403 (b) annuities may be placed on the District's list if they have five (5) or more signed contracts with employees.

The Board shall not withhold income taxes on the amount of the contributions requested to be made by the employee for the 403(b) and 457 retirement plans, in a given year, provided that the employee and the firm, from which the employee's annuity has been purchased, have executed and furnished the District hold harmless agreements (Service Provider Agreement) on forms provided by the District.

Deleted: for the purchase of 403 (b) annuities

KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Adoption Date: _____

Deleted: 5/3/2004

*Internal Revenue Service
Tax Exempt and
Government Entities
Employee Plans Division*



403(b) and 457 Retirement Plans

with plan feature comparison chart

Compare features of retirement plans (including 401(k) plans) for tax exempt and government employers.



403(b)



457



403(b) and 457 Retirement Plans

This brochure outlines features of 403(b) and 457 retirement plans in an easy-to-read chart.

403(b) PLANS are adopted by public and private schools, colleges, universities, churches, public hospitals, and charitable entities tax exempt under section 501(c)(3) of the Internal Revenue Code (IRC).

457 PLANS are deferred compensation plans described in the IRC section 457.

They are available to certain state and local governments and non-governmental entities that are tax exempt under IRC 501.





Common errors found in the operation of 403(b) plans include:

Excess IRC 402(g) contributions, which includes violating the 15-year catch-up rule limitations.

The amount of salary reduction contributions exceeds the annual dollar limitation (\$13,000 for 2004). The excess may be the result of poor internal controls, or failure to aggregate deferrals made to other 403(b) or 401(k) plans. Violations of the 15-year catch-up rule occur when the employee has exceeded the \$15,000 lifetime limitation, or when the employee is not employed by an eligible employer.

Universal availability: IRC 403(b)(12)(A).

Excluding eligible employees from participation, usually part-time employees that would qualify to participate. Eligible employees are not given the right to make salary reduction contributions. Employers often misapply eligibility and coverage conditions to employees who are otherwise eligible to make salary reduction contributions under IRC section 403(b)(12).

Excess IRC 415 contributions.

Generally, the sum of elective deferrals and employer contributions cannot exceed the greater of \$41,000 or 100% of includible compensation for 2004.

Plan loans that violate IRC 72(p).

Common violations include: failure to make required payments when due resulting in default of the entire loan, poor documentation, and loans from multiple vendors that in the aggregate exceed the IRC 72(p) limits.

Hardship distribution failures.

Common violations include: inadequate documentation that the distribution is the result of a financial hardship, and distributions from multiple vendors that in the aggregate exceed the amount needed to relieve the hardship.

403(b) and 457 Retirement

PLAN	SPONSOR/ ELIGIBLE EMPLOYER	ELIGIBLE PARTICIPANTS
401(k)	<ul style="list-style-type: none">• all non-government employers	<ul style="list-style-type: none">• common law employees
403(b)	<ul style="list-style-type: none">• public education employers• 501(c)(3) organizations	<ul style="list-style-type: none">• common law employees
457(b) Governmental	<ul style="list-style-type: none">• state and local governments	<ul style="list-style-type: none">• common law employees• independent contractors
457(b) Tax-Exempt Organizations	<ul style="list-style-type: none">• any 501(c) tax-exempt organization	<ul style="list-style-type: none">• select group of management or highly compensated employees• independent contractors
457(f) Government and Tax-Exempt Organizations	<ul style="list-style-type: none">• state and local governments• any 501(c) tax-exempt organization	<ul style="list-style-type: none">• common law employees• independent contractors

Plans – Plan Feature Comparison Chart

WRITTEN PLAN DOCUMENT REQUIRED	DETERMINATION LETTER AVAILABLE	MASTER AND PROTOTYPE SUBMISSION AVAILABLE	BASIC CONTRIBUTION LIMITS
yes	yes	yes	<ul style="list-style-type: none"> • elective deferrals 402(g) <ul style="list-style-type: none"> – \$13,000 (2004) increasing to – \$15,000 (2006) • employer & employee \$41,000 or 100% of compensation
• not for IRS purposes (see DOL rules)	no	no	<ul style="list-style-type: none"> • elective deferrals 402(g) <ul style="list-style-type: none"> – \$13,000 (2004) increasing to – \$15,000 (2006) • employer & employee \$41,000 or 100% of includible compensation
yes	no	no	<ul style="list-style-type: none"> • employer & employee <ul style="list-style-type: none"> – \$13,000 (2004) increasing to – \$15,000 (2006)
yes	no	no	<ul style="list-style-type: none"> • employer & employee <ul style="list-style-type: none"> – \$13,000 (2004) increasing to – \$15,000 (2006)
• generally, written agreement such as an employment contract	no	no	<ul style="list-style-type: none"> • generally, no limit on employer or employee contributions

CATCH-UP CONTRIBUTIONS	AGE 50 CATCH-UP CONTRIBUTIONS	LOANS PERMITTED	TIMING OF DISTRIBUTIONS
no	<ul style="list-style-type: none"> • 414(v) <ul style="list-style-type: none"> – \$3,000 (2004) increasing to – \$4,000 (2005) – \$5,000 (2006) 	yes	generally, <ul style="list-style-type: none"> • death • 59 1/2 • severance from employment • disability
<ul style="list-style-type: none"> • 402(g)(7) catch-up <ul style="list-style-type: none"> – selected employers – employee must have 15 years of service – limited to lesser of: \$3,000; \$15,000 less previously excluded special catch-up; \$5,000 multiplied by years of service minus previously excluded deferrals 	<ul style="list-style-type: none"> • 414(v) <ul style="list-style-type: none"> – \$3,000 (2004) increasing to – \$4,000 (2005) – \$5,000 (2006) 	yes	generally, <ul style="list-style-type: none"> • death • 59 1/2 • severance from employment • disability
<ul style="list-style-type: none"> • special 457 catch-up <ul style="list-style-type: none"> – 3 years prior to the year of normal retirement age – limited to lesser of: twice the basic annual limit [\$26,000 (2004) increasing to \$30,000 (2006)]; or basic annual limit plus under-utilized basic annual limit in prior years 	<ul style="list-style-type: none"> • 414(v) <ul style="list-style-type: none"> – \$3,000 (2004) increasing to – \$4,000 (2005) – \$5,000 (2006) 	yes	<ul style="list-style-type: none"> • 70 1/2 • severance from employment <ul style="list-style-type: none"> – special rules for independent contractors • minimum required distribution
<ul style="list-style-type: none"> • special 457 catch-up <ul style="list-style-type: none"> – 3 years prior to the year of normal retirement age – limited to lesser of: twice the basic annual limit [\$26,000 (2004) increasing to \$30,000 (2006)]; or basic annual limit plus under-utilized basic annual limit in prior years 	no	no	<ul style="list-style-type: none"> • 70 1/2 • severance from employment <ul style="list-style-type: none"> – special rules for independent contractors • minimum required distribution • special distribution elections
no	no	no	<ul style="list-style-type: none"> • taxable when no substantial risk of forfeiture

					
OTHER DISTRIBUTIONS	ROLLOVER	TRUSTEE-TO-TRUSTEE TRANSFER	TERMINATION OF PLAN	EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM (EPCRS)	
<ul style="list-style-type: none"> hardship QDRO (qualified domestic relations order) 	<ul style="list-style-type: none"> yes, same as 401(a) must satisfy distribution requirements 	yes	yes	yes	
<ul style="list-style-type: none"> hardship QDRO (qualified domestic relations order) 	<ul style="list-style-type: none"> yes, same as 401(a) must satisfy distribution requirements 	<ul style="list-style-type: none"> purchase permissive service – government plans in-service 403(b) to another 403(b) in-service 	no	yes	
<ul style="list-style-type: none"> unforeseeable emergency small in-active accounts QDRO (qualified domestic relations order) 	<ul style="list-style-type: none"> yes, same as 401(a) must satisfy distribution requirements 	<ul style="list-style-type: none"> purchase permissive service government 457(b) to another government 457(b) 	yes	no – special 180-day rule to correct for government – submission accepted on a provisional basis outside EPCRS	
<ul style="list-style-type: none"> unforeseeable emergency small in-active accounts QDRO (qualified domestic relations order) 	no	<ul style="list-style-type: none"> tax exempt 457(b) to another tax exempt 457(b) 	yes	no – may be accepted outside EPCRS as IRS develops experience	
<ul style="list-style-type: none"> taxable when no substantial risk of forfeiture 	no	no	no	no	

403(b) and 457 Information Resources

■ www.irs.gov/ep

- Click on **RETIREMENT SOURCE FOR PLAN SPONSORS/EMPLOYERS**, and then access **403(B)/457 PLANS** under **TYPES OF PLANS**.

- *403(b)/457 Online Resource Guide* provides information on these plans including IRC and regulations, recent law changes, correction program information, FAQs, published guidance, and educational services.

■ **Customer Assistance**

for technical and procedural answers to your retirement plan tax law inquiries.

- (877) 829-5500

- www.irs.gov/ep

Access **EP CUSTOMER SERVICES** under **RELATED TOPICS**.

- **Internal Revenue Service**
Tax Exempt and Government Entities
Customer Account Services
P.O. Box 2508
Cincinnati, OH 45201

