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To: Human Resources Directors
Benefit Officers

From: Cathy Robinson, Senior Director
Human Resources Administration



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

As discussed in Technical Letter 2002-01, California state tax laws do not conform to the federal pension reform benefits of the Economic Growth and Tax Reconciliation Relief Act (EGTRRA). Consequently, participants in the 403(b), 457 and 401(k) plans cannot take full advantage of EGTRRA provisions unless California state tax laws are amended to conform to the federal law. Until the conformity issue is resolved, campuses have been instructed to administer the 403(b) program following guidelines and annual deferral limits established for 2001. This letter provides an update for employees participating in the Department of Personnel Administration's (DPA) 457 and 401(k) plans, administered by the Savings Plus Program (SPP).

SPP announced, in their recently released 4th quarter newsletter, *NewsLine*, that they cannot incorporate the provisions of EGTRRA into their plans until California amends its tax code. The article is available on their website at <http://www.dpa.ca.gov/spp/spppensionupdate.shtm>. The SPP will work individually with plan participants who have already raised their deferral amount for the start of the new tax year to ensure deferrals remain within the allowable limits.

Additionally, in an effort to protect participants from potential state tax liability, the SPP intends to delay processing any Individual Retirement Account (IRA) rollovers from 457 plan accounts until the conformity issue is resolved. If the issue is favorably resolved, the SPP will accommodate IRA rollover requests. Since current state law allows IRA rollovers from 401(k) accounts, the SPP will continue to process 401(k) rollover requests as they are received.

Campuses are advised to refer employees to their tax advisors or financial planners for specific assistance in understanding the impact of federal and state taxes on their individual situations. Questions regarding the 457 and 401(k) plans should be directed to the Savings Plus Program at (866) 566-4777.

We will keep you updated as new information becomes available. If you have any questions, please contact Felice Bakre at (562) 951-4410. This Technical Letter is also available on Human Resources Administration's web page at: <http://www.calstate.edu/HRAdm/memos.shtml>.

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