The California State University
Office of the Chancellor
400 Golden Shore
Long Beach, CA 90802-4275
(310) 985-2669

Date: September 22, 1995

To: Personnel Officers
Benefits Officers

From: Cathy Robinson, Senior Director
Human Resources Administration

Subject: TAX SHELTERED ANNUITIES/MUTUAL FUND CUSTODIAL ACCOUNTS

Recently, the Internal Revenue Service (IRS) implemented a tax audit program targeting college and university 403(b) programs (tax sheltered annuities and mutual fund custodial accounts, commonly known as “TSAs”). As a result, the CSU asked benefits and tax specialists from William M. Mercer, Inc., to work with Human Resources, General Counsel and campus representatives to review the CSU’s 403(b) program. The goal of the review is to ensure that the CSU is complying with all IRS regulations applicable to the 403(b) program and to help protect the CSU and its employees in the event of an IRS audit.

It is critical that all CSU campuses follow 403(b) program procedures closely. Failure to comply with IRS provisions may cause severe tax consequences for employee participants and may also result in significant fines and penalties levied against the CSU.

Attachment A is intended to clarify existing policies and procedures and to restate other procedures as necessary. Attachments B and C are new forms referenced in the procedures which are intended to facilitate campus processing. All changes are effective immediately.

Our technical review will continue over the coming months, and we expect to provide additional information to facilitate campus efforts to comply with stringent IRS requirements. In the meantime, if you have questions, please call the systemwide benefits office at (310) 985-2669. Thank you.

CR/pb
Attachments

Distribution:

Presidents
Vice Chancellor, Human Resources and Operations
Vice Presidents, Administration
Payroll Supervisors

(Without Attachments)
(With Attachments)
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:

♦ Effective immediately, the minimum monthly 403(b) contribution is reduced to $15. Currently, some 403(b) vendors require a monthly contribution greater than $15, so this level of contribution may limit the employees’ choice of vendors.

♦ With the except 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:

♦ Campuses continue to have the responsibility of enforcing the IRS limitation of one Salary Reduction Agreement (SRA) per tax year covering the December through November pay periods. This limitation does not prevent an employee from canceling an SRA even if he/she initiated or changed the SRA in the same tax year. However, once the cancellation has been processed, the employee cannot rejoin the 403(b) plan until the following tax year.

HR-PIMS staff will develop a CIRS compendium report to assist campuses in monitoring the frequency of SRAs. Implementation of this new tool will be announced as soon as possible.

♦ Campuses also continue to have the responsibility of ensuring that SRAs are signed prior to the date the applicable salary payment is earned (e.g., if the SRA is to be applied to the June pay period’s salary payment, it must be signed by May 31st). This rule applies to new SRAs, SRA changes and cancellations.

It is particularly important to review campus procedures pertaining to final settlement pay. The campus must continue the 403(b) contribution from final pay unless one of the following situations applies:

⇒ If the employee has signed a cancellation request prior to the first day of the period in which the final payment was earned, no 403(b) contribution should be taken.

⇒ If the final payment consists only of accumulated vacation, CTO, sick or other leave credits, no 403(b) contribution should be taken.

♦ 403(b) contributions should be administratively canceled when the employee receives extended sick leave payments or catastrophic leave donations.
Effective immediately, the employee may change the 403(b) provider(s) selected to receive his/her 403(b) funds at any time allowed by his/her current company(ies) **without completing a new SRA**. Therefore, the once per year SRA limitation applies only to changes in total monthly dollar amounts. Attachment B is a new form to be used when changing the employee’s investment decision without changing the dollar amounts. The third page of this form is optional and may be customized to best facilitate campus processing.

The SRA form itself is being revised to comply with new CSU policies and IRS requirements. The revision will be distributed as soon as available, but it will not be necessary for employees with existing SRAs to complete a new form until they elect to make a change in their total monthly 403(b) contribution amount.

**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. The CSU is working with a benefits consultant and the 403(b) vendors to ensure the accuracy of maximum contribution calculations. Additional information will be provided as soon as available. In the meantime, campuses may continue to use the maximum exclusion allowance computation worksheets issued with Benefits Technical Letters 88-08 and 88-08 Supplement #1.

- In no case should a campus permit an employee to contribute more than $9,500 in a tax year unless the employee can document his/her eligibility for a “catch-up” provision. Attachment C 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 $9,500 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 most cases, the lowest maximum limits the individual.

The following are the current maximum contributions for each plan:

- **457**: the lesser of $7,500 per year or 25% of adjusted gross income.
- **401(k)**: the lesser of $9,240 per year or 20% of adjusted gross income.
- **403(b)**: the lesser of $9,500 per year, 25% of adjusted gross income, or the maximum exclusion allowance.

HR-PIMS staff will develop a CIRS compendium report to assist campuses in monitoring participation in more than one tax-deferred retirement plan. Implementation of this new tool will be announced as soon as possible.

**OTHER PLAN ADMINISTRATION ISSUES:**

- Other 403(b) administrative procedures, such as approving hardship withdrawals, loans, other distributions and transfers, QDROs, etc., are being addressed with the 403(b) vendors. Additional information will be provided as soon as available.

- The Guide to the 403(b) Tax-Sheltered Annuity Program is currently being updated and will be reissued shortly.

- Currently, the CSU pays all processing fees for this program; there is no cost to the employee for participation.
THE CALIFORNIA STATE UNIVERSITY (CSU)
Form to Change 403(b) Tax Sheltered Annuity/Mutual Fund Investment

1. **Use of this form:** This form is to be used if the only modification you wish to make to your 403(b) is to change your plan provider/administrator. You can contribute to a maximum of two Companies at one time. If you wish to change your salary reduction amount, you will need to complete a new Salary Reduction Agreement (SRA). SRA forms are available from the Benefits Office.

   If you wish only to change the allocation of your current contributions or existing funds among your current Company’s funds, you should do that directly with the Company.

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

2. **Current 403(b) Investment:** Complete this section showing the investments currently in effect under your Salary Reduction Agreement:

   a) Full Name of Company: __________________________

      Investment Amount: $__________  *(Campus to complete Payroll Code: ________)*

   b) Full Name of Company (if any): __________________________

      Investment Amount: $__________  *(Campus to complete Payroll Code: ________)*

      **Total Investment: $__________**  *(Amount deducted from monthly pay check)*

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

   a) Full Name of Company: __________________________

      Investment Amount: $__________  *(Campus to complete Payroll Code: ________)*

   b) Full Name of Company (if any): __________________________

      Investment Amount: $__________  *(Campus to complete Payroll Code: ________)*

      **Total Investment: $__________**  *(Amount deducted from monthly pay check)*

This total investment amount for Companies (a) and (b) must equal the total investment shown above in paragraph 2.

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 for any gain, based upon any delays in making the contributions agreed to herein. It shall be Employee’s responsibility to notify the designated Company so that any necessary follow-up actions may be taken.
4. **Effective Date:** The changes shown in paragraph 3 of this form are to take effect beginning with the salary warrant payable on or after _________. 19__, for the ______ pay period. In no event will this change become effective less than 30 days after the dates signed below by the employee and the representative for the CSU.

5. **Company Account Required:** You, the employee, understand and agree that this Agreement is between Employee 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. 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. Then you will not be eligible to participate in the 403(b) program until the next year and all returned money will be considered taxable income.

6. **403(b) Investment:** The CSU has contracts with companies which offer plans qualifying under the provisions 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 is not responsible for these plans.

7. **Employee Releases CSU From Any Damages:** You, the employee, assume full responsibility for the tax, processing, and investment consequences which result from the investment decision 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 for financial loss resulting selection 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 have received or may receive in the future from the CSU, the Company(ies), or any of their employees or agents respecting the plans and the benefits that may be received as a result of the investment decision hereby agreed upon.

8. **Company Status:** You, the employee, understand and agree that for the purposes of this Agreement the Company(ies) is not 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 the Company(ies.)

9. **Processing Fee:** CSU reserves the right to assess you, the employee, 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.

10. **Provisions of Salary Reduction Agreement (SRA) Remain in Effect:** Except for the change in Company(ies) shown in paragraph 3 above, all other terms of your SRA with The CSU continue to remain in effect.

11. **Signatures:** The CSU and the you, the employee, agree to the foregoing terms of the agreement.

   Employee Signature: ____________________________________________________________________ Date: __________

   Please Print Name: ____________________________________________________________________ Soc. Sec. # _________________

   Accepted by
   Campus Representative: __________________________________________________________________ Date: __________
For Campus Use:

<table>
<thead>
<tr>
<th>COMPANY #1</th>
<th>Code: __________</th>
</tr>
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<tbody>
<tr>
<td>Agent’s Name:</td>
<td>Action:</td>
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<td></td>
<td>□ Change Company</td>
</tr>
<tr>
<td>Business Address:</td>
<td>□ Add Company</td>
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<tr>
<td></td>
<td>□ Cancel Company</td>
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<th>Code: __________</th>
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<tbody>
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<td>□ Add Company</td>
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<td></td>
<td>□ Cancel Company</td>
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THE CALIFORNIA STATE UNIVERSITY (CSU)
1995 Worksheet to Determine Eligibility for 403(b) Contributions Over $9,500

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) (commonly known as the $9,500 limit). Note that the $9,500 limit is an annual limit and 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. It is not reduced by your PERS retirement contribution.

There is a catch-up rule for the $9,500 limit which may permit some employees to contribute up to $12,500 during the year. If you wish to contribute more than $9,500, 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 1995 to the 403(b) program before considering the catch-up rule. Determining the maximum contribution involves complex calculations. You should 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 the maximum contribution you would be eligible to make during 1995 to the 403(b) program before considering the catch-up rule. If less than $9,500, STOP -- you are not eligible for the catch-up rule and your limit for 1995 is the amount entered for this step.

$_______ (2)

Step 3: Enter the RESULT from the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>(a) 403(b) Contribution</th>
<th>(b) 402(g) Limit</th>
<th>(c) Difference (b) minus (c), but not less than $0</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>minus</td>
<td>$9,500</td>
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<tr>
<td>1988</td>
<td>minus</td>
<td>$9,500</td>
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<tr>
<td>1994</td>
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<td>$9,500</td>
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<td>TOTAL</td>
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</tr>
</tbody>
</table>

If total is less than $15,000, RESULT is $24,500 minus TOTAL.
If total exceeds $15,000, STOP -- you are not eligible for the catch-up rule.

Enter RESULT:

Note: Column (b) should include contributions made by you to any Section 401(k) plan or Simplified Employee Pension. (Do not include your PERS retirement contribution.)
Step 4: Enter the RESULT from the table below:

a) Years of Service entered in Step 1
   ________ years
   Multiply by $5,000
   This equals $______
   b) Total prior 403(b) contributions while employed with CSU
   $______
   d) Add $9,500
   RESULT: $______

Step 5: Enter $12,500 $______

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 1995 considering the catch-up rule.

$______

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 $7,500 (or $15,000 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 $7,500 (or $15,000) 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. # ________________

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 until December 31, 1995.

Service is based on full time employment. 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>
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<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>
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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.