

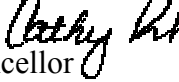
THE CALIFORNIA STATE UNIVERSITY  
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**Date:** February 26, 2004

**Code:** TECHNICAL LETTER  
HR/Benefits 2004-07

**To:** Human Resources Directors  
Benefit Officers

**Supercedes:** HR/Benefits 2003-33

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

**Subject:** Economic Growth And Tax Reconciliation Relief Act (EGTRRA): 2004 Tax Year Update

This technical letter provides an update of the Economic Growth and Tax Reconciliation Relief Act (EGTTRA) related to retirement plans for the 2004 tax year, and includes a revised CSU Catch-Up Calculation Worksheet.

**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. These annual contribution limits are determined by the 402(g) elective deferral limit and the 415(c) percentage of compensation limit (100% of adjusted gross salary), whichever is less. (See Attachment A for the definition of adjusted gross salary.) For 2004, the maximum contribution limit is the lesser of \$13,000 (402(g) limit), or 100% of adjusted gross salary (415(c) limit).

For the 2004 tax year, a participant can elect to contribute up to \$13,000 to a 403(b) or 401(k) plan AND \$13,000 to a 457 plan, for a total contribution of up to \$26,000, subject to the 415(c) limit.

A copy of the 2004 Plan Comparison Chart (Attachment A) specifying these amounts is attached.

**Additional Catch-Up Contributions**

The age 50 and over "catch-up" allowance under IRC Section 414(v) is increased to \$3,000. Individuals with a birth year of 1954 or earlier are eligible to participate, and can use this provision in a 403(b), or 401(k) and a 457 plan.

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**Distribution:**

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

Also, 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 (see attachment B). For ease of completion, this document has been updated so that calculated results for steps 1-6 appear on one page. The participant must complete the Worksheet for each year he/she wants to contribute more than the annual 402(g) limit. For 2004, contributions using the 402(g)(7) catch-up provision cannot exceed \$16,000 (\$13,000 402(g) limit, plus \$3,000).

The 457 plan, under the Department of Personnel Administration (DPA) Savings Plus Program, has a special provision that allows eligible participants to exceed the annual elective deferral limit during the last three years ending before the plan’s normal retirement age. This amount is equal to up to twice the regular elective deferral limit during each of the three years of the catch-up period. In 2004, this amount increases to \$26,000. To qualify, participants must contact the Savings Plus Program directly.

For information on elective deferral limits, and other catch-up options, refer to Technical Letter HR/Benefits 2002-08, and the CSU 403(b) Tax Sheltered Annuity Guide (Technical Letter HR/Benefits 2002-22).

**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 2004, this amount is increased to \$165,000. 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 2004, this amount increases to \$205,000. 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 Michelle Hamilton at (562) 951-4413. This technical letter is also available on Human Resources Administration’s Web site at: <http://www.calstate.edu/HRAdm/memos.shtml>.

CR/mh

Attachments

**2004 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 CalPERS).*

<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 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 by State	Assets held in trust
The lesser of \$13,000/yr, or 100% of adjusted gross salary*	The lesser of \$13,000/year or 100% of taxable salary*	The lesser of \$13,000/year or 100% of adjusted gross salary*
Hardship withdrawal for extreme financial emergency	Hardship withdrawal for unforeseeable financial emergency	Hardship withdrawal for extreme financial emergency
Eligible rollover 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 rollover 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 rollover 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 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 \$3,000 catch-up deferral for 2004 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$3,000 catch-up deferral for 2004 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit	Additional \$3,000 catch-up deferral for 2004 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) and 401(k) 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. The 457 plan applies its 100% percentage limit to taxable income **only**, without addition of such pretax contributions.

**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 (916) 322-5070 or [www.dpa.ca.gov](http://www.dpa.ca.gov).



**California State University  
403(b) Tax Sheltered Annuity  
IRC Section 402(g)(7) Catch-up Calculation Worksheet  
Effective for the 2004 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 2004, the 402(g) limit is \$13,000; the 415(c) limit is 100% of compensation (up to \$41,000).** 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 2004 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 2004 403(b) contribution under the lesser of the 415(c) “100% of compensation,” or \$41,000. (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 \$41,000 is considered. If your answer is less than **\$13,000**, **STOP** -- you are not eligible for the catch-up provision and your limit for 2004 is the amount entered for this step. \$ \_\_\_\_\_ **(2)**

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

(A) Year	(B) 403(b) Contributions*	(C) 402(g) Limit	Difference: (B) minus (C), but not less than \$0
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	\$11,000	= _____
2002	_____ minus	\$11,000	= _____
2003	_____ minus	\$12,000	= _____
<b>TOTAL =</b>			_____

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 **\$28,000**: \$28,000 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.)**

Enter the RESULT from Step 1 (from previous page): Years of Service \_\_\_\_\_ (1)

Enter the RESULT from Step 2 (from previous page): \$ \_\_\_\_\_ (2)

Enter the RESULT from Step 3 (from previous page): \$ \_\_\_\_\_ (3)

**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), 457(b) and 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 provision and your limit for 2004  
 is \$13,000.

d) If 4(c) is greater than zero, add \$13,000 + \$13,000  
     RESULT: \$ \_\_\_\_\_

**Step 5:** Enter \$16,000 \$ \_\_\_\_\_ (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 using the 402(g) (7) catch-up provision. \$ \_\_\_\_\_ (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 the maximum permitted under 402(g) and 402(g)(7) (if eligible), you are eligible to defer an additional \$3,000 to the amount shown in Step 6. You must confirm your date of birth below (it must be December 31, 1954 or earlier).**

**REMINDER FOR EMPLOYEES CONTRIBUTING TO THE STATE DEFERRED COMPENSATION (457) PLAN: In general, the limit on your annual contribution to the State of California's Deferred Compensation Plan for 2004 is the lesser of \$13,000, 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.

Please Print Name: \_\_\_\_\_ Date of Birth\*: \_\_\_\_\_ Soc. Sec. No\*\*: \_\_\_\_\_

Employee Signature: \_\_\_\_\_ Date: \_\_\_\_\_

*\*Date of Birth is required to permit additional contributions for employees age 50 or over.  
 \*\*Your Social Security number is required because it is your payroll identification number and your 403(b) contribution affects payroll transactions.*

Received by: \_\_\_\_\_ Date: \_\_\_\_\_  
 Campus Representative: \_\_\_\_\_

