Date: December 8, 1999

To: Human Resources Directors
    Benefit Officers

From: Cathy Robinson, Senior Director
      Human Resources Administration

Subject: 403(b) TAX SHELTERED ANNUITY PROGRAM UPDATES

The Internal Revenue Service (IRS) has announced an increase in qualified plan limits, which will become effective January 1, 2000. These changes affect tax law limits that are indexed for inflation. The maximum annual limits for the 403(b) and 401(k) have increased to $10,500. The limit for the 457 plan remains at $8,000.

The following attached documents have been revised for your use in administering the 403(b) Tax Sheltered Annuity program:

1) Salary Reduction Agreement

2) 2000 Worksheet to Determine Eligibility for 403(b) Contributions Over $10,500 – This form contains minor changes. Employees must complete this worksheet every year for which they wish to contribute more than the annual dollar limit, which is $10,500 in tax year 2000. Please destroy prior blank versions of this worksheet.

3) 2000 Comparison Chart – This updated comparison of the CSU 403(b) program, the State Deferred Compensation Program (457) and the State Thrift Plan (401(k)) includes IRS tax changes effective January 1, 2000.

4) 2000 Overview of CSU 403(b) Program Procedures – This is a summary of CSU’s policy and reflects the most recent IRS tax changes. Note that there is still no cost to the employee for participation in the CSU 403(b) program.

If you have any questions, please contact Felice Bakre in Benefits Administration at (562) 951-4410. Thank you.

CR/ft
Attachments (4)

Distribution:
CSU Presidents
Vice Chancellor, Human Resources
Payroll Managers

Without Attachments
Without Attachments
With Attachments
THE CALIFORNIA STATE UNIVERSITY
SALARY REDUCTION AGREEMENT

1. **Authority:** U.S. Internal Revenue Code Section 403(b), California Revenue and Taxation Code Section 17512, Education Code Section 89505, and California Code of Regulations, Title 5, Sections 42850-42854.

2. **Eligibility:** With the exception of certain student classifications, all employees are eligible to participate in the 403(b) program, including rehired annuitants (regardless of age).

   Only the following student classifications are ineligible for 403(b) participation:
   - Resident Assistant (class code 1869)
   - Student Assistant (class code 1870)
   - Student Trainee, On-Campus Work Study (class code 1871)
   - Student Trainee, Off-Campus Work Study (class code 1872)
   - Graduate Assistant (class code 2355)

3. **Parties:** The parties to this Agreement are the Board of Trustees of The California State University, hereinafter sometimes referred to as the “CSU”, and you, hereinafter sometimes referred to as the “Employee:”

   Name ____________________________________________ Soc. Sec. No. * _______________

   Address: _______________________________________________________________________

   Home Phone: ______________________________ Office Phone: ________________________

4. **Agreement:** In consideration of the potential advantages to each, the CSU and you, the Employee, make this Agreement under the terms provided. This agreement shall be effective beginning with the salary warrant payable on or after ______________ 20__, for the ____________ 20__ pay period.

5. **Salary Reduction and 403(b) Investment:**

   A. **Type of Salary Reduction Agreement.** You can contribute to no more than two 403(b) Companies at one time.

      - Establish/change salary reduction amount. This box should be checked upon initial enrollment in the CSU 403(b) Program or if you want to change the amount of your current salary reduction. If you checked this box, also complete items B, C and D below.

      - This box should be checked if the only modification you wish to make to your 403(b) is to change your Company(ies). If you checked this box, complete only items C and D below.

      If you wish only to change the allocation of your current contributions or existing funds among your current Company’s funds, you must do that directly with the Company. There is no need to complete this form for an allocation change.

      You may make changes at any time throughout the year, subject to any allocation change restrictions imposed by your current Company(ies).

   B. **Reduction.** The CSU shall reduce each regular monthly installment of salary due you, the Employee, under the terms of your appointment by $______________ beginning with the salary warrant indicated in Section 4 above. This Agreement will not be effective for any salary made available prior to the date this Agreement is signed.
C. **Current 403(b) Investment.** Complete this section only if you are modifying an existing Agreement. Indicate the Investments currently in effect under your Salary Reduction Agreement:

| a) Full Name of Current Company: ______________________________________________ |
| Investment Amount: $_________ (Campus to complete Payroll Code:___________) |
| b) Full Name of Second Company (if any): ______________________________________ |
| Investment Amount: $_________ (Campus to complete Payroll Code:___________) |
| **Total Investment: $_________** (Amount deducted from monthly pay check) |

D. **New 403(b) Investment.** Complete this section showing new investments to be made:

The CSU has contracts with companies which offer plans qualifying under the provision of Internal Revenue Code Section 403(b) and California Revenue and Taxation Code Section 17512 (although the CSU makes no warranty of such qualification); these plans are either 403(b) tax sheltered annuities or mutual fund custodial accounts. The CSU assumes no responsibility for the financial security, investments or other operations of these plans.

From among these plans, you have selected the following designated Company plan(s) and the amount of funds which the CSU agrees to remit to the designated Company plan(s), on your behalf:

| a) Full Name of Company: ___________________________________________________ |
| Investment Amount: $_________ (Campus to complete Payroll Code:___________) |
| b) Full Name of Second Company (if any): _____________________________________ |
| Investment Amount: $_________ (Campus to complete Payroll Code:___________) |
| **Total Investment: $_________** (Amount deducted from monthly pay check) |

In handling these funds, the CSU acts as an employer, and not as a Trustee. The CSU assumes no responsibility for any investment loss, nor claim to any gain, based upon any delays in making the contributions agreed to herein. It shall be your responsibility to notify the designated Company so that any necessary follow-up actions may be taken.

6. **Minimum Reduction.** At no time is a total salary reduction to be less than $15.00 per month.

7. **Reduction Change.** This reduction shall continue to be made until such time as the Agreement is terminated by whichever of the following events occurs first:

   A. By termination of your employment, or

   B. By either party giving 30-day advance written notice of termination to the other. Termination by such notice may only be made effective on the first day of a pay period. Notice by you, the employee, shall be sent to the campus Benefits Office or to other such office as the Benefits Office shall require. Notice to you shall be sent to your home address or to other such address as designated by you, or

   C. By your filing a new Agreement with the CSU, or
D. By the CSU if the Company’s contract with the CSU is terminated. You may not continue having contributions made to a terminated Company, but you may arrange to substitute another company which has a current contract with the CSU, or you may terminate participation under the procedures in Section 7B.

8. **Annuities Nonforfeitable.** Any annuity purchased under Section 5 shall be nonforfeitable except for failure to pay future premiums expressly required by the contract between you and the Company(ies).

9. **Release of Earnings.** You, your spouse, heirs, administrators, executors and representatives, hereby release all rights, present and future, to receive in any form other than payments from the designated Company the amount to be applied as designated in Section 5.

10. **Computations.** You assume full responsibility for all computations and for the maintenance of all data required to carry out such computations in connection with the salary reduction and demonstrating that such salary reduction complies with Internal Revenue Code Section 403(b) and related sections and to corresponding provisions of the California Revenue and Taxation Code (see, for example, Authority, Section 1) and regulations thereunder, including amendments which may be made to such codes or regulations or both, subsequent to the date of this Agreement.

   Internal Revenue Service Publications provide information on the maximum amounts which may be contributed to the plan by participating employees. In addition, there can be lower limits for those employees who also participate in the State Deferred Compensation (IRC 457) Program or Savings Plus (IRC 401k) Plan. You may consult with your Company, its agents, or the Internal Revenue Service for advice on these matters. The CSU has no responsibility for any advice given or computations made.

11. **Proof of Computations.** The CSU, at its discretion, may require proof that you have performed or have had performed all required computations in connection with the salary reduction pursuant to Internal Revenue Code Section 403(b) and related sections and regulations thereunder. Such computations may be required as evidence to support the amount of salary reduction. Lacking such evidence, or if such evidence does not support the amount of salary reduction, the CSU has the authority to reduce the amount of salary reduction.

   By signing and dating this Agreement, you certify that all computations have been performed in connection with the requested salary reduction pursuant to Internal Revenue Code Section 403(b) and related sections and regulations thereunder and that you will maintain proof of such computations.

12. **Participation in Other Plans.** Check the corresponding box(es) below if you have or will have participated in the State Deferred Compensation (IRC 457) Program or the State Savings Plus (IRC 401k) Plan during any portion of the calendar (tax) year to which this Salary Reduction Agreement applies:

   - [ ] State Deferred Compensation Program (IRC 457)
   - [ ] State Savings Plus Plan (IRC 401k)

13. **Employee Releases The CSU From Any Damages.** You assume full responsibility for the tax, processing, and investment consequences which result from the salary reduction hereby agreed to, and hereby release the State of California, the members of the Board of Trustees of the California State University, both individually and together acting as a board, their employees, agents, and the successors of each of the foregoing, and any combination thereof, from any liability including, but not limited to, any financial loss resulting from failure to carry out or inaccuracies in any of the computations referred in Section 10, from selection or performance of Company(ies) or of any particular plan, from incorrect evaluation of tax-deferred status, from processing delays or errors, from discontinuance of present legislation effecting such benefits, and from incorrect advice you may have received or may receive in the future from the CSU, the Company(ies), any of their employees or agents, or any other plan respecting the plans and the benefits that may be received as a result of the salary reduction agreement hereby agreed upon.
14. **Company Status.** You understand and agree that for the purposes of this Agreement, no Company is an agent or employee of the State of California or of the CSU; and, the State of California, the CSU and their employees are not agents of any Company.

15. **Company Account Required.** You understand and agree that this Agreement is between you and the CSU and does not establish an account with the Company(ies). You assume full responsibility for filing appropriate documentation to establish an account with the designated Company(ies). You shall provide proof of Company-established account to the Benefits Office at the time this Agreement is presented.

| If for any reason your account is not established at the Company(ies) you have designated, the Company(ies) will return the money to the CSU for delivery to you via payroll. All returned money will be considered taxable income. |

16. **Irrevocable Commitments.** This Agreement shall be legally binding and irrevocable with respect to salary amounts received while the Agreement is in effect.

17. **Processing Fee.** The CSU reserves the right to assess you with a processing fee to cover the costs of administering the 403(b) program, including the payroll deduction and investment transactions. You may contact the Benefits Office to determine the current fee schedule, if any.

18. **Effect of Agreement Execution.** Execution of this Agreement by you, the Employee, shall constitute application by you to the CSU pursuant to Education Code Section 89505 for purchase of a 403(b) plan contribution and reduction in salary under the terms of this agreement.

**The CSU and Employee agree to the foregoing terms of this Agreement.**

Employee’s Signature: ______________________________________ Date: __________

Please Print Name: _______________________________ Soc. Sec. No.* __________________

Accepted by Campus Representative: __________________ Date: __________________

This Agreement is in a form approved by the Board of Trustees of the California State University, through its delegated contracting officer:

*Your Social Security number is required because it is your payroll identification number, and this agreement affects payroll transactions.*

**University Action:**

<table>
<thead>
<tr>
<th>COMPANY #1: ____________________________________________</th>
<th>Action:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent’s Name: __________________________________________</td>
<td>□ Add Co. #1</td>
</tr>
<tr>
<td>Business Address: __________________________________________</td>
<td>□ Delete Co. #1</td>
</tr>
<tr>
<td>Telephone Number: ______________________________</td>
<td>□ Change Co. $</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPANY #2: ____________________________________________</th>
<th>Action:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent’s Name: __________________________________________</td>
<td>□ Add Co. #2</td>
</tr>
<tr>
<td>Business Address: __________________________________________</td>
<td>□ Delete Co. #2</td>
</tr>
<tr>
<td>Telephone Number: ______________________________</td>
<td>□ Change Co. $</td>
</tr>
</tbody>
</table>
**2000 Worksheet to Determine Eligibility for 403(b) Contributions Over $10,500**

**Note to employee:** Your contributions to the 403(b) program must be no greater than the lesser of three different IRS limits. These limits are under Internal Revenue Code Section 403(b)(2) (referred to as the Maximum Exclusion Allowance), Section 415, and Section 402(g). The 402(g) limit has been increased to $10,500. Note that the $10,500 limit is an annual limit; it is reduced if you contribute to a Section 401(k) plan or a Simplified Employee Pension during the year, even if those plans are sponsored by a different employer. However, it is not reduced by your PERS retirement contribution.

There is a catch-up rule for the $10,500 limit which may permit some employees to contribute up to $13,000 during the year. **If you wish to contribute more than $10,500, you must demonstrate your eligibility for the catch-up rule by completing this worksheet.**

**Information you will need:** Before completing this worksheet, you will need to know:
- Your years of service with CSU
- The maximum contribution you would be eligible to make during 2000 to the 403(b) program before considering the catch-up rule. Determining the maximum contribution involves complex calculations. 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 rule.** ______ Years

**Step 2:** Enter your maximum 2000 403(b) contribution under the 25% of adjusted gross income and Maximum Exclusion Allowance calculations. (Adjusted gross income for the percentage calculation is taxable income plus pretax employee contributions to an IRC 403(b), 457, 401(k) or 127 plan but does **not** include pretax contributions to PERS retirement.) For the purposes of this step, do not consider the $10,500 annual limitation. If your answer is less than $10,500, **STOP -- you are not eligible for the catch-up rule and your limit for 2000 is the amount entered for this step.** $__________ (2)

**Step 3:** 403(b) contributions prior to 1987 may be ignored for Step 3. Enter the RESULT from the table below: $__________ (3)

<table>
<thead>
<tr>
<th>Year</th>
<th>403(b) Contributions</th>
<th>Limit</th>
<th>Difference (B) minus (C), but not less than $0</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td></td>
<td>$9,500</td>
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<tr>
<td>1988</td>
<td></td>
<td>$9,500</td>
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<td>1989</td>
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<td>1998</td>
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<td>$10,000</td>
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</tr>
<tr>
<td>1999</td>
<td></td>
<td>$10,000</td>
<td>=</td>
</tr>
</tbody>
</table>

**TOTAL =** __________________________

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

If total is less than $15,000, subtract your total from $25,000: $25,000

Minus total above - ________________

Enter RESULT: __________________________
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) 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 rule and your limit for 2000
is $10,500.

d) If 4(c) is greater than zero, add $10,500 + $10,500

RESULT: $__________

Step 5: Enter $13,000

$__________ (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 in 2000 considering the
catch-up rule.

$__________ (6)

REMINDER FOR EMPLOYEES CONTRIBUTING TO THE STATE DEFERRED
COMPENSATION (457) PLAN: In general, the limit on your contribution to the State
Deferred Compensation Plan is the lesser of $8,000 (or $16,000 in the three years before you
attain normal retirement age) and one-third of your taxable compensation. Any amounts you
contribute to the 403(b) plan must be subtracted from the $8,000 (or $16,000) limit.

I certify that to the best of my knowledge, the information used in completing this worksheet is accurate.

Employee Signature: __________________________________________ Date: ________________

Please Print Name: ___________________________________________ Soc. Sec. No.* __________________

* Your Social Security number is required because it is your payroll identification number
and your 403(b) contribution affects payroll transactions.

Accepted by:
Campus Representative: _________________________________ Date: ________________
Years of Service Worksheet

This worksheet will help you determine your years of service with the CSU. You count service from when you first became an employee of the CSU projected until December 31, 2000.

Service is based on full time employment, or its equivalent. Full time employment means the usual time at work for employees in the position you hold (or held) at CSU. If you worked that much or more in a year, then you earn a full year (1.0 years) of service. If you worked half that much in a year, then you earn a half year (.5 year) of service. The percent of time worked will usually provide a good indication of how much service you earn.

If you work for less than a full year, (for example in the year you are hired or if you had a period of unpaid leave or severance), then you must prorate your service in those years. For example, if you work full time for three months in a year in a position normally requiring 12 months of full time work in a year, then you earn .25 years (3 months divided by 12 months) of service.

<table>
<thead>
<tr>
<th>Year (Start with your first year at CSU)</th>
<th>Service Credit</th>
<th>Year (Start with your first year at CSU)</th>
<th>Service Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>____</td>
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</tr>
</tbody>
</table>

TOTAL YEARS OF SERVICE: ____

Note: If you have less than 15 years of service with The CSU, you are not eligible to use the catch-up rule to determine your maximum 403(b) contribution.
# 2000 COMPARISON CHART
MAJOR PROVISIONS AND DIFFERENCES BETWEEN
TAX SHELTERED ANNUITY (403[b]), STATE DEFERRED COMPENSATION (457)
AND STATE THRIFT (401[k]) PLANS

<table>
<thead>
<tr>
<th>TSA PLAN (403[b])</th>
<th>DEFERRED COMP (457)</th>
<th>THRIFT PLAN (401[k])</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax on investment</td>
<td>Deferred tax on investment</td>
<td>Deferred tax on investment</td>
</tr>
<tr>
<td>$15 minimum contribution per month</td>
<td>$20 minimum contribution per month</td>
<td>$20 minimum contribution per month</td>
</tr>
<tr>
<td>Variety of investment choices</td>
<td>Variety of investment choices</td>
<td>Variety of investment choices</td>
</tr>
<tr>
<td>Assets held by vendor</td>
<td>Assets held by State</td>
<td>Assets held in trust</td>
</tr>
<tr>
<td>The lesser of $10,500/year, 25% of adjusted gross income*, or the maximum exclusion allowance. See IRS pub. #571</td>
<td>The lesser of $8,000/year maximum or 33 1/3% of taxable income.*</td>
<td>The lesser of $10,500/year maximum or 25% of adjusted gross income.*</td>
</tr>
<tr>
<td>Hardship withdrawal for heavy financial emergency</td>
<td>Hardship withdrawal for unforeseeable financial emergency</td>
<td>Hardship withdrawal for heavy financial emergency</td>
</tr>
<tr>
<td>Roll over to an IRA or to/from another employer’s 403(b) plan</td>
<td>Transfer to/from another employer's deferred comp plan only</td>
<td>Roll over to an IRA or to/from another employer's 401(k) plan</td>
</tr>
<tr>
<td>Choice of payout method</td>
<td>Choice of payout method</td>
<td>Lump sum payment or partial lump sum with IRA rollover or annuity.</td>
</tr>
<tr>
<td>No tax averaging available</td>
<td>No tax averaging</td>
<td>5-year forward tax averaging available</td>
</tr>
<tr>
<td>&quot;Catch-up&quot; provision and &quot;special elections&quot; are available</td>
<td>&quot;Catch-up&quot; provision is available</td>
<td>No &quot;catch-up&quot; provision is available</td>
</tr>
<tr>
<td>At least age 55 and retired, or 59 1/2 (regardless of employment status) to receive plan payout without tax penalty</td>
<td>Plan payout upon retirement or separation from State service without tax penalty. (No age requirement.)</td>
<td>At least age 55 and retired, or 59 1/2 (regardless of employment status) to receive plan payout without tax penalty</td>
</tr>
</tbody>
</table>

* Different plans apply the percentage limits to different earnings figures: 403(b) and 401(k) plans apply the 25% limit to the employee’s taxable income PLUS employee contributions to 403(b), 457, 401(k) and 125 plans (i.e., employee contributions to TSA, Deferred Compensation, Thrift, Dependent Care Reimbursement and Tax Advantaged Premium Plans are added back into taxable income for the purposes of this calculation, but employee pre-tax contributions to PERS retirement are not included). However, the 457 plan applies its 33 1/3% percentage limit to taxable income only, without any addition of such pretax contributions.

**NOTE 1:** Maximum contribution limits for these plans are all interrelated. If you participate in more than one plan in the same calendar year, you may be limited by the lowest maximum.

**NOTE 2:** These statements are general comparisons only. For detailed information, please refer to your tax advisor. For the TSA 403(b) plan, additional information is available from IRS Publication Number 571. For the State Deferred Compensation and Thrift Plans, additional information is available from the Department of Personnel Administration's Savings Plus office.
2000 Overview of CSU 403(b) Program Procedures

THE PROGRAM: The CSU’s 403(b) program includes tax sheltered annuities and mutual fund custodial accounts qualified under Section 403(b) of the Internal Revenue Code.

ELIGIBILITY FOR 403(b) PARTICIPATION:

♦ The CSU minimum monthly 403(b) contribution is $15. Currently, some 403(b) vendors require a monthly contribution greater than $15, so a lower level of contribution may limit the employees’ choice of vendors.

♦ With the exception of certain student classifications, all employees are eligible to participate in the 403(b) program, including rehired annuitants (regardless of age).

Only the following student classifications are ineligible for 403(b) participation:

⇒ Resident Assistant (class code 1869)
⇒ Student Assistant (class code 1870)
⇒ Student Trainee, On-Campus Work Study (class code 1871)
⇒ Student Trainee, Off-Campus Work Study (class code 1872)
⇒ Graduate Assistant (class code 2355)

SALARY REDUCTION AGREEMENT:

♦ The IRS permits an employee to change his or her Salary Reduction Agreement (SRA) at any time during the year. Because the CSU has a monthly payroll, employees may submit a new SRA each pay period if desired.

♦ Campuses have the responsibility of ensuring that SRAs are signed prior to the date the applicable salary payment becomes available to the employee; SRAs CANNOT be effective retroactively. However, the recent liberalization of SRA rules eliminates the need for the campus to forestall SRA changes for final settlement pay, extended periods of sick pay, or catastrophic leave donation pay.

♦ It is not be necessary for employees with existing SRAs to complete a new form until they elect to make a change in their current 403(b) contribution amount or allocation of contribution between 403(b) vendors.

CONTRIBUTION LIMITS:

♦ There are at least three different formulae affecting an individual’s ability to contribute to a 403(b), and the individual calculations are extremely complex. Benefits Technical Letters 88-08 and 88-08 Supplement #1 should no longer be used to calculate the maximum exclusion allowance computation as recent tax law changes have invalidated them. Please refer your employees to their 403(b) provider(s).

♦ In no case should a campus permit an employee to contribute more than $10,500 in a tax year (formerly $10,000) unless the employee can document his/her eligibility for a
“catch-up” provision. Attachment 2 is a worksheet to assist the campus with the required documentation. In the absence of this documentation, the campus must administratively cancel the employee’s participation for the remainder of the tax year once $10,500 is reached.

- If an employee participates in a 403(b) as well as the State Deferred Compensation (IRC 457) Plan and/or the State Thrift (IRC 401[k]) Plan in the same tax year, the contribution limits for the various plans are all interrelated. In many cases, the lowest maximum limits the individual.

The following are the 2000 annual maximum contributions for each plan:

⇒ **457**: the lesser of $8,000 per year or 33 1/3% of taxable income*.
⇒ **401(k)**: the lesser of $10,500 per year or 25% of adjusted gross income*.
⇒ **403(b)**: the lesser of $10,500 per year, 25% of adjusted gross income*, or the maximum exclusion allowance.

* Different plans apply the percentage limits to different earnings figures: For the 457 plan, the percentage is applied to taxable (W-2) income. For the 401(k) and 403(b) plans, the percentage is applied to taxable income PLUS employee contributions to IRC Section 457, 401(k), 403(b), and 125 plans. (I.e., the employee can add to the taxable income figure his/her contributions to the State Deferred Compensation Plan, the State Thrift Plan, the CSU TSA plan, and the CSU Dependent Care Reimbursement and Tax Advantaged Premium Plans.) However, employee pretax contributions to PERS retirement can never be included when calculating the percentage limitation.

**OTHER PLAN ADMINISTRATION ISSUES:**

- Other 403(b) administrative resources, such as a 403(b) Administrative Guide, are being developed. Additional information will be provided as soon as available.

- Currently, the CSU pays all processing fees for this program; there is no cost to the employee for participation.