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To: Human Resources Directors
Benefit Officers

From: Cathy Robinson
Senior Director 
Human Resources Administration

Subject: CALIFORNIA STATE CONFORMING TAX LAW CHANGES AFFECTING 403(b), 457 AND 401(k) PLANS

The purpose of this Technical Letter is to inform you that conforming legislation has been passed in California, which effectively brings the California state tax code into compliance with the Federal Tax Code as amended by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. Passage of this legislation enables CSU employees to take advantage of the full scope of the tax provisions provided by EGTRRA, retroactive to EGTRRA's initial effective date of January 1, 2002.

Detailed information regarding EGTRRA is provided in the following attachments:

- Attachment A – Provisions & Updates
- Attachment B – Plan Provisions Tax Chart
- Attachment C – Plan Comparison Chart
- Attachment D – Catch-Up Allowance Worksheet
- Attachment E – Draft Letter to Employees

This communication supersedes all previous technical letters regarding EGTRRA. If you have any questions, please contact Michelle Hamilton at (562) 951-4413. This Technical Letter is also available on Human Resources Administration's web page at: <http://www.calstate.edu/HRAdm/memos.shtml>.

CR/mh
Attachments

Distribution: All with Attachments

CSU Presidents
Vice Chancellor, Human Resources
Vice Presidents, Academic Affairs
Vice Presidents, Administration
Vice Presidents, Student Affairs

Payroll Managers
Director, SOSS
Employee Relations Designees

PROVISIONS & UPDATES OF THE ECONOMIC GROWTH AND TAX RECONCILIATION RELIEF ACT (EGTRRA)

Provided below is a brief summary of key EGTRRA provisions related to retirement plans available to CSU employees. These provisions were effective January 1, 2002, prior to the passage of California conforming legislation. All provisions of EGTRRA will “sunset,” or not apply in years beginning after December 31, 2010.

Campuses are advised to refer employees to their tax advisors, or financial planners for assistance in understanding these tax laws.

Questions regarding the 401(k) and 457 plans should be directed to the Savings Plus Program office at (866) 566-4777, or via the Department of Personnel Administration’s web site at <http://www.dpa.ca.gov>.

1. Elective Deferral Limits Increased

The Internal Revenue Code (IRC) establishes specific limits that govern the amounts an individual can contribute to pre-tax salary reduction retirement plans, such as 403(b), 401(k), and 457 plans. For tax years beginning after December 31, 2001, only two limits will apply: the IRC Section 402(g) “elective deferral limit” and the IRC Section 415(c) “percentage of compensation” limit. For 2002, the limits will increase as follows:

<u>Plan Type</u>	<u>Limit</u>
403(b), 401(k) and 457	100% of compensation, or maximum \$11,000 per year.

Additionally, contributions to a 457 plan no longer have to be offset by contributions to a 403(b), or 401(k) plan. For example, for tax year 2002, a participant could elect to contribute up to \$11,000 to a 403(b), or 401(k) plan AND up to \$11,000 to a 457 plan, for a total contribution of up to \$22,000.

The maximum elective deferral limit will increase incrementally over the next five years, as follows:

<u>Tax Year</u>	<u>Limit</u>
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006 and thereafter	\$15,000

For tax years beginning after December 31, 2006, the elective deferral limit will be adjusted for inflation in \$500 increments.

Note: The IRC Section 402(g)(8) “catch-up” provision is retained.

2. 457 Plan Changes

EGTRRA includes a number of provisions unique to 457 plans. As stated above, elective deferrals to a 403(b) or 401(k) plan will not count against the 457 plan dollar limit, and the percentage of compensation limit on elective deferrals is increased to 100% of compensation. Additional changes include:

► Expanded Catch-up Provision. The 457 plan has a special provision that allows eligible participants to “catch-up,” or exceed the annual elective deferral limit during the last three years ending before the plan’s normal retirement age. EGTRRA changes the 457 catch-up limit to an amount equal to up to twice the regular elective deferral limit during each of the three years of the catch-up period as follows:

- \$22,000 in 2002
- \$24,000 in 2003
- \$26,000 in 2004
- \$28,000 in 2005
- \$30,000 in 2006 - thereafter indexed for inflation.

The 457 catch-up limit is offset by the current and prior years’ deferrals to the 457 plan made since the employee began participation.

► Minimum Distribution Rules. The special minimum distribution rules applicable only to 457 plans have been repealed. This provision makes distribution of funds more flexible. The doctrine of “constructive receipt” has been repealed. 457 plans are now subject to the minimum distribution rules applicable to qualified plans. Distributions will now be taxed only as paid. The new law allows for payout upon retirement or separation from service, with no age requirement and no tax penalty. It eliminates the irrevocable election requirement of 457 plan distributions. Under certain conditions, individuals currently receiving 457 distributions may be able to change their election and roll over funds to other plans. Under the new law, the “made available” rule would no longer apply to governmental 457 plans (but would continue to apply to 457 plans of tax-exempt employers) after 2001.

Please Note: the 457 plan offered by the Department of Personnel Administration’s Savings Plus Program is a governmental 457 plan, thus, guidelines for tax-exempt 457 plans do not apply.

► Division of 457 Plan Benefits Upon Divorce. Previously, the IRC did not address how benefits under 457 plans were taxed upon divorce. EGTRRA clarifies and simplifies rules for splitting, or transferring a 457 account in the event of divorce. Effective for transfers, distributions and payments after December 31, 2001, the qualified plan tax rules for Qualified Domestic Relations Orders (QDROs) will apply to 457 plan divorce distributions. In the case of qualified plans, payments to a former

spouse under a QDRO may be made before the participant is entitled to a distribution. The account can be divided and distributions to an ex-spouse would be available immediately. Only the recipient of the funds would be taxed, and only on the amounts received.

3. 403(b) Plan Change

The Maximum Exclusion Allowance (MEA) is part of a complex set of rules used to determine the maximum amount a participant can contribute in any given year to a 403(b) account. Effective January 1, 2002, the MEA calculation has been eliminated and replaced with new contribution limits similar to those for 401(k) and 457 plans. Alternatives A, B and C limits have also been repealed. Effective January 1, 2002, 403(b) plan participants will be subject to only the 402(g) elective deferrals limit (\$11,000 for 2002), and the overall IRC Section 415(c) limit (100% of adjusted gross income).

4. Additional Catch-up Contributions – 403(b), 401(k) and 457 Plans

► 15 Year Catch-Up Election For 403(b) Plans. IRC Section 402(g)(8) provides for a “catch-up” election, 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 up to 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.

The “15-year” catch-up election is directly tied to the 402(g) limit, and is the lesser of the 402(g) limit plus \$3,000, or \$15,000 minus all prior years’ catch-up amounts. Employees who have deferred more than \$5,000 per year (i.e., at least \$75,000 over their 15 years of service) are not eligible for this catch-up election. Contributions under this catch-up election cannot exceed \$14,000 for 2002 (\$11,000 402(g) limit plus \$3,000). This provision will still be available to eligible employees.

► Over Age 50 Catch-Up Election. IRC Section 414(v), added under EGTRRA, creates a new catch-up provision available to individuals age 50 and older before the end of the plan year, and allows them to make additional pre-tax elective deferrals to a 403(b), 401(k), or 457 plan over and above the regular contribution limits, without regard to previous contributions. This new catch-up provision does not require a calculation worksheet.

EGTRRA makes this new catch-up an optional provision and is applicable for eligible participants in the CSU 403(b) plan and the State’s 401(k) and 457 plans. These catch-up contributions do not count toward any dollar limitation, and qualified plan discrimination tests, except that the total of all elective deferrals cannot exceed 100 percent of an employee's total compensation (including deferrals).

The maximum amount of these additional contributions is phased-in from 2002

through 2006 in \$1,000 increments until it reaches \$5,000. In 2002, a participant can defer \$1,000 to the 403(b) or 401(k) and an additional \$1,000 to a governmental 457(b) plan. In other words, the age-50 catch-up amount for a governmental 457(b) plan is separate from the age-50 catch-up amounts to 403(b) and 401(k) plans. Thereafter, it will be indexed to inflation in \$500 increments for later years. Unlike the 402(g)(8) “15-year” catch-up provision for 403(b) plans, the new catch-up provision is available to all individuals over the age of 50 by the end of the plan year, who meet the criteria, regardless of whether they qualified for the IRC Section 402(g)(8) catch-up exceptions under the old law.

To qualify for this new catch-up provision, individuals must first maximize the elective deferral limit allowed under the plan, or law for that year. Additional catch-up contributions are limited as follows:

\$1,000 beginning in 2002
\$2,000 for 2003
\$3,000 for 2004
\$4,000 for 2005
\$5,000 for 2006 and thereafter.

Please note: Previously, EGTRRA had a non-duplication rule preventing 457 plan participants from combining the IRC Section 414(v) “age-50” catch-up with the IRC Section 457(b) “times two elective deferral” catch-up during the last three years before retirement. In accordance with the Job Creation and Worker Assistance Act of 2002, this rule has been modified and 457 participants are now entitled to make catch-up contributions up to an amount equal to the greater of (i) the age-50 catch-up limit or (ii) the 3-year catch-up limit.

5. Tax Credit for Low-Income Contributors - IRC Section 25B

Under EGTRRA, low to moderate income individuals (defined as those making up to \$50,000 in the case of a joint return) will receive a temporary “nonrefundable” federal income tax credit of up to \$2,000 to match their salary reduction contributions to 403(b), 401(k) and 457 plans and Individual Retirement Accounts (traditional, Roth, or SIMPLE). The tax credit, designed to encourage lower-income and middle-income individuals to begin saving for their retirement, only reduces taxes otherwise owed and does not cause a refund. Qualified individuals may use the credit in tax years 2002 through 2006.

The tax credit will range from 10 percent to 50 percent of the amount contributed, up to a maximum of \$2,000, depending on adjusted gross income (AGI). The credit is in addition to any deduction or exclusion, and does not change the otherwise applicable tax treatment of elective deferrals and contributions. The amount of the credit decreases as an individual’s income increases and will be available in three tiers as follows:

**Technical Letter
HR/Benefits 2002-08
Attachment A**

Joint Tax Filers		Single/Married Filing Separately		Head of Household Tax Filers	
AGI	Percent	AGI	Percent	AGI	Percent
Up To \$30,000	50%	Up to \$15,000	50%	Up to \$22,500	50%
\$30,001 - \$32,500	20%	\$15,001 - \$16,250	20%	\$22,501 - \$24,375	20%
\$32,501-\$50,000	10%	\$16,251 - \$25,000	10%	\$24,376 - \$37,500	10%
Over \$50,000	0%	Over \$25,000	0%	Over \$37,500	0%

Certain individuals, including full-time students, are not eligible. Employees should be referred to their tax or financial advisors for advice about calculating and claiming the credit.

6. Hardship Withdrawals For 403(b), 401(k) and 457 Plans

In cases of extreme financial need, employees may be permitted to access some or all of their elective deferrals. A withdrawal qualifies as a hardship distribution under the federal rules if it meets two conditions. First, the participant must have an “immediate and heavy financial need.” Second, the withdrawal must be necessary to satisfy the need. Under a regulatory “safe harbor,” an individual who obtains a hardship distribution of elective deferrals generally must be suspended from participation in the plan(s) for 12 months after receipt of the hardship distribution. Effective for years beginning after December 31, 2001, Treasury regulations reduce from 12 months to six months the period during which an employee must be prohibited from making elective contributions. For hardship withdrawals taken during 2002, the penalty suspension period would expire six months following. For example, a participant who takes a hardship withdrawal in May 2002 would be restricted from participating until November 2002.

Upon notification of a hardship withdrawal, campuses are required to cancel salary reduction agreements for the specified penalty period. All hardship distributions, including amounts attributable to salary reduction contributions, and non-elective contributions, are ineligible for rollover.

7. Purchase of Service Credit

Effective 2002, employees who are eligible to purchase additional service credit in their defined benefit pension plan (e.g., CalPERS retirement system) may do so using funds from a 403(b), or 457 plan. Under this provision, funds can be transferred to purchase service credit, or to repay the defined benefit plan for a prior refund of employee contributions, effective for trustee-to-trustee transfers made after 2001. Employees should be referred to CalPERS, or their financial advisor to determine whether this option will be beneficial.

8. Defined Benefit Plan Limit Increased – IRC §415(b)

Section 415 of the Internal Revenue Code (IRC) places a dollar limit on the annual benefit an individual can receive from a tax-qualified pension plan, such as CalPERS. The current annual benefit under defined benefit plans is limited to the lesser of

\$140,000, or 100% of average compensation over the highest three years of employment. Special rules generally require actuarial reduction of the 415(b) dollar limit for benefits payable prior to normal Social Security Retirement Age.

Effective for years ending after December 31, 2001, the maximum pension benefit a retiree can receive under a defined benefit plan will increase to \$160,000. This limit will be indexed in \$5,000 increments for inflation. The “early retirement” age will be lowered to 62, and the normal Social Security retirement age, for purposes of applying the limit, will be 65. Actuarial reduction will be required only for benefit commencement prior to age 62. The “100% over three years” limit is eliminated.

CalPERS has adopted a “Replacement Benefits Plan,” applicable to eligible CSU employees, which will, to the extent allowed by federal and state laws, replace any benefits that exceed IRC Section 415(b) limits. This CalPERS-paid benefit is a manual payment process that is made on a quarterly basis.

9. Compensation Limit Increased Code – IRC §401(a)(17)

Previously, under IRC Section 401(a)(17), the annual compensation that may be taken into account for determining contributions and benefits under a retirement plan, applying the deduction rules and for nondiscrimination testing purposes, was limited to \$170,000, indexed in \$10,000 increments for 2001. Beginning in 2002, the limit will increase to \$200,000, indexed in \$5,000 increments in subsequent years. However, CSU employees who first became members of CalPERS prior to July 1, 1996, are exempted from any compensation limit.

10. Rollovers

Previously, 403(b) funds could only be transferred directly to another 403(b) plan, or an IRA. EGTRRA provides more asset portability. Under EGTRRA, employees are able to roll over distributions from a 403(b) to an IRA, or to/from another 403(b), 401(a) or governmental 457(b) plan. For distributions made after December 31, 2001, eligible rollover distributions from a qualified retirement plan, 403(b) annuity, IRA and governmental 457(b) plan can generally be rolled over to any of these plans. The direct rollover and withholding rules will apply to distributions from a governmental 457 plan, not a tax-exempt 457 plan.

Similarly, employee after-tax distributions from an IRA generally can be rolled over into a 403(b), 401(k) or governmental 457(b) (defined contribution plans). This provision does not require plans to accept rollovers of after-tax contributions unless the plan provides separate accounting for such contributions (and earnings thereon). Not all plans will have the ability to offer this feature. Employees should be encouraged to contact their investment companies with questions regarding this provision.

Additional provisions include:

► Waiver of 60-Day Rule. Under previous law, unless a rollover was done directly from one plan to another, a participant had 60 days from the date of receiving a distribution to roll it over. If the rollover was not done within the 60-day limit, the distribution was subject to taxation. There are two exceptions that apply: the participant is on military service in a combat zone, or the President has declared a disaster. For distributions made on or after January 1, 2002, the new law permits the Secretary of the Treasury to waive the 60-day limit if its application “would be against equity, or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to the requirement.”

11. CIRS COMPENDIUM REPORTS FOR CONTRIBUTION TRACKING

Human Resources Administration staff is working with HR-ISA to revise existing CIRS Compendium reports (PDC5209-1 (G92) and PDC5214-2 (G9)) to help campuses track contribution limits. Tracking requirements include: \$11,000 maximum elective deferral, \$22,000 deferral limit, and additional deferrals from all sources (i.e., new “age 50” catch-up and current “15-year” catch-up). A complete listing of the revised CIRS tracking reports, and samples of each, will be distributed in an upcoming Technical Letter. The CSU 403(b) Tax Sheltered Annuity brochure will be revised and distributed to campuses under separate cover. Internal Revenue Service (IRS) Publication 553 highlights the changes of EGTRRA and is currently available on IRS’ web site address at: <http://www.irs.ustreas.gov>.

PLAN PROVISIONS TAX CHART

This chart illustrates basic provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) related to defined contribution retirement plans available to CSU employees. (It does not include other retirement provisions, including defined benefit plans, i.e., CalPERS.)

Plan Provision	403(b)	401(k) Administered by DPA's Savings Plus Program	457 Administered by DPA's Savings Plus Program
<p>402(g) Elective Deferral Limit This is an annual maximum. It will be indexed annually for inflation after 2006.</p>	<p>\$11,000 in 2002 \$12,000 in 2003 \$13,000 in 2004 \$14,000 in 2005 \$15,000 in 2006</p>	<p>\$11,000 in 2002 \$12,000 in 2003 \$13,000 in 2004 \$14,000 in 2005 \$15,000 in 2006</p>	<p>\$11,000 in 2002 \$12,000 in 2003 \$13,000 in 2004 \$14,000 in 2005 \$15,000 in 2006</p>
<p>IRC Section 402(g)(8) Catch-up Also referred to as the "15-year" catch-up. Permits certain long-term employees who have under-deferred in previous years to make additional contributions beyond the IRC Section 402(g) limit. Applicable only to the 403(b) plan and can be used concurrently with the IRC Section 414(v) catch-up.</p>	<p>Up to \$3,000 per year beyond the 402(g) limit, for up to 5 years or a lifetime maximum of \$15,000.</p>	<p>Not applicable</p>	<p>Not applicable</p>
<p>IRC Section 414(v) Catch-up Also referred to as the "age-50" catch-up. Permits participants who have attained at least age 50 by the end of a calendar year to make catch-up contributions on a graduated scale. In 2002, a participant can defer \$1,000 to a 403(b) or 401(k) and an additional \$1,000 to a governmental 457(b) plan.</p>	<p>\$1,000 in 2002 \$2,000 in 2003 \$3,000 in 2004 \$4,000 in 2005 \$5,000 in 2006</p>	<p>\$1,000 in 2002 \$2,000 in 2003 \$3,000 in 2004 \$4,000 in 2005 \$5,000 in 2006</p>	<p>\$1,000 in 2002 \$2,000 in 2003 \$3,000 in 2004 \$4,000 in 2005 \$5,000 in 2006</p>
<p>IRC Section 457(b) Catch-up Also referred to as the "two times elective deferral" catch-up. Provides a maximum lifetime amount and is available to participants who have under-deferred to the 457(b) plan in prior years. Permits eligible participants to defer up to twice the amount of the elective deferral amount during the last three years before the plan's normal retirement age, minus any current and prior years' deferrals made since the employee began participating in the plan. Applicable only to the 457 plan and can be used concurrently with the 403(b) plan's IRC Section 402(g)(8) catch-up, and the IRC Section 414(v) "age-50" catch-up*.</p>	<p>Not applicable</p>	<p>Not applicable</p>	<p>\$22,000 in 2002 \$24,000 in 2003 \$26,000 in 2004 \$28,000 in 2005 \$30,000 in 2006</p>

*Previously, EGTRRA had a non-duplication rule preventing 457 plan participants from taking advantage of both types of catch-ups at the same time. This rule was modified and enacted as part of the Job Creation and Worker Assistance Act of 2002. Now, these participants are now entitled to make catch-up contributions up to an amount equal to the greater of the age-50 catch-up limit or the 3-year catch-up limit.

**2002 PLAN COMPARISON CHART
MAJOR PROVISIONS AND DIFFERENCES BETWEEN
TAX SHELTERED ANNUITY (403[b]), STATE DEFERRED COMPENSATION (457)
AND STATE THRIFT (401[k]) PLANS**

Eligibility: Generally, all employees are eligible to participate in the 403(b) program with the exception of certain student classifications. The following employees are prohibited from joining the 457 and 401(k) plans: seasonal or temporary employees required to be enrolled in the PST Retirement Plan and rehired annuitants (employees receiving a retirement allowance from PERS).

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 month	\$20 min. contribution per month	\$20 min. contribution per month
Variety of annuities and custodial funds	Variety of investment choices	Variety of investment choices
Assets held by vendor	Assets held in trust by State	Assets held in trust
The lesser of \$11,000/yr, or 100% of compensation*	The lesser of \$11,000/year or 100% of compensation*	The lesser of \$11,000/year or 100% of compensation*
Hardship withdrawal for heavy financial emergency	Hardship withdrawal for unforeseeable financial emergency	Hardship withdrawal for heavy financial emergency
Eligible roll over distribution to an IRA or to/from another 403(b) program, a 401(a) or governmental 457 plan; surviving spouse of participant may also roll over distributions	Eligible roll over distribution to an IRA or to/from another employer's 457, 401(a) or to another 403(b) program; surviving spouse of participant may also roll over distributions	Eligible roll over distribution to an IRA or to/from another employer's 401(k), 403(b), governmental 457 or 401(a) plan; surviving spouse of participant may also roll over distributions
Choice of payout method	Choice of payout method	Lump sum payment or partial lump sum with IRA rollover or annuity
No tax averaging available	No tax averaging available	No tax averaging available
15-year "Catch-up" provision available	"Catch-up" provision available	No 15-year "Catch-up" provision available
Additional \$1,000 catch-up deferral for 2002 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$1,000 catch-up deferral for 2002 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$1,000 catch-up deferral for 2002 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 1/2 (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)	At least age 55 and retired, or 59 1/2 (regardless of employment status) - receive plan payout without tax penalty

* 403(b), 401(k) and 457 plans apply the 100% limit to the employee's taxable income **PLUS** employee contributions to 403(b), 457, 401(k), 132(f) (pre-tax parking) and 125 plans (Dependent Care Reimbursement Account, Health Care Reimbursement Account, and Tax Advantaged Premium Plan). Employee pre-tax contributions to CalPERS retirement are **not** included.

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 lowest maximum. Effective January 1, 2002, 401(k) and 403(b) deferrals do not count against the 457(b) dollar limit. In addition, age-50 catch-up contributions to a 403(b) or 401(k) plan do not count against the age-50 catch-up contributions to a 457(b) plan.
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 (916) 322-5070 or www.dpa.ca.gov.



**California State University
Tax Sheltered Annuity (403(b))
IRC Section 402(g)(8) Catch-up Calculation Worksheet
Effective for the 2002 Tax Year**

Note to employee: Contributions to the 403(b) program must be no greater than the lesser of two different IRS limits. These limits are under Internal Revenue Code (IRC) §415(c), and §402(g). For 2002, the 402(g) limit is \$11,000; the 415(c) limit is 100% of compensation. The \$11,000 limit is an annual limit; it is reduced if you contribute to a §401(k) plan or a Simplified Employee Pension during the year, even if those plans are sponsored by a different employer. However, it is not reduced by your 457(b) or PERS retirement contribution.

There is a IRC §402(g)(8) “catch-up” rule for the \$11,000 limit, which may permit some employees to contribute up to \$14,000 during the year. **If you wish to contribute more than \$11,000 under this provision, you must demonstrate your eligibility for the catch-up rule by completing this worksheet.**

Information you will need before completing this worksheet:

- ⇒ Your years of service with CSU.
- ⇒ The maximum contribution you would be eligible to make during 2002 to the 403(b) program before considering the 402(g)(8) catch-up rule. Contact your 403(b) vendor representative or tax advisor if you need assistance with these calculations.
- ⇒ The 403(b) contributions you made each year while employed by the CSU.

Step 1: Enter your years of service at CSU (complete attached “Years of Service Worksheet”). If you have less than 15 years of service, **STOP** -- you are not eligible to use the catch-up rule. _____ **Years(1)**

Step 2: Enter your maximum 2002 403(b) contribution under the lesser of 100% of compensation or \$40,000. (Compensation for the percentage calculation is taxable income plus pretax employee contributions to an IRC 403(b), 457, 401(k), 132(f) (pre-tax transportation reimbursement) or 125 plan but does not include pretax contributions to PERS retirement.) The \$11,000 402(g) limit is not considered in Step 2 of the calculation. Only the 415(c) limit (100% of adjusted gross income or \$40,000) is considered. If your answer is less than \$11,000, **STOP** -- you are not eligible for the catch-up rule and your limit for 2002 is the amount entered for this step. \$ _____ (2)

Step 3: 403(b) contributions prior to 1987 may be ignored for Step 3.

(A) <u>Year</u>	(B) 403(b) <u>Contributions</u> *	(C) 402(g) <u>Limit</u>	Difference: (B) minus (C), <u>but not less than \$0</u>
1987 _____	minus	\$9,500	= _____
1988 _____	minus	\$9,500	= _____
1989 _____	minus	\$9,500	= _____
1990 _____	minus	\$9,500	= _____
1991 _____	minus	\$9,500	= _____
1992 _____	minus	\$9,500	= _____
1993 _____	minus	\$9,500	= _____
1994 _____	minus	\$9,500	= _____
1995 _____	minus	\$9,500	= _____
1996 _____	minus	\$9,500	= _____
1997 _____	minus	\$9,500	= _____
1998 _____	minus	\$10,000	= _____
1999 _____	minus	\$10,000	= _____
2000 _____	minus	\$10,500	= _____
2001 _____	minus	\$10,500	= _____
TOTAL=			_____

If total exceeds \$15,000, **STOP** -- you are not eligible for the catch-up rule.
If total is less than \$15,000, subtract total from \$26,000: \$26,000 Minus total above= _____
Enter RESULT: \$ _____ (3)

Note: Column (B) should include contributions made by you to any Section 401(k) plan or Simplified Employee Pension. (Do not include your 457(b) or PERS retirement contributions.)

Step 4: Enter the RESULT from Step 3: \$ _____ (4)

a) Years of Service entered in Step 1 _____ years

b) Multiply by \$5,000 x \$5,000
 This equals \$ _____

c) Subtract your prior 403(b) or 401(k) contributions for
 the entire period of your CSU employment - _____
 This equals \$ _____
 If the answer to 4(c) is less than zero, **STOP** -- you are
 not eligible for the catch-up rule and your limit for 2002
 is \$11,000.

d) If 4(c) is greater than zero, add \$11,000 + \$11,000
 RESULT: \$ _____

Step 5: Enter \$14,000 \$ _____ (5)

Step 6: Enter the least of the amounts from steps (2), (3), (4), and (5). This is the
 maximum amount you are permitted to contribute in 2002 considering the
 catch-up rule. \$ _____ (6)

Note: If you are or will be age 50 by the end of the plan year, and you have contributed the lesser of 100% of pay or \$11,000, you are eligible to defer an additional \$1,000 to the amount shown in Step 6.

REMINDER FOR EMPLOYEES CONTRIBUTING TO THE STATE DEFERRED COMPENSATION (457) PLAN: In general, the limit on your annual contribution to the State Deferred Compensation Plan is the lesser of \$11,000, or 100% of your taxable compensation. Any amounts you contribute to the 403(b) plan no longer have to be subtracted from the 457 limit. In addition, age 50 catch-up contributions to a 403(b) or 401(k) plan do not count against the age-50 catch-up contributions to a governmental 457 plan.

I certify that to the best of my knowledge, the information used in completing this worksheet is accurate.

Employee Signature: _____ Date: _____

Please Print Name: _____ Soc. Sec. No.* _____

** Your Social Security number is required because it is your payroll identification number and your 403(b) contribution affects payroll transactions.*

Accepted by:
 Campus Representative: _____ Date: _____

DRAFT LETTER TO EMPLOYEES

Date:

Dear CSU Employee

RE: **Tax Law Changes Affecting 401(k), 403(b) and 457 and plans**

We are pleased to announce that conforming legislation has been passed in California, which effectively brings the California state tax code into compliance with the Federal Tax code as amended by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. Passage of this legislation enables CSU employees to take advantage of the full scope of the tax provisions provided by EGTRRA, retroactive to EGTRRA's initial effective date of January 1, 2002. The Economic Growth and Tax Reconciliation Relief Act (EGTRRA) of 2001 (HR 1836), signed into law on June 7, 2001, makes major changes to the rules governing tax-qualified plans such as the California State University (CSU) Internal Revenue Code (IRC) §403(b) plan, and the State's Savings Plus Program IRC §401(k) and Deferred Compensation IRC §457 plans. Historically, these plans operated under different rules consistent with the governing IRC Sections. EGTRRA reduces the differences between these plans, makes the benefits more portable and allows employees to save more each year for retirement.

This letter is intended to provide a summary of the new tax law changes. It is not intended to provide legal, or financial advice. If you have specific questions, you should consult with your tax advisor or financial planner.

The following is a brief summary of key EGTRRA provisions related to retirement plans available to eligible CSU employees.

1. Elective Deferral Limits Increased

The Internal Revenue Code (IRC) establishes specific limits that govern the amounts an individual can contribute to pre-tax salary reduction retirement plans, such as a 403(b), 401(k), and 457 plans. Effective January 1, 2002, only two limits will apply: the IRC Section 402(g) "elective deferral limit" and the IRC Section 415 "percentage of compensation" limit. For 2002, the limits will increase as follows:

<u>Plan</u>	<u>Limit</u>
403(b), 401(k) and 457	100% of compensation, or maximum \$11,000 per year.

Additionally, contributions to a 457 plan will no longer have to be offset by contributions to a 403(b), or 401(k) plan. For example, for tax year 2002, a participant could elect to contribute up to \$11,000 to a 401(k), or 403(b) plan AND up to \$11,000 to a 457 plan, for a total contribution of up to \$22,000. The maximum elective deferral limit will increase incrementally over the next five years, as follows:

<u>Tax Year</u>	<u>Limit</u>
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006 or thereafter	\$15,000

For tax years beginning after December 31, 2006, the elective deferral limitation will be adjusted for inflation in \$500 increments.

2. 403(b) Plan Change

The Maximum Exclusion Allowance (MEA), used to determine the maximum amount a participant can contribute to a 403(b) plan, has been eliminated and replaced with new contribution limits, similar to other conventional retirement plans. Alternatives A, B and C limits have been repealed. For tax years beginning after December 31, 2001, only two limits will apply to 403(b) participants: the 402(g) elective deferral limit (\$11,000 for 2002), and the overall IRC Section 415(c) “percentage of compensation limit (100% of compensation).

3. Additional Catch-up Contributions – 403(b), 401(k), 457 Plans

Individuals who are age 50 and older (as of the end of the tax year) will be allowed to make additional contributions via salary reduction (elective deferral) to a 401(k), 403(b), or 457 plan. Under this provision, the additional amount of elective contributions that could be made by an eligible individual participating in such a plan would be the lesser of (1) the applicable dollar amount as described below, or (2) the participant's compensation for the year, reduced by any other elective deferrals for the year.

<u>Year</u>	<u>Catch-up Limit</u>
2002	\$1,000
2003	\$2,000
2004	\$3,000
2005	\$4,000
2006	\$5,000

In 2007, the limit would be indexed for inflation in \$500 increments. Catch-up contributions made under this provision would not be subject to other contribution limits and would not be taken into account in applying other contribution limits. In 2002, a participant can defer \$1,000 to a 403(b) or 401(k) plan and an additional \$1,000 to a governmental 457(b) plan. The age-50 catch-up amount is not coordinated between a governmental 457(b) plan and a 403(b) or 401(k) plan.

Please note: Previously, EGTRRA had a non-duplication rule preventing 457 plan participants from combining the IRC Section 414(v) “age-50” catch-up with the IRC Section 457(b) “times two elective deferral” catch-up during the last three years before retirement. In accordance with the Job Creation and Worker Assistance Act of 2002, this rule has been modified and 457 participants are now entitled to make catch-up contributions up to an amount equal to the greater of (i) the age-50 catch-up limit or (ii) the 3-year catch-up limit.

4. Tax Credit for Low-Income Contributors

For 2002 through 2006, you may be eligible to claim a tax credit on your federal tax return based on your pretax elective contributions. Contributions to 403(b), 401(k), 457 plans, or to an Individual Retirement Account (IRA) qualify for the credit. The credit is a percentage of the first \$2,000 in annual contributions, with the applicable percentage depending on your adjusted gross income (AGI) and tax filing status. The credit is available for joint tax filers with AGIs up to \$50,000; single or married individuals filing separately with AGIs up to \$35,000; and head of household tax filers with AGIs up to \$37,500. Certain individuals, including full-time students, are not eligible. Please consult your tax or financial advisor for advice about calculating and claiming the credit.

5. Hardship Withdrawals For 403(b), 401(k) and 457 Plans

In cases of extreme financial need participants may be permitted to access some or all of their elective deferrals. Previously, a participant who takes a hardship withdrawal under the “safe harbor” rules may

not make elective deferrals for 12 months. Under the new law, the suspension period is reduced to six months.

6. Purchase of Service Credit

Beginning in 2002, eligible employees participating in a 403(b) and/or 457 plan will be able to use accumulated funds to purchase past service credits, or to repurchase service credits previously forfeited in a governmental defined benefit plan, such as the CalPERS retirement system, effective for trustee-to-trustee transfers made after 2001. Please contact CalPERS, or consult with your tax or financial advisor to determine whether this option would be beneficial to your situation.

7. Defined Benefit Plan Limit Increased – §IRC 415(b)

IRC Section 415 places a dollar limit on the annual benefit an individual can receive from a tax-qualified pension plan, such as CalPERS. Previously, the maximum annual limit is generally the lesser of 100% of the high three-year average of compensation, or \$140,000 (for 2001). The dollar limit was reduced if pension benefits began before (or increased if benefits began after) the participant attained the Social Security retirement age of 65. EGTRRA increases the maximum pension benefit a retiree can receive under a defined benefit plan to \$160,000, and eliminates the 100% of compensation limit. The adjustment for benefit commencement before the Social Security retirement age is amended so that a reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. The annual limit will be indexed for inflation in \$5,000 increments in subsequent years. CalPERS has adopted a "Replacement Benefits Plan," which will, to the extent allowed by federal and state law, replace any benefits that exceed IRC Section 415(b) limits.

8. Compensation Limit Increased – IRC §401(a)(17)

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 2001, the limit was \$170,000. EGTRRA increases the compensation cap to \$200,000 for years beginning after 2001, to be indexed for inflation in \$5,000 (instead of \$10,000) increments. However, CSU employees who first became members of CalPERS prior to July 1, 1996, are exempt from any compensation limit.

9. Expanded Rollovers

EGTRRA allows balances in 403(b), 401(k) and governmental 457(b) plans, and Individual Retirement Accounts (IRA) to be rolled into each other, as long as the plan permits such rollovers, and is able to separately account for plan assets. This means that individuals who change jobs may no longer need to leave dormant accounts with their previous employers. Additionally, surviving spouses can roll over distributions to a 401(a), 403(b), or governmental 457(b) plan in which the spouse participates. For distributions after 2001, the Internal Revenue Service is authorized to waive the 60-day rollover deadline in hardship cases, under certain circumstances.

EGTRRA contains a "sunset" provision, which means that in the event that no further legislation extends, or otherwise amends these provisions, effective 2010, the affected provisions will revert to current law.

If you would like additional information about the State's 401(k) or governmental 457 plans, please contact the Savings Plus Program at (866) 566-4777. You may also obtain information via the Department of Personnel Administrator's web page at <http://www.dpa.ca.gov>. For information on the CSU 403(b) plan, please contact (campus benefits representative) at _____.

Sincerely,
Campus Benefits Representative