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Code: TECHNICAL LETTER
HR/BENEFITS 2000-06

To: Human Resources Directors
Benefit Officers

From: 
Cathy Robinson, Senior Director
Human Resources Administration

Subject: **403(b) TAX SHELTERED ANNUITY (TSA) PROGRAM UPDATE**

This letter is intended to provide clarification regarding the 403(b) Tax Sheltered Annuity (TSA) program contribution limits.

There are three different Internal Revenue Service (IRS) plan limits that apply to savings through the TSA plan. These limits are prescribed under Internal Revenue Code (IRC) Sections 403(b)(2), 415, and 402(g). The respective limits are listed below:

- (1) Maximum Exclusion Allowance (MEA) -- 20% of taxable pay times years of service minus past contributions to certain benefit programs (i.e., CalPERS contributions);
- (2) 415 Limit (also referred to as the "\$30,000 limit") -- the lesser of 25% of taxable pay or \$30,000);
- (3) Maximum Deferral Amount (also referred to as the "402(g) limit") - currently \$10,500 for 2000. This is an annual limit that is indexed for inflation.

In addition to these saving limits, IRC Section 402(g)(8) provides for a "catch-up" election permitting certain long-term employees to increase their elective deferrals over the \$10,500 limit. Under the catch-up election, employees with 15 years of service may qualify for an additional \$3,000 per year, beyond the IRC Section 402(g) limit, for up to 5 years or a maximum of \$15,000.

The catch-up amount is directly tied to the 402(g) limit, and is the lesser of \$13,500 (the \$10,500 402(g) limit plus \$3,000) or \$15,000 minus all prior year catch-up amounts. *Please note: the catch-up limit was previously reported as \$13,000 (reference Technical Letter 99-08, Attachment 2). Contributions under the catch-up election cannot exceed \$13,500 for 2000.* A corrected calculation worksheet is attached.

Employees who wish to contribute at the higher "catch-up" limit must demonstrate their eligibility for the catch-up rule by completing a calculation worksheet. The worksheet must be completed every year for which a participant wishes to contribute more than the annual dollar limit.

If you have any questions, please contact Felice Bakre at (562) 951-4410. This technical letter is also available on the Human Resources Administration's web site at: <http://www.calstate.edu/tier3/HR-Adm/memos.html>.

CR/fb

Attachment

Distribution:

CSU Presidents
Vice Chancellor, Human Resources
Payroll Managers
Director, SOSS

All With Attachment

2000 Worksheet to Determine Eligibility for 403(b) Contributions Over \$10,500

Note to employee: Your contributions to the 403(b) program must be no greater than the lesser of three different IRS limits. These limits are under Internal Revenue Code Section 403(b)(2) (referred to as the Maximum Exclusion Allowance), Section 415, and Section 402(g). The 402(g) limit has been increased to \$10,500. Note that the \$10,500 limit is an annual limit; it is reduced if you contribute to a Section 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 PERS retirement contribution.

There is a catch-up rule for the \$10,500 limit which may permit some employees to contribute up to \$13,500 during the year. **If you wish to contribute more than \$10,500, you must demonstrate your eligibility for the catch-up rule by completing this worksheet.**

Information you will need: Before completing this worksheet, you will need to know:

- ⇒ Your years of service with CSU
- ⇒ The maximum contribution you would be eligible to make during 2000 to the 403(b) program before considering the catch-up rule. Determining the maximum contribution involves complex calculations. 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**

Step 2: Enter your maximum 2000 403(b) contribution under the 25% of adjusted gross income and Maximum Exclusion Allowance calculations. (Adjusted gross income for the percentage calculation is taxable income plus pretax employee contributions to an IRC 403(b), 457, 401(k) or 127 plan but does not include pretax contributions to PERS retirement.) For the purposes of this step, do not consider the \$10,500 annual limitation. If your answer is less than \$10,500, **STOP** -- you are not eligible for the catch-up rule and your limit for 2000 is the amount entered for this step. \$ _____ (2)

Step 3: 403(b) contributions prior to 1987 may be ignored for Step 3. Enter the RESULT from the table below: \$ _____ (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	= _____
TOTAL =			_____

If total exceeds \$15,000, **STOP** -- you are not eligible for the catch-up rule.

If total is less than \$15,000, subtract your total from \$25,000: \$25,000

Minus total above - _____

Enter RESULT: _____

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

Step 4: Enter the RESULT from the table below: \$ _____ (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) 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 2000 is \$10,500.

d) If 4(c) is greater than zero, add \$10,500 + \$10,500
RESULT: \$ _____

Step 5: Enter \$13,500 \$ _____ (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 2000 considering the catch-up rule. \$ _____ (6)

REMINDER FOR EMPLOYEES CONTRIBUTING TO THE STATE DEFERRED COMPENSATION (457) PLAN: In general, the limit on your contribution to the State Deferred Compensation Plan is the lesser of \$8,000 (or \$16,000 in the three years before you attain normal retirement age) and one-third of your taxable compensation. Any amounts you contribute to the 403(b) plan must be subtracted from the \$8,000 (or \$16,000) limit.

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: _____

