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**Code:** TECHNICAL LETTER  
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**To:** Human Resources Directors  
Benefit Officers

**From:** Cathy Robinson   
Assistant Vice Chancellor  
Human Resources Administration

**Subject:** Economic Growth And Tax Reconciliation Relief Act (EGTRRA): 2006 Tax Year Update

An update of the Economic Growth And Tax Reconciliation Relief Act (EGTRRA) related to retirement plans for the 2006 tax year is provided below.

**Elective Deferral Limits**

The Internal Revenue Code (IRC) establishes specific limits that govern amounts an individual can contribute to pre-tax salary reduction retirement plans, such as 403(b), 401(k) and 457 plans. Two limits determine the amount that an employee may contribute on an annual basis. For 2006, the employee may contribute the lesser of:

- 1) The IRC Section 402(g) "elective deferral limit," which is \$15,000; or
- 2) The IRC Section 415(c) "percentage of compensation" limit, which is defined as 100% of adjusted gross salary up to a maximum of \$44,000. (See Attachment A for the definition of adjusted gross salary.)

For the 2006 tax year, a participant can elect to contribute up to \$15,000 to a 403(b) or 401(k) plan AND \$15,000 to a 457 plan, for a total contribution of up to \$30,000, subject to the 415(c) limit.

A copy of the 2006 Plan Comparison Chart (Attachment A) specifying these amounts is attached.

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**Distribution:**

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

**Additional Catch-Up Contributions**

In addition to the IRC 402(g) “elective deferral limit” under EGTRRA, there are additional “catch-up” provisions available.

- 1) The Age-Based Contribution “catch-up” allowance under IRS Section 414(v), available to employees age 50 and over, is increased to \$5,000. Individuals with a birth year of 1956 or earlier are eligible to participate, and can use this provision in a 403(b), or 401(k) and a 457 plan.
- 2) IRC Section 402(g)(7) provides a special “catch-up” election for 403(b) tax sheltered annuities (TSA), 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 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. Employees who wish to contribute using this catch-up provision must demonstrate eligibility by completing the CSU Catch-Up Calculation Worksheet. A revised copy of the Calculation Worksheet for the 2006 tax year is provided in Attachment B. The participant must complete the Worksheet for each year he/she wants to contribute more than the annual 402(g) limit. For 2006, contributions using the 402(g)(7) catch-up provision cannot exceed \$18,000 (\$15,000 402(g) limit, plus \$3,000).
- 3) The 457 plan, administered by the Department of Personnel Administration (DPA) Savings Plus Program, has a special provision that allows eligible participants to exceed the maximum annual elective deferral limit during the last three years ending before the plan’s normal retirement age. Generally, participants may contribute up to twice the maximum annual contribution amount to a 457 plan for each of the three years. (Certain restrictions apply.) In 2006, this amount increases to \$30,000. To enroll in the 457 plan, or take advantage of this provision, participants must contact the Savings Plus Program directly.

**Defined Benefit Plan Limit Increase – IRC 415(b)**

IRC Section 415(b) places a dollar limit on the annual benefit an individual can receive from a tax qualified pension plan, such as CalPERS. In 2006, this amount is increased to \$175,000. A reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. 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.

**Compensation Limit Increase – 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 2006, this amount increases to \$220,000. Please be advised that CSU employees who first became members of CalPERS prior to July 1, 1996, are exempt from 401(a)(17) compensation limit.

Questions regarding this technical letter may be directed to Felice Bakre at (562) 951-4410. This Technical Letter is also available on Human Resources Administration’s Web site at: <http://www.calstate.edu/HRAdm/memos.shtml>.



**2006 COMPARISON CHART  
 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: rehired annuitants (employees receiving a retirement allowance from CalPERS, including FERP employees), seasonal or temporary employees required to be enrolled in the Part-time, Seasonal and Temporary Employees Retirement Program (PST Program).*

<b>TSA PLAN (403[b])</b>	<b>DEFERRED COMP (457)</b>	<b>THRIFT PLAN (401[k])</b>
Deferred tax on investment	Deferred tax on investment	Deferred tax on investment
\$15 min. contribution per warrant	\$20 min. contribution per warrant	\$20 min. contribution per warrant
Variety of annuities and custodial funds	Variety of investment choices	Variety of investment choices
Assets held by vendor	Assets held in trust	Assets held in trust
The lesser of \$15,000/yr, or 100% of adjusted gross income*	The lesser of \$15,000/year or 100% of taxable income*	The lesser of \$15,000/year or 100% of adjusted gross income*
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	Choice of payout method
No tax averaging available	No tax averaging available	No tax averaging available
15-year "Catch-up" provision available for up to \$3,000 per year for 5 years, for a lifetime maximum of \$15,000. Participants must prove eligibility by submitting a completed Catch-Up Calculation Worksheet.	"Catch-up" provision available. Contact the Savings Plus Program for details	No 15-year "Catch-up" provision available
Additional \$5,000 age based catch-up deferral for 2006 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$5,000 age based catch-up deferral for 2006 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$5,000 age based catch-up deferral for 2006 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)	Distributions prior to age 59 1/2 may be subject to an early withdrawal penalty

\*403(b) plans apply the 100% limit to the employee's taxable income PLUS employee contributions to 403(b), 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. For 401(k) and 457 plans, limits are based on 100% of compensation up to \$15,000, for tax year 2006.

**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. Please note: 401(k) and 403(b) deferrals do not count against the 457(b) dollar limit.
- 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 (866) 566-4777 or [www.spforu.com](http://www.spforu.com).



**California State University**  
**403(b) Tax Sheltered Annuity**  
**IRC Section 402(g)(7) Catch-up Calculation Worksheet**

**Effective for the 2006 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 2006, the 402(g) limit is \$15,000; the 415(c) limit is 100% of compensation (up to \$44,000).** The 402(g) limit is an annual limit; it is reduced if you contribute to a §401(k) plan or a Simplified Employee Pension (SEP) during the year, even if those plans are sponsored by a different employer. However, it is not reduced by your 457(b) or CalPERS retirement contribution.

IRC §402(g)(7) provides a “catch-up” provision for the 402(g) limit, which permits eligible employees to contribute up to an additional \$3,000 during the year. **If you wish to contribute more than the 402(g) limit under this provision, you must demonstrate your eligibility for the catch-up provision by completing this worksheet for each tax year that you wish to contribute a higher amount.**

**Information you will need before completing this worksheet:**

- ⇒ Your years of service with CSU.
- ⇒ The maximum contribution you would be eligible to make during 2006 to the 403(b) program before considering the 402(g)(7) catch-up provision. 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 provision. \_\_\_\_\_ **Years (1)**

**Step 2:** Enter your maximum 2006 403(b) contribution under the lesser of the 415(c) “100% of compensation,” or \$44,000. (Compensation for the percentage calculation is taxable income plus pre-tax employee contributions to an IRC 403(b), 457, 401(k), 132(f) (pre-tax transportation reimbursement) or 125 plan but does not include pre-tax contributions to CalPERS retirement.) The 402(g) limit is not considered in Step 2 of the calculation. Only the 415(c) limit or \$44,000 is considered. If your answer is less than \$15,000, **STOP** -- you are not eligible for the catch-up provision and your limit for 2006 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	=	_____
2002	_____ minus \$11,000	=	_____
2003	_____ minus \$12,000	=	_____
2004	_____ minus \$13,000	=	_____
2005	_____ minus \$14,000	=	_____

**TOTAL=** \_\_\_\_\_

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

If total is less than \$15,000, subtract total from **\$30,000**: \$30,000 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 (SEP). (Do not include your 457(b) or CalPERS retirement contributions.)**



