Date: October 29, 2004

To: Human Resources Directors
   Benefit Officers

From: Cathy Robinson
      Assistant Vice Chancellor
      Human Resources Administration

Subject: Economic Growth And Tax Reconciliation Relief Act (EGTRRA): 2005 Tax Year Update

An update of the Economic Growth And Tax Reconciliation Relief Act (EGTRRA) related to retirement plans for the 2005 tax year is provided below.

**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. Two limits determine the amount that the employee may contribute on an annual basis. For 2005, the employee may contribute the lesser of:

1) The IRC section 402(g) “elective deferral limit,” which is $14,000; or

2) The IRC section 415(c) “percentage of compensation” limit, which is defined as 100% of adjusted gross salary up to a maximum of $42,000. (See Attachment A for the definition of adjusted gross salary.)

For the 2005 tax year, a participant can elect to contribute up to $14,000 to a 403(b) or 401(k) plan AND $14,000 to a 457 plan, for a total contribution of up to $28,000, subject to the 415(c) limit.

A copy of the 2005 Plan Comparison Chart (Attachment A) specifying these amounts is attached.
Additional Catch-Up Contributions
In addition to the IRC 402(g) “elective deferral limit” under EGTRRA, there are additional “catch-up” provisions available.

1) The age based 50 and over “catch-up” allowance under IRC Section 414(v) is increased to $4,000. Individuals with a birth year of 1955 or earlier are eligible to participate, and can use this provision in a 403(b), or 401(k) and a 457 plan.

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 2005 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 2005, contributions using the 402(g)(7) catch-up provision cannot exceed $17,000 ($14,000 402(g) limit, plus $3,000).

3) The 457 plan, administered by 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 2005, this amount increases to $28,000. To enroll, or take advantage of this provision, participants must contact the Savings Plus Program directly.

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 2005, this amount is increased to $170,000. 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 2005, this amount increases to $210,000. 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
**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 a retirement plan for part-time, seasonal and temporary employees (i.e., DPA PST Program or UCDC Plan).

**TSA PLAN (403[b])**
- Deferred tax on investment
- $15 min. contribution per warrant
- Variety of annuities and custodial funds
- The lesser of $14,000/yr, or 100% of adjusted gross salary.*
- Eligible roll over 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.
- Choice of payout method
- 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.
- Additional $4,000 age based catch-up deferral for 2005 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

**DEFERRED COMP (457)**
- Deferred tax on investment
- $20 min. contribution per warrant
- Variety of investment choices
- The lesser of $14,000/year or 100% of taxable income.*
- Eligible roll over 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.
- Choice of payout method
- No tax averaging available
- “Catch-up” provision available. Contact the Savings Plus Program for details.
- Additional $4,000 age based catch-up deferral for 2005 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit.
- Plan payout upon retirement or separation from State service without tax penalty. (No age requirement)

**THRIFT PLAN (401[k])**
- Deferred tax on investment
- $20 min. contribution per warrant
- Variety of investment choices
- The lesser of $14,000/year or 100% of adjusted gross salary.*
- Eligible roll over 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
- No tax averaging available
- No 15 year “Catch-up” provision available.
- Additional $4,000 age based catch-up deferral for 2005 available to participants who have reached age 50 by the end of the plan year and who have hit plan or dollar limit.
- Distributions prior to age 59 ½ may be subject to an early withdrawal penalty

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*403(b) plans apply the 100% limit to the employee’s taxable income PLUS employee 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 $14,000, for tax year 2005.

**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 (866) 566-4777 or www.sppforu.com.
**California State University**  
403(b) Tax Sheltered Annuity  
IRC Section 402(g)(7) Catch-up Calculation Worksheet  
Effective for the 2005 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 2005, the 402(g) limit is $14,000; the 415(c) limit is 100% of compensation (up to $42,000). 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 2005 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 2005 403(b) contribution under the lesser of the 415(c) “100% of compensation,” or $42,000. (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 $42,000 is considered. If your answer is less than $14,000, **STOP** -- you are not eligible for the catch-up provision and your limit for 2005 is the amount entered for this step. $_______ (2)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>403(b) Contributions</th>
<th>402(g) Limit</th>
<th>Difference: (B) minus (C), but not less than $0</th>
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<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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<td>1989</td>
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<td>$9,500</td>
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<td>1990</td>
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<td>1992</td>
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<td>2000</td>
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<td>2001</td>
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<td>2002</td>
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<td>2004</td>
<td>minus$13,000</td>
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</tbody>
</table>

**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 $29,000: $29,000 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)

Step 4:

Enter the RESULT from the table below

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 2005 is $14,000.

d) If 4(c) is greater than zero, add $14,000 + $14,000

RESULT: $ _________

Step 5:

Enter $17,000

$ _________ (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 $4,000 to the amount shown in Step 6. You must confirm your date of birth below (it must be December 31, 1955 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 2005 is the lesser of $14,000, 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:

Campus Representative: ___________________________ Date: _______________________

I certify that to the best of my knowledge, the information used in completing this worksheet is accurate.
**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, 2005.

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>
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<tr>
<th>Year (Start with your first year at CSU)</th>
<th>Service Credit</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 402(g) (7) catch-up provision to determine your maximum 403(b) contribution.