Date: November 26, 2013

To: Human Resources Officers
Benefits Officers

From: Evelyn Nazario
Associate Vice Chancellor
Human Resources Management & CO HR Services

Subject: General 403(b), 401(k) and 457(b) Retirement Plans Update including 2014 Internal Revenue Code Limits

Overview

Audience: Benefits Officers or campus designee(s) responsible for:
- Communicating information to employees regarding 403(b), 401(k) and/or 457(b) retirement plans; or
- Administration of the California State University (CSU) Tax Sheltered Annuity (TSA) 403(b) Program; and/or
- Payroll reporting of CalPERS compensation limits.

Action Item: Information Only

Affected Employee Groups/Units: All employees eligible to participate in one or more of the above three savings plans

Summary

This Technical Letter provides campuses with pertinent information with regard to the following:

- 2014 Internal Revenue Code (IRC) elective deferral and catch-up contribution limits for 403(b), 401(k) and 457(b) plans,
- 2014 compensation limits for retirement withholding and defined benefits,
- Annual Universal Availability Notification for CSU 403(b) Tax Sheltered Annuity Program; and

With the exception of the compensation limits, the catch-up contribution limit amounts, and elective deferral limits will remain the same for 2014.

This technical letter should be reviewed in its entirety by Benefits Officers and any campus designees responsible for administration of the CSU Tax Sheltered Annuity Program.

On October 31, 2013, the IRS announced that the current Internal Revenue Code (IRC) limits for 415(c)(1)(A), 401(a)(17) and 415(b)(1)(A) will increase, and 402(g), 457(e)(15), and 414(v) limits will remain the same for 2014. A summary of the IRC limits is listed in a chart on the following page.
Internal Revenue Code Limit | Tax Year 2014
---|---
402(g) Elective Deferral Limit for 401(k) and 403(b) Plans | $17,500
457(e)(15) Contribution Limit for 457 Plans | $17,500
415(c)(1)(A) Defined Contribution Plan 415 Limit | $52,000
414(v)(2)(B)(i) Age Based (50) Catch-up Contribution Limit | $5,500
401(a)(17) Compensation Limit | $260,000
415(b)(1)(A) Defined Benefit Plan Limit | $210,000

**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(b) plans. Two limits determine the amount that an employee may contribute on an annual basis. The employee may contribute the **lesser of**:

1) The IRC Section 402(g) Elective Deferral Limit for 403(b) and 401(k) plans, which is $17,500; or

2) The IRC Section 415(c)(1)(A) Defined Contribution Plan 415 Limit, which is defined as 100% of adjusted gross salary up to a maximum of $52,000. Plus:

3) The IRC section 457(e)(15) Deferred Compensation Deferral Limit for 457 plans, which is $17,500.

For the 2014 tax year, a participant can elect to contribute up to $17,500 to a 403(b) or 401(k) plan, subject to the 415(c) limit, AND $17,500 to a governmental 457(b) plan, for a total contribution of up to $35,000.

Please note, participants may contribute to both a 403(b) and 401(k) plan in the same tax year, however, **combined** contributions across both plans cannot exceed $17,500. For example, a participant may contribute $8,750 in each plan, or any numeric combination that is equal to or less than $17,500.

The 2014 Plan Comparison Chart specifying these amounts is attached (see Attachment A).

**Coordination of Additional Catch-Up Contributions**

The following “catch-up” allowances are available as an addition to the IRC Section 402(g) “elective deferral limit,” and apply to all or specific retirement savings plans as follows:

<table>
<thead>
<tr>
<th>IRC Section</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>402(g)(7)</td>
<td>15-Year Catch-Up Allowance Exclusive to the 403(b) Plan</td>
<td>$3,000</td>
</tr>
<tr>
<td>414(v)(2)(B)(i)</td>
<td>Age 50 Catch-Up Allowance Available for 403(b), 401(k), and 457 Plans</td>
<td>$5,500</td>
</tr>
<tr>
<td>457(e)(15)</td>
<td>Deferred Compensation Deferral Limit Exclusive to the 457 Plan</td>
<td>$35,000</td>
</tr>
</tbody>
</table>

1) 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 five years, or a lifetime maximum of $15,000.

- For 2014, contributions made under the 402(g) limit and the 402(g)(7) catch-up provision cannot exceed $20,500 ($17,500 (402(g) limit), plus $3,000 (402(g)(7) limit)).

- Employees who wish to contribute using this catch-up provision must demonstrate eligibility by completing the CSU Maximum Contribution Allowance Worksheet. IRC 402(g) limits and catch-up allowances are monitored by the master administrator, VALIC via the online Retirement Manager platform. Employees that are newly eligible for the 15-Year Catch-Up Allowance in 2014 or employees that were previously eligible but did not take advantage of the additional deferral, will need to complete and submit a Worksheet to the campus Benefits Office. Completed Worksheets must be forwarded to
the Benefits Team in Human Resources Management (HRM) in order for the deferral limits to be updated in Retirement Manager.

- As a reminder, once the usage of the 15-Year Catch-Up is documented in Retirement Manager, the employee is not required to submit a Worksheet for subsequent tax years. For example, participants who submitted a completed CSU Maximum Contribution Allowance Worksheet to the campus Benefits Office since the implementation of Retirement Manager will not be required to complete a Worksheet for the 2014 tax year or thereafter.

- Please be advised that the CSU Maximum Contribution Allowance Worksheet (electronic version only) is currently being updated. Once the worksheet has been updated, campuses will be notified via a Benefits Alert e-mail. An updated version of the document will also be posted on the CSYou intranet site, Retirement Manager website, and the CSU Systemwide Benefits Portal website.

2) The Age-Based Contribution “catch-up” allowance under IRC Section 414(v)(2)(B)(i), available to employees age 50 and over, remains $5,500 in the 2014 tax year. Individuals with a birth year of 1964 or earlier are eligible to participate, and can use this provision in a 403(b), 401(k), or 457(b) plan, provided that they have deferred the maximum amount available to the 403(b), 401(k) or 457(b) plan.

- For 2014, contributions made under the 402(g) limit, and the 414(v)(2)(B)(i) age-based catch-up provision cannot exceed $23,000 ($17,500 (402(g) limit), plus $5,500 (414(v)(2)(B)(i) limit)).

- If an employee qualifies for both catch-up provisions, contributions in 2014 cannot exceed $26,000 ($17,500 (402(g) limit), plus $3,000 (402(g)(7) limit), plus $5,500 (414(v)(2)(B)(i) limit)).

3) The 457(b) plan, administered by the Department of Human Resources (CalHR), 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 their normal retirement age. Generally, participants may contribute up to twice the maximum annual contribution amount to a 457(b) plan for each of the three years. (Certain restrictions apply.) In 2014, the amount will remain at $35,000 (e.g., $17,500 x 2). To enroll in the 457(b) plan, or take advantage of this provision, participants must contact the Savings Plus Program directly. Please note: participants of the Savings Plus 457(b) plan cannot participate in this special catch-up provision and the age based catch-up allowance at the same time.

**IRC 401(a)(17) Compensation Limit**

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 2014, this amount increases to $260,000. Please be advised that the following CSU employees are excluded from the 401(a)(17) compensation limit:

- Employees who first became members of CalPERS prior to July 1, 1996; or
- Employees hired on or after January 1, 2013, and who are subject to specific Public Employees’ Pension Reform Act (PEPRA) provisions per Assembly Bill (AB) 340 (e.g., 2% at 62 retirement formula and compensation limits per the Social Security “Contribution and Base”).

**IRC 415(b)(1)(A) Defined Benefit Plan Limit**

IRC Section 415(b)(1)(A) places a dollar limit on the annual benefit an individual can receive from a tax qualified pension plan, such as CalPERS. In 2014, this amount increases to $210,000. A reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. CalPERS offers the “Replacement Benefits Plan,” which will, to the extent allowed by federal and state law, replace any benefits that exceed IRC Section 415(b)(1)(A) limits.

**Please note:** The CalPERS Replacement Benefits Plan is not applicable to employees hired on or after January 1, 2013, and who are subject to the PEPRA provisions indicated above.
Annual Universal Availability Notification
CSU is required to provide an annual universal availability notification to all employees regarding the CSU Tax Sheltered Annuity 403(b) Program. This notification must be sent out by the end of each calendar year. To assist campuses with this notification process, Human Resources Management has developed a standard notice that must be provided to employees, along with a copy of the Savings Made Easy TSA brochure. Campuses are required to provide the notice to employees before the campus closure for the holiday. Campuses have the option of providing employees with a hardcopy of the notice, or it can be sent via email. For those employees who do not have access to email, campuses are directed to provide them with a hardcopy of the notice. Please be advised that electronic copies of the communication materials will be sent to the campus Benefits Officers via a Benefits Alert email by the end of November.

CMS Processing Instructions
This technical letter has no impact on the CMS Baseline.

General Information
Questions regarding this technical letter may be directed to Human Resources Management at (562) 951-4411. This Technical Letter is also available on Human Resources Management’s Web site at: http://www.calstate.edu/HRAdm/memos.shtml.
### Eligibility:
Generally, all employees are eligible to participate in the 403(b) program with the exception of certain student classifications and Special Consultants. Seasonal or temporary employees required to be enrolled in the Part-time, Seasonal and Temporary Employees Retirement Program (PST Program) are not eligible to enroll in the 457(b) and 401(k) plans.

<table>
<thead>
<tr>
<th></th>
<th>TSA PLAN (403[b])</th>
<th>DEFERRED COMP (457[b])</th>
<th>THRIFT PLAN (401[k])</th>
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<tbody>
<tr>
<td>Deferred tax on investment; variety of investment choices.</td>
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<tr>
<td>$15 minimum monthly contribution. Maximum annual contribution is $17,500.</td>
<td>$50 minimum monthly contribution. Maximum annual contribution is $17,500.</td>
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<tr>
<td>Additional $5,500 age based catch-up deferral available to participants who will reach age 50 by the end of the calendar year.</td>
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<td>15-year &quot;Catch-up&quot; provision may be available for up to $3,000 per year, for a lifetime maximum of $15,000. Participants must prove eligibility by submission of completed Maximum Contribution Calculation Worksheet.</td>
<td>Traditional 457 &quot;Catch-up&quot; provision up to $35,000 is available. Participants in this plan cannot utilize both the age-based, and special 457 catch-up provisions in the same calendar year. Contact Savings Plus for details.</td>
<td>The 15-year &quot;Catch-up&quot; provision and Traditional 457 &quot;Catch-up&quot; is not available.</td>
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<td>Eligible rollover in from another employer's 403(b), 401(k) or governmental 457(b) plan.</td>
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<td>Eligible rollover in from another employer's 403(b), 401(k) or governmental 457(b) plan. Or from a Traditional IRA.</td>
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<tr>
<td>Eligible rollover to another employer's 403(b), 401(k), or governmental 457(b) plan (exceptions apply), or to a 401(a) (service credit purchase) plan (exceptions apply) or to an IRA (must be at least age 59 ½ or separated from CSU employment). In-service 403(b) contract exchanges to any of the selected five fund sponsors.</td>
<td>Eligible rollover distribution to an IRA (Traditional or Roth), another employer's governmental 457(b), or 401(k), or 401(a), or 403(b) plan.</td>
<td>Eligible rollover distribution to an IRA (Traditional or Roth), or to another employer's 401(k), or 457(b) governmental plan, or 401(a), or 403(b) plan.</td>
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<tr>
<td>Loans Available; restrictions apply.</td>
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<td>Surviving spouse of participant may roll over distributions. Non-spousal beneficiary may roll over distributions to an inherited IRA.</td>
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<tr>
<td>At least age 55 and retired, or 59 ½ (regardless of employment status) - receive plan payout without tax penalty.</td>
<td>Plan payout upon retirement or separation from State service without tax penalty (no age requirement).</td>
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<td>At age 70 ½, IRS requires mandatory distributions, unless participant is still employed.</td>
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*For more information about these plans please visit CSYou at: [https://csyou.calstate.edu/Pages/default.aspx](https://csyou.calstate.edu/Pages/default.aspx) or the CSU Systemwide Benefits Portal at: [www.calstate.edu/hr/benefitsportal](http://www.calstate.edu/hr/benefitsportal).*

**NOTES:**
1. **Maximum contribution limits for these plans are all interrelated.** Please note: Participants may contribute to both a 403(b) and a 401(k) plan in the same tax year, however, combined contributions across both plans cannot exceed $17,500. 401(k) and 403(b) deferrals do not count against the 457(b) dollar limit and 457(b) deferrals do not count against the 401(k) and 403(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 CalHR Savings Plus Program (SPP) Office at (855) 616-45PN(4776) or savingsplusnow.com.