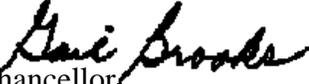


THE CALIFORNIA STATE UNIVERSITY
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Date: December 8, 2006

Code: TECHNICAL LETTER
HR/Benefits 2006-13

To: Human Resources Directors
Benefits Officers

From: Gail Brooks 
Associate Vice Chancellor
Systemwide Human Resources

Subject: **2007 Tax Year Update of the Economic Growth and Tax Reconciliation Relief Act (EGTRRA) and the Pension Protection Act**

The retirement plans provisions of the Economic Growth And Tax Reconciliation Relief Act (EGTRRA) of 2001 (HR 1836), were scheduled to sunset in tax years beginning after December 31, 2010. As the result of the Pension Protection Act of 2006, which was signed into law on August 17, 2006, these EGTRRA provisions have been made permanent.

The Internal Revenue Code (IRC) limits for the 2007 tax year reflect cost-of-living adjustments (COLA), with the exception of the 414(v) limit, which remains unchanged for 2007. A summary of 2007 IRC limits is listed below, followed by detailed information related to retirement plans.

Internal Revenue Code Limit	Tax Year 2007
402(g) elective deferral limits for 401(k) and 403(b) plans	\$15,500
457(e)(15) contribution limit for 457 plans	\$15,500
415(c) "percentage of compensation limit" – 100% of adjusted gross salary up to:	\$45,000
414(v) Age Based (50) catch-up contribution limit	\$5,000
401(a)(17) Compensation Limit	\$225,000
415(b) Defined Benefit Plan Limit	\$180,000

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. Effective 2007, 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 \$15,500; or

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- 2) The IRC Section 415(c) “percentage of compensation” limit, which is defined as 100% of adjusted gross salary up to a maximum of \$45,000. (See Attachment A for the definition of adjusted gross salary.)

Plus:

- 3) The IRC section 457(e)(15) “deferred compensation deferral limit” for 457 plans, which is \$15,500.

For the 2007 tax year, a participant can elect to contribute up to \$15,500 to a 403(b) or 401(k) plan, subject to the 415(c) limit, AND \$15,500 to a 457 plan, for a total contribution of up to \$31,000.

An updated 2007 Plan Comparison Chart specifying these amounts is attached (see Attachment A).

Additional Catch-Up Contributions

In addition to the IRC Section 402(g) “elective deferral limit” and the IRC Section 457(e)(15) “deferred compensation deferral limit” under EGTRRA, there are additional “catch-up” provisions available.

- 1) The Age-Based Contribution “catch-up” allowance under IRC Section 414(v), available to employees age 50 and over, remains at \$5,000 in the 2007 tax year. Individuals with a birth year of 1957 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, including other available catch-up amounts.

- 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 2007 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 2007, contributions using the 402(g)(7) catch-up provision cannot exceed \$18,500 (\$15,500 402(g) limit, plus \$3,000).***

- 3) The 457(b) 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(b) plan for each of the three years. (Certain restrictions apply.) In 2007, this amount increases to \$31,000. To enroll in the 457(b) plan, or take advantage of this provision, participants must contact the Savings Plus Program directly.

Minimum Monthly Contribution Amount

Effective November 1, 2006, the Savings Plus Program increased the minimum for the initial monthly deferral amount for 401(k) and 457 plans to \$50.00. Current Savings Plus Program participants with monthly deferral amounts that are less than the \$50.00 minimum will not be subject to this new requirement. After the initial investment, participants can alter the monthly deferral amount to a minimum deferral of \$20.00 or above.

The \$15.00 minimum monthly deferral amount under the CSU 403(b) Tax Sheltered Annuity (TSA) Program remains unchanged.

Information Regarding Rollovers

Effective January 1, 2007, the Pension Protection Act extends the same rights of surviving spouses to non-spousal beneficiaries of participants to roll over distributions to an IRA.

Although EGTRRA provided more portability between plans, employees should be aware that rollover requests are subject to approval by the entity either accepting or distributing the funds.

The CSU was recently advised that the Savings Plus Program (SPP) only allows in-transfers from the same IRC plan type (401(k) to 401(k) or governmental 457(b) to governmental 457(b)), regardless of the employer. Rollovers, however, are not allowed between the SPP sponsored 457(b) and 401(k) plans. Employees can rollover funds from the SPP 457(b) and 401(k) plans to a 401(a) plan (i.e., CalPERS for purposes of purchasing service credit), or an IRA, 403(b) plan, or another employer's 401(k) or governmental 457 plan.

Employees are able to roll over distributions from a 403(b) to a 401(a) plan, or an IRA, or to/from another 403(b), or another employer's 401(k) or governmental 457(b) plan (rollover from SPP to 403(b)), but acceptance of funds should be confirmed.

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 2007, this amount increases to \$225,000. Please be advised that CSU employees who first became members of CalPERS prior to July 1, 1996, are exempt from the 401(a)(17) compensation limit.

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 \$180,000. A reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. CalPERS offers "Replacement Benefits Plan," which will, to the extent allowed by federal and state law, replace any benefits that exceed IRC Section 415(b) limits.

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>.

GB/mh



**2007 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).

TSA PLAN (403[b])	DEFERRED COMP (457)	THRIFT PLAN (401[k])
Deferred tax on investment	Deferred tax on investment	Deferred tax on investment
\$15 min. contribution per warrant	Initial investment: \$50 minimum; thereafter, \$20 min. contribution per warrant	Initial investment: \$50 minimum; thereafter, \$20 min. contribution per warrant
Variety of annuities and custodial funds	Variety of investment choices	Variety of investment choices
Assets held by vendor through insurance contract or by custodial bank	Assets held in trust	Assets held in trust
The lesser of \$15,500/yr, or 100% of adjusted taxable income*	100% of compensation up to \$15,500/year*	100% of compensation up to \$15,500/year*
Hardship withdrawal for heavy financial emergency	Hardship withdrawal for unforeseeable financial emergency	Hardship withdrawal for heavy financial emergency
Choice of payout method	Choice of payout method	Choice of payout method
Eligible roll over distribution to an IRA or to another 403(b), 401(k)**, or governmental 457(b)** plan, or to a 401(a) plan	Eligible roll over distribution to an IRA, or to another employer's governmental 457(b) plan, or 401(k) plan, or to a 401(a), or 403(b) plan	Eligible roll over distribution to an IRA, or to another employer's 401(k) plan or governmental 457(b) plan, or to a 401(a), or 403(b) plan
Eligible rollover in from another 403(b), 401(k) or governmental 457(b) plan	Eligible rollover in from another employer's governmental 457(b) plan only	Eligible rollover in from another employer's 401(k) plan only
Surviving spouse of participant may roll over distributions. Effective 01/01/07, non-spousal beneficiary may roll over distributions to an IRA	Surviving spouse of participant may roll over distributions. Effective 01/01/07, non-spousal beneficiary may roll over distributions to an IRA	Surviving spouse of participant may roll over distributions. Effective 01/01/07, non-spousal beneficiary may roll over distributions to an IRA.
No tax averaging available	No tax averaging available	See #3 under Notes
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.	Special 457 "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 2007 available to participants who have reached age 50 by the end of the calendar year and who have hit plan or dollar limit, including 15 year catch-up, if eligible	Additional \$5,000 age based catch-up deferral for 2007 available to participants who have reached age 50 by the end of the calendar year and who have hit plan or dollar limit, including special 457 catch-up, if eligible	Additional \$5,000 age based catch-up deferral for 2007 available to participants who have reached age 50 by the end of the calendar 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 tax penalty

*403(b) plans apply the 100% limit to the employee's taxable income PLUS employee pre-tax 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 \$15,500, for tax year 2007.

**Please note: The Savings Plus Program 401(k) and 457 plans do not accept rollovers from 403(b) plan distributions.

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 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 Department of Personnel Administration's Savings Plus Program (SPP) Office at (866) 566-4777 or www.sppforu.com.
3. **Averaging treatment is still available for lump sums paid from a 401(k) plan to grandfathered participants born before January 2, 1936.**



2007 Tax Year
403(b) Tax Sheltered Annuity IRC Section 402(g)(7) Catch-up Calculation Worksheet

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 2007, the 402(g) limit is \$15,500; the 415(c) limit is 100% of compensation (up to \$45,000). 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 2007 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 2007 403(b) contribution under the lesser of the 415(c) "100% of compensation" or \$45,000. (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 \$45,000 is considered. If your answer is less than \$15,500, **STOP** -- you are not eligible for the catch-up provision and your limit for 2007 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	\$10,500	=	_____
2002	_____	minus	\$11,000	=	_____
2003	_____	minus	\$12,000	=	_____
2004	_____	minus	\$13,000	=	_____
2005	_____	minus	\$14,000	=	_____
2006	_____	minus	\$15,000	=	_____

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 \$30,500: \$30,500 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 3 (from previous page): \$ _____ (3)

- Step 4:
- a) Years of Service entered in Step 1 _____ years
 - b) Multiply by \$5,000 × \$5,000
This equals: \$ _____
 - c) Subtract your prior 403(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 2007 is \$15,500.
 - d) If 4(c) is greater than zero, add \$15,500 + \$15,500
RESULT: \$ _____

Enter the RESULT from Step 4: \$ _____ (4)

Step 5: Enter \$18,500 \$ _____ (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 using the 402(g)(7) catch-up provision. \$ _____ (6)

Note: If you are or will be age 50 by the end of the calendar 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 \$5,000 to the amount shown in Step 6. You must confirm your date of birth below (it must be December 31, 1957 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 2007 is the lesser of \$15,500, 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:
Campus Representative: _____ Date: _____

