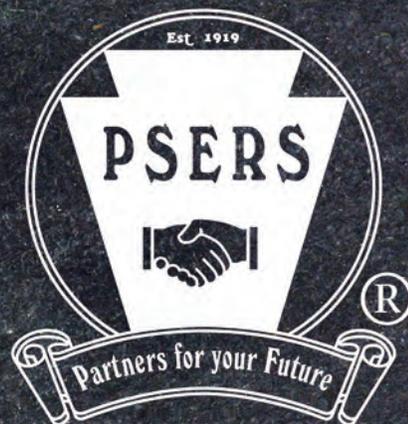




Voluntary Supplemental Retirement Savings Plans for Public School Employees



*A report to the Public School Employees' Retirement
Board of Trustees in Response to PSERB Resolution
Number 2017-43
Adopted December 8, 2017*



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

March 9, 2018

To: *Members of the Public School Employees' Retirement Board of Trustees*

The attached report was prepared by the Executive Staff of the Public School Employees' Retirement System in response to PSERB Resolution 2017-43, which was adopted by the Public School Employees' Retirement Board of Trustees on December 8, 2017. The resolution directed staff to prepare a report addressing the current state of voluntary supplemental retirement plans available to school employees in the Commonwealth.

The report contains a brief discussion of voluntary supplemental retirement plans generally, presents the staff's findings on the current availability of and participation in such plans by public school employees in the Commonwealth, describes the steps necessary to implement a PSERS-administered supplemental plan, and identifies industry best-practices for encouraging participation in such a plan, should the Board choose to implement one.

I am pleased to submit this report for your review and consideration and I am hopeful that you will find this information useful in your deliberations on this issue.

Sincerely,

Glen R. Grell
Executive Director

Table of Contents

- i. Letter of Transmittal
- 1 Executive Summary
- 2 Introduction
- 3 Part I - Voluntary Supplemental Retirement Savings Plan
- 5 Part II - Availability and Participation
- 7 Part III - Legal and Administrative Considerations
- 9 Part IV - Encouraging Participating
- 10 Part V - Exhibits



Executive Summary

PSERB Resolution 2017-43
Re: Voluntary Supplemental Retirement Savings Plans
December 8, 2017

RESOLVED, the Public School Employees' Retirement System Board hereby directs the Executive Office to prepare a report addressing the state of voluntary supplemental retirement savings plans available to school employees in Pennsylvania. The report should include data concerning the existence and utilization of current school district plans; the steps necessary should the PSERS Board choose to implement such a Section 403 (b) or 457 plan; and a plan of action to encourage greater participation in such plans. The report and recommendations shall be presented to the Board for consideration by the Board at its March 2018 Board Meeting.

The Executive Staff's research on the subject of voluntary supplemental retirement savings plans available to public school employees of the Commonwealth of Pennsylvania has revealed the following information.

Current State of Affairs

- All or substantially all public school employees have access to an employer-sponsored voluntary supplemental retirement savings plan in the form of an IRC Section 403(b) Tax Sheltered Annuity (TSA) plan.
- Based on data gleaned from the principle 403(b) Third Party Administrators (TPAs) operating in Pennsylvania, staff determined that a total of 636 PSERS employers were sponsoring 403(b) plans for their employees, including all school districts.
- The staff is unaware of any public school district that does not offer such a plan to its employees.
- The three largest 403(b) Third Party Administrators (TPAs) providing administrative services to school employers in Pennsylvania have provided staff with a letter attesting to the near universal availability of 403(b) plans (see Exhibit 2, in Part V of this report).
- In calendar year 2017, a total of 85,971 public school employees were participating in a 403(b) plan, which represents approximately 33% of PSERS' total active membership.
- In calendar year 2017, the average account balance for these participants was valued at approximately \$44,723.
- According to the National Tax Deferred Savings Association (NTSA), a non-profit, national professional association for IRC Section 403(b) and 457(b) providers and related professionals, the national average for participation in 403(b) plans by public school employees was approximately 30% in 2017.

Statewide plan administration

- Act 5 of 2017 mandates IRC Section 401(a) defined contribution plan participation for all new members of PSERS beginning July 1, 2019.
- Members subject to Act 5 may make additional, voluntary contributions beyond the minimum employee contributions required by Act 5.
- Current members of PSERS will be permitted to make a one-time irrevocable election to become a member subject to Act 5, thus enabling participation in the PSERS defined contribution plan. Candidly, PSERS does not expect many opt-ins.
- Act 5 contains a specific provision that serves to protect 403(b) service providers from competition with PSERS in the defined contribution space by requiring local school districts to retain a minimum of four 403(b) vendors.
- The PSERS Office of Chief Counsel has determined that, per IRS rules, PSERS could lawfully administer a 403(b) – style statewide voluntary supplemental retirement savings for PSERS members who are not, or will not be, enrolled in the PSERS DC plan under Act 5.
- PSERS implementation of such a statewide supplemental plan would require enabling legislation.
- Other jurisdictions, most notably, the states of Iowa, North Carolina and Virginia are currently administering statewide 403(b)-type plans for school employees.

Encouraging Greater Participation

- The PSERS Office of Chief Counsel has determined that, per IRS rules, PSERS could lawfully implement and administer a default automatic enrollment feature of the PSERS Act 5 DC plan, requiring additional voluntary contributions, with optional opt-out.
- The PSERS Office of Chief Counsel has determined that, per IRS rules, PSERS could lawfully implement and administer a default automatic escalation feature of employee contributions to the PSERS DC plan by agreed to amounts over agreed to time frames, with optional opt-out.
- Greater participation might also be achieved by developing and implementing an ongoing comprehensive investment outreach and education program.

Introduction

According to the U.S. Bureau of Labor Statistics' (BLS) most recent Annual National Compensation Survey (released March 2017), public sector employees are well-served by employer-sponsored retirement plans. A full 91% of all state and local government employees had access to a retirement plan. Teachers, as a group, fared better with 94% having access to a retirement plan, and fully 99% of primary and secondary education teachers had access to such a plan

In addition to these primary employer-sponsored public sector plans (participation in which is most often mandatory), many public sector employees have the opportunity to participate in employer-sponsored voluntary supplemental retirement savings plans. These voluntary plans are primarily of two types: IRC 457 Deferred Compensation Plans for state and local government employees and IRC 403(b) Tax-Sheltered Annuity Plans for employees of public schools.

In comparison, the situation in the private sector is less encouraging. Large percentages of private sector employees have no access to an employer sponsored retirement savings plan and many of those who do are not saving enough for retirement. **

Considering Pennsylvania's aging population trend and with the "Baby Boom" generation beginning to retire, concerns about adequate preparation for retirement have never been greater.

On December 8, 2017, the PSERS Board of Trustees adopted PSERB Resolution 2017-43, which directed the PSERS Executive Staff to prepare a report addressing the current state of voluntary supplemental retirement plans available to school employees in the Commonwealth.

This report contains a discussion of voluntary supplemental retirement plans generally, presents the staff's findings on the current availability of and participation in such plans by public school employees in the Commonwealth, describes the steps necessary to implement a PSERS-administered supplemental plan, and identifies industry best-practices for encouraging participation in such a plan, should the Board choose to implement one.

The staff would like to express its sincere appreciation to the American Retirement Association (ARA), the National Tax-Deferred Savings Association, TSA Consulting Group, Inc., PenServ Plan Services, Inc, OMNI, the Pennsylvania Association of School Business Officials (PASBO), and to the Pennsylvania 403(b) plan vendors, and other organizations and individuals that contributed to this report.

*** Footnote: See Exhibits 6 and 18 in Part V of this report for more information.*

Part I. Voluntary Supplemental Retirement Savings Plans

Membership in traditional, defined benefit public employee retirement systems is generally mandatory for most employees. Benefits are calculated using a formula that includes factors such as a member's class of service, years of service and salary. Typically, all investment decisions for a public pension fund are made by a retirement Board of Trustees, and members of the pension plan are largely insulated from investment risk.

In contrast, supplemental retirement plans for public sector employees differ significantly from traditional governmental plans. Voluntary, supplemental, retirement savings plans are self-directed plans in which the participant bears all of the investment risk and the benefit to the participant at retirement is based solely upon contributions accrued and investment income earned on those contributions.

Employer-sponsored supplemental retirement plans available to public sector employees fall into one of two categories. Section 457(b) deferred compensation plans are generally available to employees of state and local governments. Section 403(b) Tax Sheltered Annuity (TSA) plans are available to employees of public schools. The 403(b) is named after the section of the Internal Revenue Code section governing it.

Employees enroll and participate in a 403(b) plan through their employer. Contributions to the plan are made on a pre-tax basis through a salary reduction agreement between the employer and employee. This is an arrangement in which the participating employee agrees to take a reduction in salary. The amount by which the salary is reduced is then directed to investments offered through the employer and selected by the employee. These contributions are known as "elective deferrals" and are excluded from the employee's taxable income. Contributions grow tax-deferred until the time of retirement, when withdrawals are taxed as ordinary income.

IRC 403(b) Tax Sheltered Annuity Plans

Historical Background

In 1958, Congress first made available a tax-deferred savings device for employees of certain section 501(c)(3) organizations by adding section 403(b) to the Internal Revenue Code. Before enactment of this section, it was possible for an employee of certain tax-exempt organizations to defer income through the use of a tax-sheltered annuity arrangement. IRC 403(b) was originally enacted as a restriction on the portion of compensation that may be sheltered.

In 1961, IRC 403(b) was extended to employees of public education institutions, including colleges and universities. With the passage of the Employee Retirement Income Security Act (ERISA) in 1974, certain custodial accounts in which contributions are invested in mutual funds were made available as funding vehicles. IRC 403(b) was further expanded in 1982 to cover retirement income accounts for employees of church organizations.

The Tax Reform Act of 1986, Pub. L. No. 99-514 ("TRA '86"), made several notable changes to IRC 403(b) by imposing certain rules similar to those applicable to qualified plans, including a ceiling on elective deferrals, nondiscrimination and minimum distribution requirements, and restrictions on withdrawals of salary reduction contributions. Additional requirements regarding rollovers were added by the Unemployment Compensation Amendments of 1992, Pub. L. No. 102-318.

Finally, in 2006, the Federal Pension Protection Act (PPA) included automatic enrollment provisions to encourage employee participation. While the Internal Revenue Code now expressly permits section 403(b) and 457(b) plans to contain default enrollment and contribution features, employers must still consider state wage deduction laws before adopting such features.

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a type of voluntary retirement savings plan available to certain employees of public schools, tax-exempt organizations, and ministers.

Individual accounts in a 403(b) plan can be any of the following types.

- An annuity contract, which is a contract provided through an insurance company.
- A custodial account, which is an account invested in mutual funds.
- A retirement income account set up for church employees. Generally, retirement income accounts can invest in either annuities or mutual funds.

There are three key benefits to participating in a 403(b) plan.

- The first benefit is that a participant pays no income tax on allowable contributions until the participant begins to make withdrawals from the plan. Allowable contributions to a 403(b) plan are either excluded or deducted from a participant's income. If, however, contributions are made to a Roth contribution program, this benefit would not apply. Instead, a participant pays income tax on the contributions to the plan but distributions from the plan (if certain requirements are met) would not be taxed. Generally, employees must pay social security and Medicare tax on contributions to a 403(b) plan, including those made under a salary reduction agreement.
- The second benefit is that earnings and gains on amounts in a participant's 403(b) account are tax-deferred until withdrawal. Earnings and gains on amounts in a Roth contribution program are not taxed if withdrawals are qualified distributions. Otherwise, they are taxed upon withdrawal.
- The third benefit is that a participant may be eligible to receive a credit for elective deferrals contributed to the 403(b) account.

Roth 403(b)

A Roth 403(b) is an alternative type of 403(b) plan that permits a participant to irrevocably designate all or a portion of the 403(b) as an after-tax Roth contribution. This type of contribution will not lower the participant's taxable income. However, distribution of Roth designated funds in retirement will not be subject to taxation.

Participants have the option of making pre-tax 403(b) contributions, Roth 403(b) contributions, or a combination of the two. Total contributions cannot exceed the year's contribution limit. Not all employers offer a Roth 403(b), nor are they required to do so.

403(b) Contribution Limits

Beginning 2018, 403(b) plan participants may contribute up to \$18,500 annually on a tax-deferred basis. From 2015 to 2017 the limit was \$18,000 annually. In 2013 and 2014, the limit was \$17,500 and it was \$17,000 in 2012.

Certain 403(b) plans may include employer contribution matches. For those participants with employer matches or other employer contributions, the limit is \$55,000 or 100% of compensation (whichever is less). The participant is still limited to the employee elective deferral limit (\$18,500 for 2018). An employer may add up to another \$36,500 in employer contributions, but is not required to do so.

Age 50 "Catch Up" Provision

Participants age 50 and older at any time during the calendar year are permitted to contribute an additional \$6,000 in 2018. The age 50 catch up has been \$6,000 since 2015. From 2009 to 2014 it was \$5,500.

15-Year Rule

Employees with 15 years of service with their current employer and an annual average contribution of less than \$5,000 per year are eligible for an additional \$3,000 contribution per year up to a lifetime maximum catch up of \$15,000. This is known as the "15-year rule". For participants eligible for both the age 50 catch up and the 15-year rule, the IRS will apply contributions above the regular limit first to the 15-year rule. Employers are not required to make this provision available.

Part II. Availability and Participation

PSERB Resolution 2017-43 directed the Executive Staff to prepare a report “. . . addressing the state of voluntary supplemental retirement savings plans available to school employees in Pennsylvania. The report should include data concerning the existence and utilization of current school district plans . . .”

The 403(b) industry in Pennsylvania is highly fragmented and there exists no comprehensive repository of data that may be relied upon as a single source of information on the industry. To ascertain the current availability of and participation in 403(b) plans by public school employees in the Commonwealth, staff identified and directly surveyed the principle 403(b) Third Party Administrators (TPA) providing services to school employers in the Commonwealth. Employers contract with a TPA to provide administrative support and regulatory advice to ensure compliance with IRS regulations and state law. While each employer may contract with multiple 403(b) vendors that provide access to specific investments vehicles for employees, each employer will contract with a single TPA to handle administrative and record keeping tasks. For this reason, the industry TPAs were judged by staff to be the most reliable source of information for providing a high-level view of the 403(b) market in Pennsylvania.

The OMNI Group

School Employers Serviced: 49

Number of participating employees: 9,336

Employee utilization rate: 35%

Average participant account balance: \$51,051.35

Average number of investment providers per employer: 14

Total Assets Managed: \$700 million

PenServ Plan Services, Inc.

Public School Employers Serviced: 217

Number of participating employees: 27,735

Average participant account balance: \$43,000

Employee utilization rate: 56%

Average number of investment providers per employer: 5

Total Assets Managed: \$1.2 billion

TSA Consulting Group

Public School Employers Serviced: 370

Number of participating employees: 42,000

Average participant account balance: \$52,694

Employee utilization rate: 36%

Average number of investment providers per employer: 4.6

Total Assets Managed: \$5.3 Billion

Variable Annuity Life Insurance Company (VALIC)

Public School Employers Serviced: 2

Number of participating employees: 6,900

Average participant account balance: \$32,150

Employee utilization rate: 42%

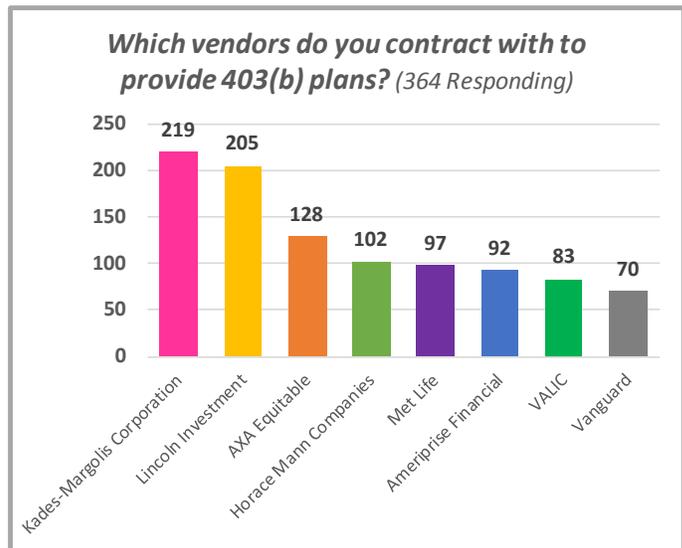
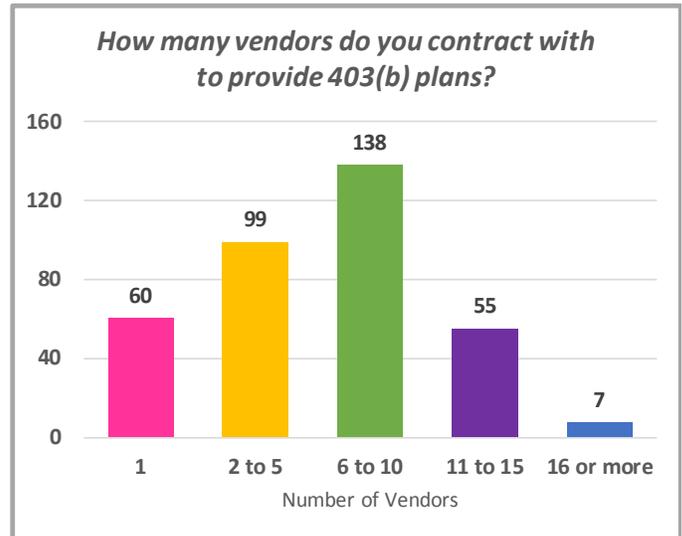
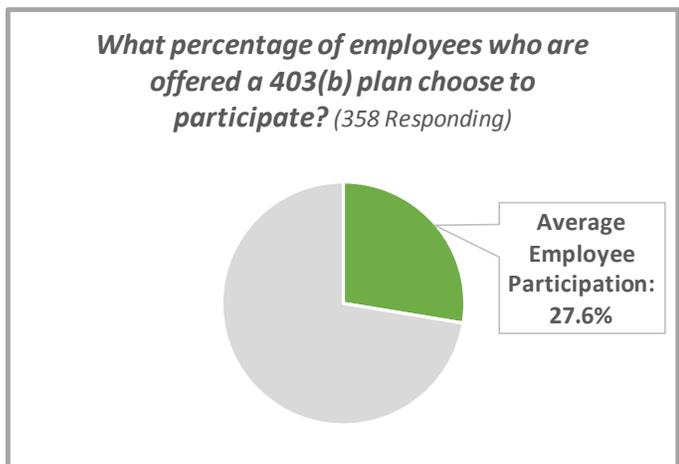
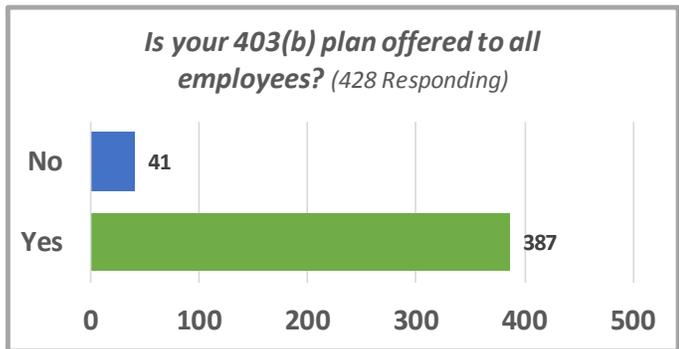
Average number of investment providers per employer: 5

Total Assets Managed: \$1,059,700,000

PSERS Internal Survey Results

Additionally, during the month of September 2017, PSERS staff directly surveyed school employers to ascertain basic information on the availability of 403(b) Tax Sheltered Annuity plans to school employees of the Commonwealth. The following summarizes the results of that survey.

- Total Employers Surveyed: 763
- Total Employers Responding: 452 (59% response rate)



Note: Most employers contract with multiple vendors.

Part III. Legal and Administrative Considerations

PSERB Resolution 2017-43 directed the Executive Staff to identify the steps necessary to implement a statewide, PSERS-administered voluntary retirement plan, should the Board choose to implement such a plan.

The PSERS legal staff has concluded that PSERS does have the legal authority to establish and maintain a statewide voluntary supplemental retirement savings plan for Pennsylvania school employees.

Act 5 of 2017 provides the legal authority for PSERS to create and maintain a statewide, section 401(a) defined contribution plan for all new school employees, commencing on or after July 1, 2019. In addition, Act 5 permits the Third Party Administrator (TPA), chosen by PSERS to administer the 401(a) plan for new members, and to offer its services to existing 403(b) plans sponsored by the school districts. Because of the prevalence of 403(b) plans sponsored by local school districts, this option, if elected, would effectively allow virtually all school employees access to a statewide voluntary plan.

Analysis

With the passage of Act 5 of 2017, all new school employees, who are enrolled in PSERS on or after July 1, 2019, will be mandatorily enrolled in the PSERS 401(a) defined contribution (DC) plan, regardless of which option the employee chooses – Class T-G, Class T-H, or Class DC. If the employee fails to make an election, then the employee will default into Class T-G membership, which will have a DC plan component. See Section 8305 of the PSERS Retirement Code, 24 Pa.C.S. §8305 (relating to classes of service).

School employees enrolled in the PSERS DC plan will be able to make additional, voluntary contributions to the plan, including payroll deduction, trustee-to-trustee transfers, or eligible rollovers, to the extent allowed by IRC §402. PSERS Retirement Code §8404(b). Thus, on a going forward basis, the Legislature has already taken the necessary steps to provide all school employees with a statewide, supplemental DC plan offered by PSERS.

There is a gap, however, for those school employees currently enrolled in PSERS, and for those who will enroll in PSERS prior to July 1, 2019. For these employees, there are no PSERS-provided DC plans. Virtually all school districts, however, already offer supplemental 403(b) plans to its school employees. See Discussion in Part II. Thus, virtually every school employee already has access to a supplemental retirement plan, offered through the school districts.

Further, Act 5 will allow the Third Party Administrator (TPA), chosen by PSERS to administer the 401(a) plan for new members, to offer its services to existing 403(b) plans sponsored by the school districts. PSERS Retirement Code §8411.1(a) If the TPA chooses to offer its services, then all existing members will also effectively have access to the statewide plan.

To the extent that a school district does not now offer such a plan, however, then there are two options. First, PSERS could encourage those school districts who do not currently offer a 403(b) plan to its employees to do so. Second, PSERS could urge the General Assembly to amend the Retirement Code to allow for PSERS to offer its 401(a) DC plans to existing school employees.

See Exhibit 3 for a more complete legal analysis of the Board's authority to establish a voluntary retirement savings plan.

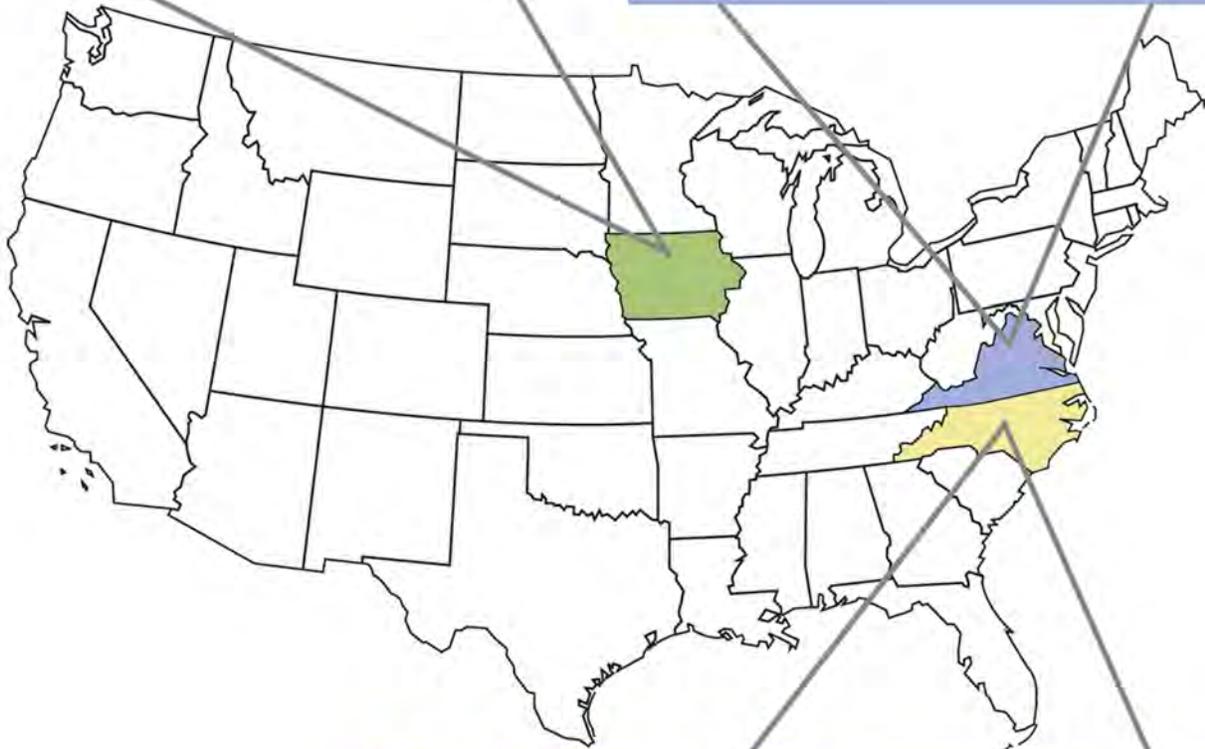
Experience in Other States

Iowa

- The Iowa Department of Administrative Services (DAS) administers the Retirement Investor's Club (RIC) for state and education employees.
- DAS administers a 457 plan for state employees and a 403(b) plan for education employees whose employers elect to adopt the plan and become a sponsor.
- Education employers sign onto the plan through an adoption agreement that allows the employer to make certain elections allowed by the plan, such as eligibility restrictions.
- DAS administers the RIC separate from the Iowa Public Employees' Retirement System that administers a defined benefit plan for both state and school employees.

Virginia

- In Virginia, effective January 1, 2014, Virginia moved from a defined benefit plan, to a hybrid retirement plan for state and school employees.
- Members and employers are required to contribute to a defined benefit component and a defined contribution 401(a) Cash Match Plan.
- Members may voluntarily contribute additional funds to a state 457 Deferred Compensation Plan.
- Beginning January 1, 2016, school employees may elect to contribute to an employer-sponsored 403(b) instead of the state 457 plan.
- If school employees elect to contribute to their employer's 403(b), then the employer may elect to contribute its employer match to the 403(b) rather than the 401(a).
- The Virginia Retirement System, which administers the pension plans for state and school employees, does not offer its own 403(b) plan.



North Carolina

- The North Carolina Department of State Treasurer centrally administers the North Carolina Public School Teachers' and Professional Educators' Investment Plan, a 403(b) plan.
- The Treasurer's plan is a volume submitter plan that is then adopted by Plan Sponsors (Employers) through a template adoption agreement.
- The adoption agreement allows the employer to make a number of elections, including whether and how to offer an employer match as well as eligibility criteria.

Part IV. Encouraging Participation

Among its other provisions, PSERB Resolution 2017-43 directed the Executive Staff to describe, “a plan of action to encourage greater participation” in 403(b) or 457 plans. Working with industry leaders, staff has identified generally accepted best practices currently employed by the industry.

Auto-enrollment. In many jurisdictions, automatic enrollment in 403(b) plans is employed and is most often cited by industry leaders as the most effective means of increasing employee participation. Under an auto-enrollment arrangement, employees that do not wish to participate must affirmatively “opt-out” of participation. Automatic enrollment requires the employer whose employees participate in the plan to automatically deduct (and contribute to the plan) employee contributions from the employee’s wages, unless the employee makes an election not to contribute (or to contribute an amount other than the automatic deduction).

Auto-escalation. Voluntary automatic-escalation of 403(b) contributions requires the participating employee to agree to have deferral amounts automatically increase by previously agreed to amounts on specific future dates. An auto-escalation feature automatically increases employee contributions at a predetermined rate over time until a set deferral rate is attained.

These two features, automatic enrollment and automatic escalation, are tools intended to increase the accumulation of participants’ retirement benefits over time. Implementation includes proper notice to the participants well before the implementation date to educate the employee and provide the employee an opportunity to decline participation in the automatic enrollment and/or auto-escalation.

Pennsylvania has imposed certain restrictions on the ability of employers to effect payroll deductions. Known as the Pennsylvania Wage Payment and Collection Law (WPCL), the WPCL limits payroll deductions that can be made by Pennsylvania employers. 43 P.S. § 260.3. The law, however, has a limited definition of “employer,” which does not include school districts or other public employers.

Section 3 of the WPCL prohibits deductions from wages except for: 1) deductions provided by law; or 2) deductions authorized by regulation of the Department of Labor and Industry for the convenience of the employee. 43 P.S. § 260.3. Similarly, regulations promulgated by the Pa. Department of Labor, interpreting the WPCL, appear to require statutory authorization to allow for such feature to be included in the PSERS Plan. See 34 Pa. Code § 9.1.

Accordingly, if such a deduction is provided for by law, through new legislation, then such automatic enrollment arrangements would be permissible under the WPCL.

For a more complete legal analysis of the automatic enrollment and escalation features under Pennsylvania law, please refer to Exhibit 4, in Section V of this report.

Communication and Financial Education: A compelling, engaging and sustained communication and financial literacy program can help the Employer/Advisor inform participants about what’s available; you can also use it to motivate action and increase participation. Communications about the 403(b) must be in a way that makes employees want to listen. Following are some methods used in Pennsylvania Schools:

- Provide 24/7 access to plan Information.
- Simplify plan information for the employee.
- Customize communication for individual relevance.
- Encourage interaction between employee and plan provider.

For more information on industry best practices, please refer to Exhibits 12-16 in Part V of this report.

Part V. Exhibits

- 1) PSERB Resolution 2017-43.
- 2) Third Party Administrator Letter.
- 3) PSERS Office of Chief Counsel Memorandum, “Resolution 2017-43 – Voluntary Supplemental Savings Plans,” February 15, 2018.
- 4) PSERS Office of Chief Counsel Memorandum, “Automatic Plan Enrollment with Right to Opt Out,” February 28, 2018.
- 5) U.S. Bureau of Labor Statistics, Economic News Release Table 1. Retirement Benefits: Access, Participation and Take-up Rates, March 2017.
- 6) National Institute on Retirement Security, “The Continuing Retirement Savings Crisis,” by Nari Rhee, PhD and Ilana Boivie, March 2015.
- 7) IRS Publication 571 (Rev. January 2017), “Tax Sheltered Annuity Plans (403(b) Plans) for Employees of Public Schools and Certain Tax-Exempt Organizations.”
- 8) IRS Publication 4482 (Rev. 8-2017) “403(b) Tax-Sheltered Annuities for Participants,” IRS Tax Exempt and Government Entities, Employee Plans Division.
- 9) IRS Publication 4483 (Rev. 8-2017) “403(b) Tax-Sheltered Annuities for Sponsors,” IRS Tax Exempt and Government Entities, Employee Plans Division.
- 10) IRS Publication 4484 (Rev. 2-2015) “Plan Feature Comparison Chart, Choose a Retirement Plan,” IRS Tax Exempt and Government Entities, Employee Plans Division.
- 11) Cammack Retirement, “Five Trends for Retirement Plan Sponsors in 2018,” by Michael A. Webb, Vice-President, Cammack Retirement Group.
- 12) National Tax-Deferred Savings Association (NTSA), “Automatic Enrollment Guide: Best Practices for 403(b) Non-ERISA Plans,” May 2015.
- 13) National Association of Government Defined Contribution Administrators (NAGDCA), “Best Practices Guide to Administering Your Governmental Defined Contribution Plan: Communications/Participants Education,” September 2013.
- 14) National Association of Government Defined Contribution Administrators (NAGDCA), “Successful Strategy for Effective Marketing Initiatives,” September 2017.
- 15) Association of School Business Officials International, “Guidelines for Implementing an Employee Retirement Planning Educational Program,” 2011.
- 16) PenServ Plan Services, Inc., “Best Practices for Increasing Participation in 403(b)s (Provisions and Items for Employers to Consider.”
- 17) PenServ Plan Services, Inc., Administrative Appendix: Typical TPA Duties for Pennsylvania School Districts. (3/31/2017).
- 18) Joint Economic Committee Democrats, “Retirement Security in Peril,” by U.S. Senator Martin Heinrich, February 2018.

PSERB Resolution 2017-43
Re: Voluntary Supplemental Retirement
Savings Plans
December 8, 2017

RESOLVED, the Public School Employees' Retirement System Board hereby directs the Executive Office to prepare a report addressing the state of voluntary supplemental retirement savings plans available to school employees in Pennsylvania. The report should include data concerning the existence and utilization of current school district plans; the steps necessary should the PSERS Board choose to implement such a Section 403 (b) or 457 plan; and a plan of action to encourage greater participation in such plans. The report and recommendations shall be presented to the Board for consideration by the Board at its March 2018 Board Meeting.



PSERS
5 North Fifth Street
Harrisburg, PA 17101

RE: PSERB Resolution 2017-43

Dear Public School Employees' Retirement System (PSERS) Board of Trustees and Executive Staff:

We are writing concerning Public School Employees' Retirement Board Resolution number 2017-43, which, among its other provisions, directs the Executive Staff of the Public School Employees' Retirement System (PSERS) to report on the current state of voluntary, supplemental retirement savings plan available to public school employees.

We, the undersigned, represent the major Third Party Administrators (TPAs) serving public school employers as record-keeper administrators for IRS section 403(b) voluntary retirement plans offered to employees by public school employers of the Commonwealth of Pennsylvania. In connection with your work pursuant to PSERB Resolution 2017-43, you have requested that we certify certain information about the 403(b) plans currently administered within the Commonwealth.

We can certify the following facts about these plans:

1. Virtually all public school employers offer and maintain a voluntary supplemental retirement savings plan for employees in the form of a 403(b) plan.
2. The overall participation rate for 403(b) plans that we collectively administer is approximately 42% as a percentage of the total workforce, which exceeds the national average of 30%.
3. Collectively, approximately 79,071 public school employees participate in these plans.
4. The average account balance for the participants in these plans is approximately \$48,915.
5. Collectively, the total value of assets currently under management is approximately \$7.2 billion.

We trust this letter adequately responds to your request.

Sincerely,

Robert F. McLean, II
President/CEO
OMNI

Susan D. Diehl
President
PenServ Plan Services, Inc.

Stephen R. Banks
Executive Vice-President
TSA Consulting Group, Inc.

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Office of Chief Counsel
TELEPHONE: (717) 720-4679 FAX: (717) 783-8010

DATE: February 15, 2018

SUBJECT: Resolution 2017-43 – Voluntary Supplemental Savings Plans

TO: Glen R. Grell
Executive Director

FROM: Charles K. Serine
Chief Counsel

Background

The Executive Office, through Resolution 2017-43, has been directed to prepare a report addressing the state of voluntary supplemental retirement savings plans available to Pennsylvania school employees. The report should include data concerning the existence and utilization of current school district plans; the steps necessary should the PSERS Board choose to implement such a Section 403(b) or 457 plan; and a plan of action to encourage greater participation in such plans. As part of this report, you have asked me to review and analyze the legal issues pertaining to the creation and implementation of such a state-wide plan.

Issue

Does PSERS have the legal authority to establish and maintain a state-wide voluntary supplemental retirement savings plan for Pennsylvania school employees?

Answer

Yes, for new hires. With enactment of Act 5 of 2017, the Legislature has taken the necessary steps to provide all new school employees, hired on or after July 1, 2019, with a state-wide, section 401(a) defined contribution plan (DC plan), which allow for additional supplemental contributions. For those school employees currently enrolled in PSERS, however, and for those who will enroll in PSERS prior to July 1, 2019, there are no PSERS-provided DC plans. Virtually all school districts, however, already offer supplemental 403(b) plans to its school employees. Thus, virtually every school employee has access to a supplemental retirement plan.

Analysis

With the passage of Act 5 of 2017, all new school employees, who are enrolled in PSERS on or after July 1, 2019, will be mandatorily enrolled in the PSERS 401(a) defined contribution plan (DC plan), regardless of which option the employee chooses – Class T-G, Class T-H, or Class DC. If the employee fails to make an election, then the employee will default into Class T-G

membership, which will have a DC plan component. *See* Section 8305 of the PSERS Retirement Code, 24 Pa.C.S. §8305 (relating to classes of service).

School employees enrolled in the PSERS DC plan will be able to make additional, voluntary contributions to the plan, including payroll deduction, trustee-to-trustee transfers, or eligible rollovers, to the extent allowed by IRC §402. PSERS Retirement Code §8404(b). Thus, on a going forward basis, the Legislature has already taken the necessary steps to provide all school employees with a state-wide, supplemental DC plan. Further, those school employees, who are active on July 1, 2019, will have the opportunity to elect into a retirement plan option that will provide for a DC plan, with the option to make voluntary contributions as stated above.

There is a gap, however, for those school employees currently enrolled in PSERS, and for those who will enroll in PSERS prior to July 1, 2019. For these employees, there are no PSERS-provided DC plans. Virtually all school districts, however, already offer supplemental 403(b) plans to its school employees. *See* Discussion in Part II. Thus, virtually every school employee already has access to a supplemental retirement plan, offered through the school districts.

To the extent that a school district does not now offer such a plan, however, then there are two options. First, PSERS could encourage those school districts who do not currently offer a 403(b) plan to its employees to do so. Second, PSERS could seek to amend its Retirement Code to allow for PSERS to offer its 401(a) DC plans to existing school employees, or to enact legislation to allow the PSERS Board to administer the local 403(b) plans.

Other states have enacted such legislation, allowing the state retirement system to administer the local 403(b) school district plans.

In Iowa, for example, the Iowa Department of Administrative Services (DAS) administers the Retirement Investor's Club (RIC) for state and education employees. DAS administers a 457 plan for state employees and a 403(b) plan for education employees whose employers have elected to adopt the plan and become a sponsor. Education employers sign onto the plan through an adoption agreement that allows the employer to make certain elections allowed by the plan, such as eligibility restrictions. Iowa Code § 8A.438 established DAS' authority wherein it states, in part, "The director [of DAS] may establish a tax-sheltered investment program for eligible employees. The director may arrange for the provision of investment vehicles authorized under section 403(b) of the Internal Revenue Code, as defined in section 422.3." DAS administers the RIC separate from the Iowa Public Employees' Retirement System that administers a defined benefit plan for both state and school employees.

In North Carolina, the Department of State Treasurer (Treasurer) centrally administers the North Carolina Public School Teachers' and Professional Educators' Investment Plan, a 403(b) plan. The Treasurer's plan is a volume submitter plan that is then adopted by Plan Sponsors (Employers) through a template adoption agreement. The adoption agreement allows the employer to make a number of elections, including whether and how to offer an employer match as well as eligibility criteria. The Treasurer was authorized to establish a 403(b) plan by N.C.

Gen. Stat. § 115C-341.2 wherein it states, in part, "In addition to the opportunities for local boards of education to offer section 403(b) of the Internal Revenue Code of 1986 retirement annuities and/or mutual funds to their employees under G.S. 115C-341, the Department of State Treasurer may establish an approved third-party vendor of retirement offerings as described in section 403(b) of the Internal Revenue Code of 1986, as now and hereafter amended, pursuant to which employees of local school boards may enter into nonforfeitable 403(b) plan options by way of salary reduction through the auspices of the Department of State Treasurer. This statewide plan of 403(b) offerings shall be known as the "North Carolina Public School Teachers' and Professional Educators' Investment Plan." In addition to the 403(b) plan, the Treasurer's Retirement Systems Division administers the North Carolina Teachers' and State Employees' Retirement System, which provides a defined benefit.

In Virginia, effective January 1, 2014, Virginia moved from a defined benefit plan, to a hybrid retirement plan for state and school employees. Members and employers are required to contribute to a defined benefit component and a defined contribution 401(a) Cash Match Plan. Members may voluntarily contribute additional funds to a state 457 Deferred Compensation Plan. Beginning January 1, 2016, school employees may elect to contribute to an employer-sponsored 403(b) instead of the state 457 plan. If school employees elect to contribute to their employer's 403(b), then the employer may elect to contribute its employer match to the 403(b) rather than the 401(a). The Virginia Retirement System, which administers the pension plans for state and school employees, does not offer its own 403(b) plan.

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
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DATE: February 28, 2018

SUBJECT: Automatic Plan Enrollment with Right to Opt Out

TO: Glen R. Grell
Executive Director

FROM: Cayla B. Jakubowitz
Assistant Counsel

Through Charles K. Serine
Chief Counsel
Wilhelm Gruszecki
Senior Counsel

Background

The Executive Office, through Resolution 2017-43, has been directed to prepare a report addressing the state of voluntary supplemental retirement savings plans available to Pennsylvania school employees. The report should include data concerning the existence and utilization of current school district plans; the steps necessary should the PSERS Board choose to implement such a Section 403(b) or 457 plan; and a plan of action to encourage greater participation in such plans. As part of this report, you have asked us to review and analyze the legal issues pertaining to the implementation of an automatic enrollment feature as applied to employee voluntary after-tax contributions to increase participation in the PSERS DC plan.

Issue

Could PSERS lawfully require either an automatic additional payroll deductions of employee voluntary after-tax contributions, with the right to opt out, or an auto-escalation feature, whereby deferral amounts automatically increase by previously agreed to amounts on specific future dates, for PSERS' 401(a) DC plan?

Answer

Yes, such provisions should likely be acceptable under federal tax law, and do not conflict with Pennsylvania law, but an amendment to the Retirement Code would be necessary to allow PSERS to create and administer such a program.

Discussion and Analysis

Members who commence public school employment and become active members on or after July 1, 2019 will be able to make voluntary contributions, above and beyond any mandatory contributions, into a 401(a) deferred compensation plan (DC plan) through PSERS. 24 Pa.C.S. §

8404(b). Under current law, these covered members would need to proactively elect to make voluntary contributions into the 401(a) plan; there are no default voluntary contributions. Current members who began employment prior to July 1, 2019 do not have access to PSERS' 401(a) deferred compensation plan, unless they choose to opt into one of the new classes.

Currently, virtually all members have access to a 403(b) plan¹ through their employer. PSERS anticipates that this access will continue, and that both current and future members will continue to have access to these plans. PSERS Retirement Code §8411.1.

To encourage greater participation in DC plans, PSERS has explored the idea of creating an automatic enrollment (also known as “negative election”), with the right to opt out, for its members in either the public employers' 403(b) plans and/or in PSERS' 401(a) plan. Under this feature, members would be given notice of the default enrollment and given time to opt out before contributions begin. PSERS has also discussed an auto-escalation feature, by which contributions automatically increase the contribution rate over time, with the option to lower the contribution rate if the member does not wish to increase their contributions.

Automatic Enrollment - Federal Tax Law

Automatic enrollment requires the employer whose employees participate in the plan to automatically deduct (and contribute to the plan) employee contributions from the employee's wages, unless the employee makes an election not to contribute (or to contribute an amount other than the automatic deduction). An auto-escalation feature automatically increases employee contributions at a predetermined rate over time until a set deferral rate is reached. The features are tools to increase the accumulation of participants' retirement benefits. Implementation includes notice to the participants well before the implementation date to educate the employee and provide an opportunity to decline participation in the automatic enrollment and/or auto-escalation. A participant may freely change his or her choice.

During the last twenty (20) years, the federal tax pension laws have seen an evolution of the automatic enrollment and auto-escalation features, in the context of deferred compensation plans described in Internal Revenue Code (“IRC”) Section 401(k) involving the private sector, from the approval of these features in administrative actions of the IRS and later, through amendments to the IRC (the Pension Protection Act of 2006) and 401(k) regulations. A 401(k) plan allows a participant to make pre-federal income tax contributions and/or designated Roth contributions.² As discussed below, the IRS has extended its initial approval of automatic enrollment in 401(k) plans to plans described in IRC Sections 403(b) and 457(b)).

¹ Public Schools, as an employer, can sponsor 403(b) plans pursuant to 26 U.S.C.S. § 403(b). PSERS, as a state agency, can establish and administer either a 401(a) plan, or a 457 plan pursuant to 26 U.S.C. § 457. PSERS cannot sponsor a 403(b) plan because it is not an employer of public school employees.

² A designated Roth contributions is an after-tax contribution whose positive investment experience could be exempt from federal income taxation if certain requirements are met.

Also, Congress has supported automatic enrollment features by amending the Employee Retirement Income Security Act of 1974 (“ERISA”), the federal law that governs private pension plans, to preempt any state law that would not allow an automatic payroll deduction, and by enacting a preemption provision applicable to church plans in the Protecting Americans from Tax Hikes Act of 2015.

The origin and support of automatic enrollment occurred in four administrative actions of the IRS called Revenue Rulings. Revenue Ruling (Rev. Rul.) 98-30, 1998 1 CB 1272, 6/02/1998 addressed the question of whether voluntary pre-tax contributions to a Section 401(k) plan are allowed under IRC Section 401(k) if made as a result of automatic enrollment. The IRS concluded that the automatic contribution arrangement met the core requirement (the cash or deferred election) to constitute a 401(k), provided the participant received notice of the availability of the election and a reasonable period to make the election before the automatic enrollment occurred. Rev. Rul. 98-30 illustrates that, if structured appropriately, automatic enrollment does not convert an otherwise voluntary contribution into an involuntary contribution under IRC Section 401(k).

In Rev. Rul. 2008-8; 2000-1 C.B. 617, 2/14/2000, the IRS restated and amplified Rul. Rul. 98-30, but did not change the holding that amounts contributed because of an automatic enrollment are elective contributions made under a 401(k).

In Rev. Rul. 2000-33; 2000-2 C.B. 142 (July 31, 2000) and Rev. Rul. 2000-35; 2000-2 C.B. 138 (July 31, 2000), the IRS approved the use of automatic enrollment in IRC Section 457(b) and Section 403(b) plans – plans that allow employee voluntary pre-tax contributions. Although PSERS cannot require a school district to adopt and implement automatic enrollment, our finding is that automatic enrollment is an option in a 403(b) plan.

As the above-discussion suggests, the development of automatic enrollment has occurred mainly in plans that permit voluntary employee pre-tax contributions – 401(k), 403(b) and governmental 457 plans. Our review of some pre-approved IRS plan documents found that employee voluntary after-tax contributions is an option without automatic enrollment, but the omission of automatic enrollment may be indicative of the sponsor’s view that the use of such a provision would be minimal because the more federal tax efficient means to make an after-tax contribution is through a designated Roth contribution, which cannot be offered by a traditional governmental Section 401(a) plan.

The IRS did reference automatic enrollment in the context of employee voluntary after-tax contributions in Rev. Rul. 98-30 and Rev. Rul. 2000-8 in the following statement that describes the 401(k) involved in the rulings: “If Plan A were to permit after-tax employee contributions, then the amounts contributed to the plan would have to be designated or treated, at the time of the contribution, as pre-tax compensation reduction contributions or after-tax employee contributions.” The message of this statement is not clear. Further, this statement is not central to the holdings in the rulings making reliance thereon uncertain. In an article dated July 7, 1998, the author discussed the implications of Rev. Rul. 98-30 and appears to think that automatic enrollment could apply to employee voluntary after-tax contributions. No other discussions or

articles on automatic enrollment in the context of employee voluntary after-tax appears to be available.

While this is the first time that the IRS has used a revenue ruling to generally approve the use of negative elections, the agency has previously . . . A somewhat surprising feature of the ruling is the explicit approval given to the use of after-tax contributions in the negative election format. Plan sponsors may be interested in considering whether participants are best served by having automatic enrollment contributions made to pre-tax or after-tax accounts. Pension and Benefits Week, 07/27/1998. (Emphasis added).

Automatic enrollment in a governmental Section 401(a) plan is an acceptable feature only if it does not adversely affect the intended “qualified” status of the plan. Mandatory employee contributions and employee voluntary after-tax contributions are permissible contributions in a governmental Section 401(a) plan. Automatic enrollment and auto-escalate seem to fit within the extremes of these permitted contributions and would arguably not adversely affect the “qualified” status of a plan. Further, these features are squarely consistent with the promotion of automatic enrollment as seen in the evolution of the federal pension laws.

Automatic Deductions – State Law

Pennsylvania has imposed certain restrictions on the ability of employers to effect payroll deductions. Known as the Pennsylvania Wage Payment and Collection Law (WPCL), the WPCL limits payroll deductions that can be made by Pennsylvania employers. 43 P.S. § 260.3. The law, however, has a limited definition of “employer,” which does not include school districts or other public employers:

“EMPLOYER.” Includes every person, firm, partnership, association, corporation, receiver or other officer of a court of this Commonwealth and any agent or officer of any of the above-mentioned classes employing any person in this Commonwealth.

43 P.S. § 260.2a. The United States District Court for the Third Circuit addressed this provision in 2008, and concluded that the WPCL does not apply to public employers. *Stump v. Richland Twp.*, 278 Fed. Appx. 205, 207 (3d Cir. 2008) (“The district court denied Stump’s WPCL claim because the statute does not apply to public employers. Stump now concedes that the WPCL does not apply . . .”). Leading to the Third Circuit’s decision, the district court cited numerous cases supporting its finding that the WPCL, or the PWPCL (Pennsylvania WPCL), does not apply to public employers, and therefore, public employees:

The PWPCL defines an employer as “every person, firm, partnership, association, corporation, or receiver . . . employing any person in this Commonwealth.” 43 Pa.C.S. § 260.2a. Courts have determined, however, that the PWPCL does not apply to entities such as boroughs, school districts, counties and municipal employers. See *Huffman v. Borough of Millvale*, 139 Pa. Commw. 349, 591 A.2d 1137, 1138-39 (Pa. Comm. 1991) (“there is a clear distinction between municipal and private corporations and, if the legislature wished that municipal corporations be covered by the Law, it could have easily included them”); *Ziegler v. County of Bucks*, 1992 U.S. Dist. LEXIS 9043, 1992 WL 129643, at *12-13 (E.D. Pa. June 8, 1992) (granting the defendant county and county employees’ motion for

summary judgment because the PWPCL does not apply to municipal corporations); *Phillipsburg-Osceola Educ. Ass'n v. Phillipsburg-Osceola Area Sch. Dist.*, 159 Pa. Commw. 124, 633 A.2d 220, 223 (Pa. Comm. 1993); *Gallaher v. Goldsmith*, 213 F. Supp. 2d 496, 499 (E.D. Pa. 2002). Because Defendants are a municipality and its employees, summary judgment will be granted on this Count.

Stump v. Richland Twp., 2005 U.S. Dist. LEXIS 13994, *23-24 (E.D. Pa. 2005).

Even if the WPCL were to apply, nevertheless automatic deductions for retirement contributions, including the auto-escalation feature, would still be legal, provided legislation is passed authorizing the deductions. Section 3 of the WPCL prohibits deductions from wages except for: 1) deductions provided by law; or 2) deductions authorized by regulation of the Department of Labor and Industry for the convenience of the employee. 43 P.S. § 260.3. Similarly, regulations promulgated by the Pa. Department of Labor, interpreting the WPCL, appear to require statutory authorization to allow for such feature to be included in the PSERS Plan. *See* 34 Pa. Code § 9.1.

Accordingly, if such a deduction is provided for by law, through new legislation, then such automatic enrollment arrangements would be permissible under the WPCL.

Economic News Release

Table 1. Retirement benefits: Access, participation, and take-up rates

Table 1. Retirement benefits:(1) Access, participation, and take-up rates,(2) March 2017

(All workers = 100 percent)

Characteristics	Civilian(3)			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
All workers.....	70	54	77	66	50	75	91	80	88
Worker characteristics									
Management, professional, and related.....	85	73	86	82	70	86	94	81	86
Management, business, and financial.....	88	77	88	87	76	88	-	-	-
Professional and related.....	84	71	85	79	67	84	93	80	86
Teachers.....	85	74	87	-	-	-	94	81	86
Primary, secondary, and special education school teachers.....	94	82	87	-	-	-	99	86	87
Registered nurses.....	89	74	84	-	-	-	-	-	-
Service.....	47	30	62	42	22	54	84	76	90
Protective service.....	79	63	80	61	32	52	92	86	94
Sales and office.....	72	53	74	70	51	72	91	80	88
Sales and related.....	67	41	62	67	41	61	-	-	-
Office and administrative support	75	60	80	72	57	79	92	81	88
Natural resources, construction, and maintenance.....	66	52	79	63	48	77	97	89	91
Construction, extraction, farming, fishing, and forestry..	62	49	80	58	45	78	-	-	-
Installation, maintenance, and repair	69	54	78	67	51	76	-	-	-
Production, transportation, and material moving.....	71	54	76	71	53	75	90	80	89
Production.....	74	56	76	74	56	76	-	-	-
Transportation and material moving.....	69	52	75	68	50	74	-	-	-
Full time.....	81	65	80	77	60	78	99	87	88
Part time.....	38	22	59	38	21	56	46	39	84
Union.....	94	83	88	92	82	90	97	83	86
Nonunion.....	66	49	75	64	47	73	86	77	89
Average wage within the following categories:(4)									
Lowest 25 percent.....	45	25	55	42	21	51	78	68	87

Table 1. Retirement benefits: Access, participation, and take-up rates

Lowest 10 percent....	34	15	44	33	14	41	67	58	87
Second 25 percent.....	70	52	74	66	46	70	94	83	88
Third 25 percent.....	82	68	83	78	64	81	98	86	88
Highest 25 percent.....	90	80	89	88	77	88	97	84	87
Highest 10 percent...	91	81	89	89	81	90	96	82	85
Establishment characteristics									
Goods-producing industries.....	75	60	80	75	60	80	-	-	-
Service-providing industries.....	69	53	77	65	48	74	91	80	88
Education and health services.....	80	65	81	72	57	79	93	79	85
Educational services	88	76	86	72	64	89	93	79	86
Elementary and secondary schools..	90	78	87	-	-	-	93	80	86
Junior colleges, colleges, and universities.....	91	77	85	88	78	89	92	76	83
Health care and social assistance....	74	57	78	72	56	77	93	78	83
Hospitals.....	91	78	86	-	-	-	93	77	83
Public administration..	91	84	92	-	-	-	91	84	92
1 to 99 workers.....	55	40	73	53	37	71	87	79	90
1 to 49 workers.....	50	36	72	49	34	71	85	78	91
50 to 99 workers.....	68	50	73	65	46	70	90	80	89
100 workers or more.....	85	68	80	83	65	78	93	80	87
100 to 499 workers.....	80	61	76	79	58	73	91	81	90
500 workers or more....	91	77	85	89	76	85	93	80	86
Geographic areas									
Northeast.....	72	58	82	68	55	80	91	80	88
New England.....	73	57	78	71	55	78	86	68	80
Middle Atlantic.....	71	59	83	67	54	81	93	84	90
South.....	71	53	74	67	47	71	94	83	89
South Atlantic.....	71	54	76	68	50	74	92	79	87
East South Central.....	72	50	70	68	44	64	94	85	91
West South Central.....	70	52	74	65	45	69	97	87	90
Midwest.....	73	56	77	70	53	75	90	76	85
East North Central.....	72	55	76	70	52	75	88	74	84
West North Central.....	75	58	77	72	54	75	92	80	87
West.....	64	51	79	60	46	77	89	78	88
Mountain.....	66	52	78	63	47	75	86	78	91
Pacific.....	63	50	80	58	45	78	90	79	87

1 Includes defined benefit pension plans and defined contribution retirement plans. Workers are considered as having access or as participating if they have access to or are participating in at least one of these plan types.

2 The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan, rounded for presentation.

3 Includes workers in private industry and state and local government. See Technical Note for further explanation.

4 Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using wage data for March 2017.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20162017.htm.

Source: Bureau of Labor Statistics, National Compensation Survey.

Table of Contents

Last Modified Date: December 07, 2017

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The Continuing Retirement Savings Crisis

By Nari Rhee, PhD and Ilana Boivie

March 2015

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Nari Rhee is Manager of the Retirement Security Program at the Institute for Research on Labor and Employment/ Center for Labor Research and Education at the University of California at Berkeley, focused on research and policy development to improve the retirement security of low- and middle-wage workers. She served as Manager of Research for the National Institute on Retirement Security from September 2012 to November 2014, conducting research on issues ranging from state level public pension reform to the private sector retirement savings crisis. She holds a PhD from the University of California at Berkeley and an MA from the University of California at Los Angeles. She is a member of the National Academy of Social Insurance.

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ACKNOWLEDGEMENTS

We are grateful for the assistance of Monique Morrissey in providing comments on the data findings presented in this paper. However, any errors and omissions in this report are those of the authors alone.

EXECUTIVE SUMMARY

With the Baby Boom generation beginning to retire, more emphasis has recently focused on Americans' financial security in retirement. Most recent studies show that many Americans are ill-prepared for retirement, and that they are highly anxious about their ability to retire. The financial crisis of 2007-2008 was a huge setback for households. Since then, the combined value of 401(k) accounts and IRAs increased to a record high of \$11.3 trillion at the end of 2013. Does this translate to improved retirement security for average American households? Unfortunately, the answer is no: the typical American household was further behind in retirement readiness in 2013 than in 2010 and 2007.

This report, an update of a previous NIRS report published in 2013,¹ examines the readiness of working-age households, based primarily on an analysis of the 2013 Survey of Consumer Finances (SCF) from the U.S. Federal Reserve. The study analyzes workplace retirement plan coverage, retirement account ownership, and household retirement savings as a percentage of income, and estimates the share of working families that meet financial industry recommended benchmarks for retirement savings.

The key findings of this report are as follows:

1. **Account ownership rates are closely correlated with income and wealth. Nearly 40 million working-age households (45 percent) do not own any retirement account assets, whether in an employer-sponsored 401(k) type plan or an IRA.** Households that do own retirement accounts have more than 2.4 times the annual income of households that do not own a retirement account.
2. **The average working household has virtually no retirement savings.** When all households are included—not just households with retirement accounts—the median retirement account balance is \$2,500 for all working-age households and \$14,500 for near-retirement households. Furthermore, 62 percent of working households age 55-64 have retirement savings less than one times their annual income, which is far below what they will need to maintain their standard of living in retirement.
3. **Even after counting households' entire net worth—a generous measure of retirement savings—two-thirds (66 percent) of working families fall short of conservative retirement savings targets** for their age and income based on working until age 67. Due to a long-term trend toward income and wealth inequality that only worsened during the recent economic recovery, a large majority of the bottom half of working households cannot meet even a substantially reduced savings target.
4. **Public policy can play a critical role in putting all Americans on a path toward a secure retirement by strengthening Social Security, expanding access to low-cost, high quality retirement plans, and helping low-income workers and families save.** Social Security, the primary edifice of retirement income security, could be strengthened to stabilize system financing and enhance benefits for vulnerable populations. Access to workplace retirement plans could be expanded by making it easier for private employers to sponsor DB pensions, while national and state level proposals aim to ensure universal retirement plan coverage. Finally, expanding the Saver's Credit and making it refundable could help boost the retirement savings of lower-income families.

INTRODUCTION

With the Baby Boom generation beginning to retire, more emphasis has recently focused on Americans' financial security in retirement. Most recent studies show that many Americans are ill-prepared for retirement, and that they are highly anxious about their ability to retire.² In a recent survey of Americans' views on retirement security nearly 6 out of 10 strongly agreed that America is facing a retirement crisis.³

Over the past several decades, more and more private sector employers have shifted away from traditional defined benefit (DB) pensions, retirement plans that provide a guaranteed, monthly income stream that cannot be outlived, and are managed by professionals. These plans have been replaced with defined contribution (DC) plans, such as 401(k) plan accounts, in which the risk and much of the funding burden falls on individual employees, who tend to have difficulty contributing enough on their own, who typically lack investment expertise, and who may have difficulty figuring out how to spend down their nest egg in retirement. At the same time, the national public policy debate is focused on proposals to reduce the benefits provided by Social Security, which serves as the primary foundation of retirement income security for most Americans and provides a critical bulwark against old-age poverty.

The catastrophic financial crisis of 2008 exposed the vulnerability of the new DC-centered retirement system. Americans saw the value of their hard-earned nest eggs plummet when the financial markets crashed and destroyed trillions of dollars of household wealth. Since then, the combined value of 401(k) accounts and IRAs increased to a record high of \$11.3 trillion at the end of 2013. Unfortunately, this did not translate to improved retirement security for the majority of American families. In fact, the typical American household did not gain much ground in retirement readiness in 2013 compared to 2010 and 2007, and lost ground by some measures. There is strong evidence that slow employment and wage growth, combined with rising inequality, have further eroded median family income and made it more challenging than ever to save for retirement—and that the retirement crisis is getting worse.⁴

In this uncertain environment, working families face an ongoing quandary: how much income will they need to retire, and will they ever have enough? To maintain its standard of living in retirement, the typical working American household needs to replace roughly 85 percent of pre-retirement income.⁵ This replacement rate may seem high, but it does not fully account for medical costs which can escalate rapidly during retirement.⁶ Social Security, under the current benefit formula, provides a replacement rate of roughly 35 percent for a typical household. This leaves a retirement income gap equal to 50 percent of pre-retirement earnings that must be filled through other means.

For a shrinking percentage of families, a portion of the retirement income needed left after accounting for Social Security will be closed by a DB pension. Most families, however, must rely primarily on their own investments through an employer-sponsored plan such as a 401(k) if available or, if not, an Individual Retirement Account (IRA), and other forms of private wealth.⁷ Financial experts suggest targets of 8-11 times income in retirement assets in order to replace 85 percent of pre-retirement income. Since the 2008 crisis, some experts have begun to recommend a contribution rate of 15 percent of pay—rather than the previous 10 percent—over a 40-year career in order to meet this target.⁸

This is a hefty savings burden, one that the vast majority of households have not been able to meet.⁹ The magnitude of this crisis is considerably worse than many realize. For instance, a commonly cited statistic is the average 401(k) balance of \$100,000—or higher, depending on the source—for households near retirement age.¹⁰ Not only is this sum inadequate to provide meaningful income security for the typical household; it also only counts those that own retirement accounts in the first place.

This report examines the readiness of *all* working-age households, based primarily on the authors' analysis of the 2013 Survey of Consumer Finances (SCF) from the U.S. Federal Reserve.¹¹ This report analyzes workplace retirement plan coverage, retirement account ownership, and retirement

savings as a percentage of income among U.S. households age 25-64. The report also estimates the magnitude of the shortfall in working families' savings compared to financial industry recommended benchmarks. The study is organized as follows:

- **Section I** summarizes historical and generational trends in access to and participation in employer-sponsored retirement plans, which remain the primary vehicle for tax-advantaged retirement wealth accumulation for workers.
- **Section II** examines rates of household participation in DC retirement accounts—including employer-sponsored, 401(k) type plans or private retirement accounts like traditional and Roth Individual Retirement Arrangements (IRAs)—and identifies differences by income and wealth.
- **Section III** analyzes DC account balances and ratios of retirement savings to income for working-age households with at least one earner.
- **Section IV** estimates the share of working families that do not meet financial industry recommended benchmarks for retirement savings.
- **Section V** explores the policy implications of these findings, focusing on Social Security, access to retirement savings vehicles, and lower-income households' ability to save.

I. LOWER COVERAGE, LESS SECURITY: EMPLOYER-SPONSORED RETIREMENT PLANS

Employer-sponsored retirement plans remain the most important vehicle for providing retirement income among working households after Social Security. However, a large share of American workers lack access to an employer-sponsored retirement plan through their employer. Those who do participate in a retirement plan are much likely to be enrolled in an individual 401(k) type account rather than a group DB pension. DC plans like 401(k)s offer the advantage of portability for a mobile labor force, but place all of the investment risk and most (if not all) of the contribution burden on individual workers. In traditional DB plans, employers bear the investment risk and primary funding responsibility, assets are usually managed by professionals, and workers benefit from secure monthly income that lasts through retirement. Because they are pooled, DB pensions provide significantly higher retirement income than DC plans for the same contribution rate.¹²

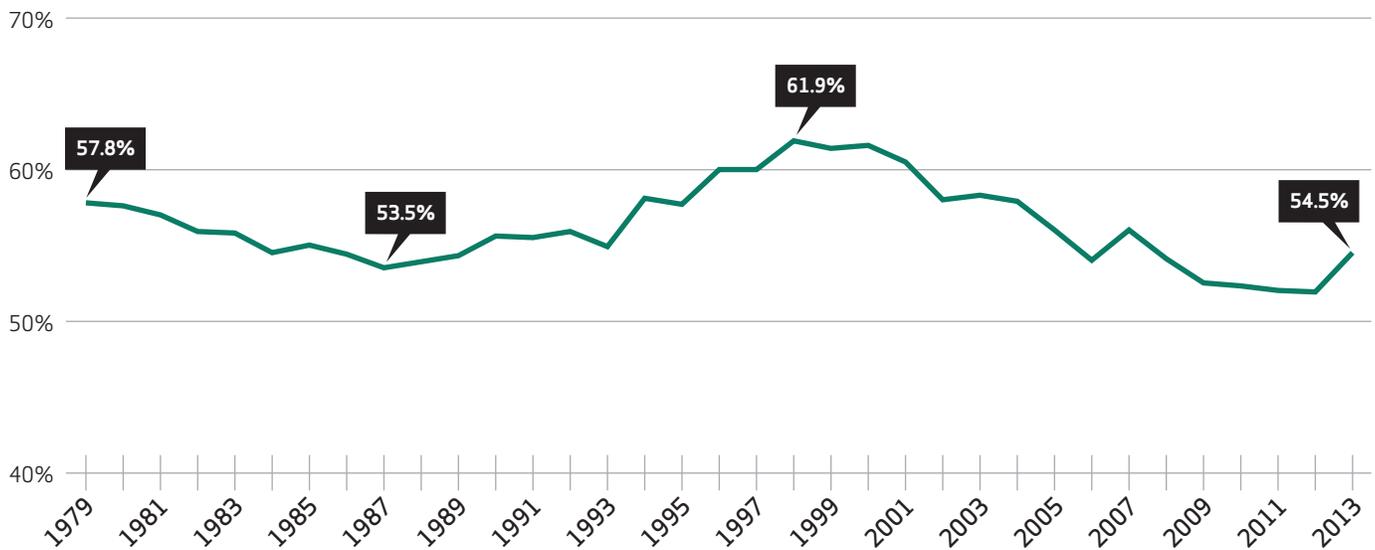
In this section, we analyze worker and household level participation in employer sponsored retirement plans, drawing on the U.S. Bureau of Labor Statistics' Current Population

Survey (CPS)¹³ and the SCF. We find declining access to workplace retirement benefits at the worker and household level, a decline in DB coverage and increase in DC coverage among households that participate in workplace plans since the late 1990s, and a resulting generation gap in which younger households are half as likely to be covered by a DB pension through their workplace as those near retirement.

Figure 1 illustrates historical trends in access to employer-sponsored retirement benefits, whether DB or DC, among private sector wage and salary employees age 25-64 based on an analysis of the CPS. "Access" denotes working for an employer that sponsors a retirement plan of some kind, regardless of whether an individual worker qualifies or participates. The percentage of workers whose employers sponsored a retirement plan declined during the 1980s, to 54 percent in 1988. Workplace retirement plan access increased during the next decade—particularly the mid to late 1990s when economic growth and low unemployment lifted wages across the board—reaching 62 percent in 1999-2001. Access dropped steeply in the aftermath of the 2001 recession and

Figure 1:
Only 55 Percent of Private Sector Workers Have Access to a Retirement Plan at Work

Private sector wage and salary workers age 25-64 whose employers sponsor a retirement plan, 1979-2013



Source: Authors' analysis of CPS.

then again after 2008 financial collapse. In 2013, access finally started to increase, after more than a decade of decline, to nearly 55%. However, this still means that over 45 percent—some 43.3 million individuals—worked for an employer that did not sponsor a retirement plan in 2013. Even among full-time employees in the same age group, 42 percent—or 34.4 million—had no access.

Workers who lack access to an employer-sponsored retirement plan tend to work for smaller firms, and to be low- to middle-wage employees.¹⁴ Large firms generally offer more generous benefits. For example, in 2014, 46 percent of workers in firms with 500 or more employees had access to a DB pension.¹⁵ Small businesses—which account for approximately two-thirds of workers that lack access to a retirement plan—often find it too expensive and complicated set up any kind of retirement plan. In addition, earnings levels make a difference; firms that employ high-wage labor tend to offer at least a 401(k) type benefit with matching contributions as a recruitment tool,

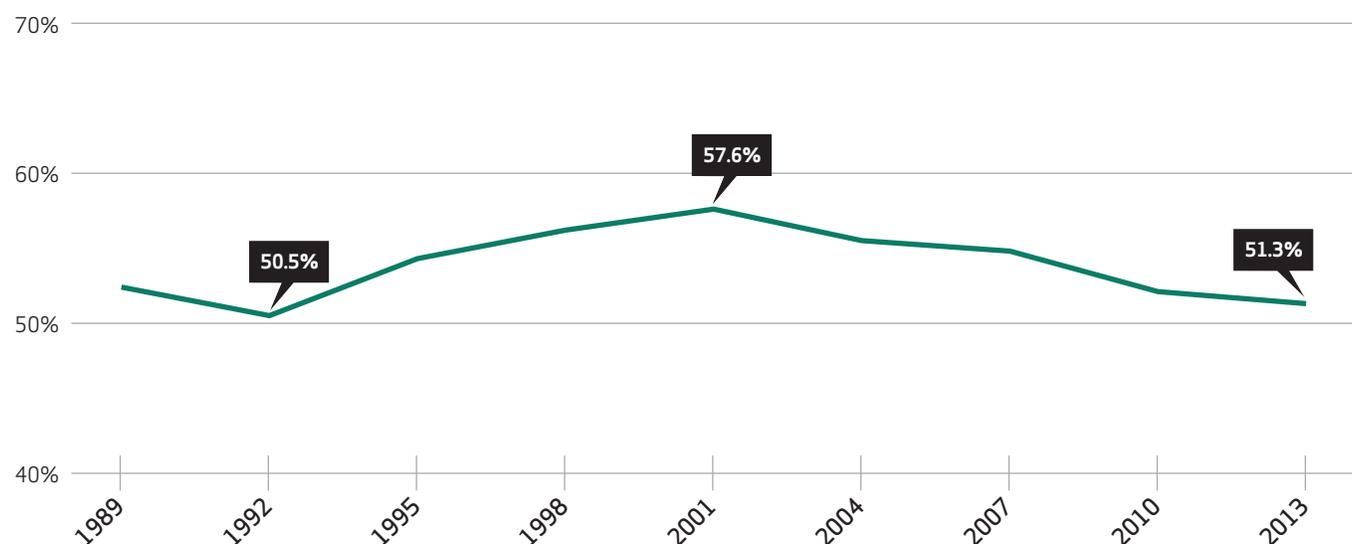
and those small businesses that offer a retirement plan tend to fall into this category. Small and large employers in low-wage industries are less likely to offer a retirement plan.

The trend toward declining access over the past decade in the private sector, which accounts for most employment, is also reflected at the household level (**Figure 2**). The share of working-age households in which the head or spouse reported *participating* in—not just having access to—a workplace retirement plan peaked in the 2001 SCF and has declined since. Consequently, the share of U.S. working families in which either the head of household or the spouse participated in a retirement plan through their job decreased from 57.6 percent in 2001 to 51.3 percent in 2013.¹⁶

While a shrinking percentage of households participating in workplace retirement plans, the retirement income security provided by such plans has also diminished. Among working-age households in which the head or spouse participated in

Figure 2: Only 51 Percent of Working-Age Households Participate In Workplace Retirement Plans

Employer-sponsored retirement plan coverage among households with heads age 25-64, 1989-2013



Source: Authors' analysis of SCF, various years.

an employer-sponsored retirement plan through a current job, the share that had a DB pension—whether alone or with a DC account—declined rapidly from 67 percent in 1989 to 43 percent in 1998 (**Figure 3**). Conversely, the share of participating households that only had a DC plan grew from 33 to 57 percent during the same period. The decline in DB pensions and the increase in DC plans has continued since 1998, albeit more slowly. In 2013, 40 percent of households participated in a DB plan through a job held by the head and/or spouse, and 60 percent participated in only a DC plan.

Households currently near retirement represent the last generation of workers to enjoy widespread DB pension coverage, and as the Baby Boom generation continues to retire, the share of near-retirement households with DB pensions continues to decline, as illustrated in **Figure 4**. Among households covered by workplace retirement benefits, a majority (57 percent) of older households age 55-64 are covered by a DB pension. This age group saw a 3 percentage point decline in coverage since 2010. Younger households are

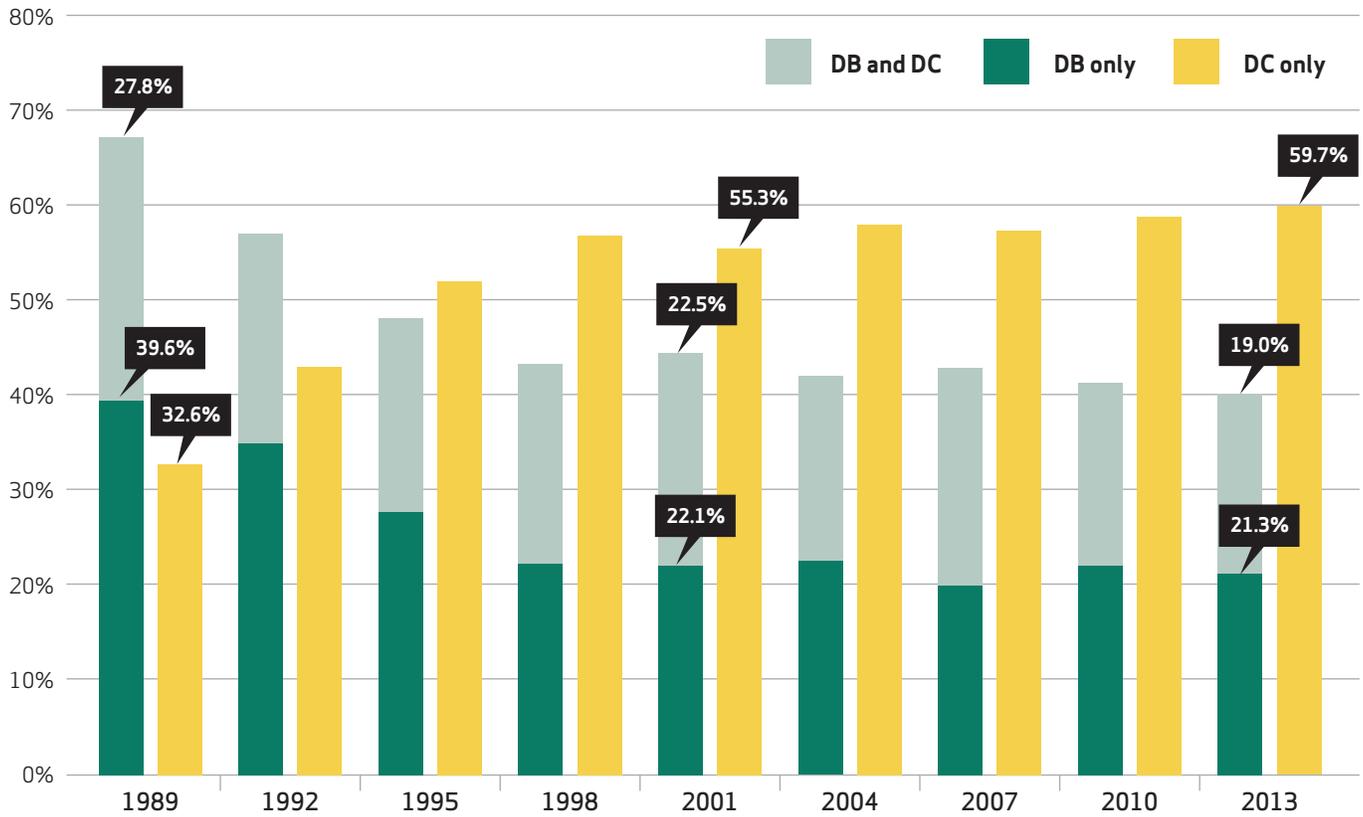
half as likely to have a DB pension than older households—29 percent for age 25-34 and 30 percent for age 35-44.

This trend away from DB plans has had profound implications for the retirement income security of working households. When the federal law creating 401(k) plans was originally passed in 1978, they were intended to supplement—not replace—DB pensions. These 401(k) plans have the advantage of portability and faster vesting of benefits, compared to traditional DB pensions in which workers usually must wait several years to vest, and where benefits are tied to a single employer or group of employers. However, it is widely recognized that 401(k)s also expose workers to a host of risks that they are ill-equipped to bear as individuals: inadequate contributions, poor investment choices, financial market volatility, and outliving their retirement savings.

The following section will examine how American working-age families are faring in wealth accumulation in the DC-centered retirement system.

Figure 3: Six out of Ten Households Covered by a Workplace Retirement Plan Have Only a 401(k) Type Benefit

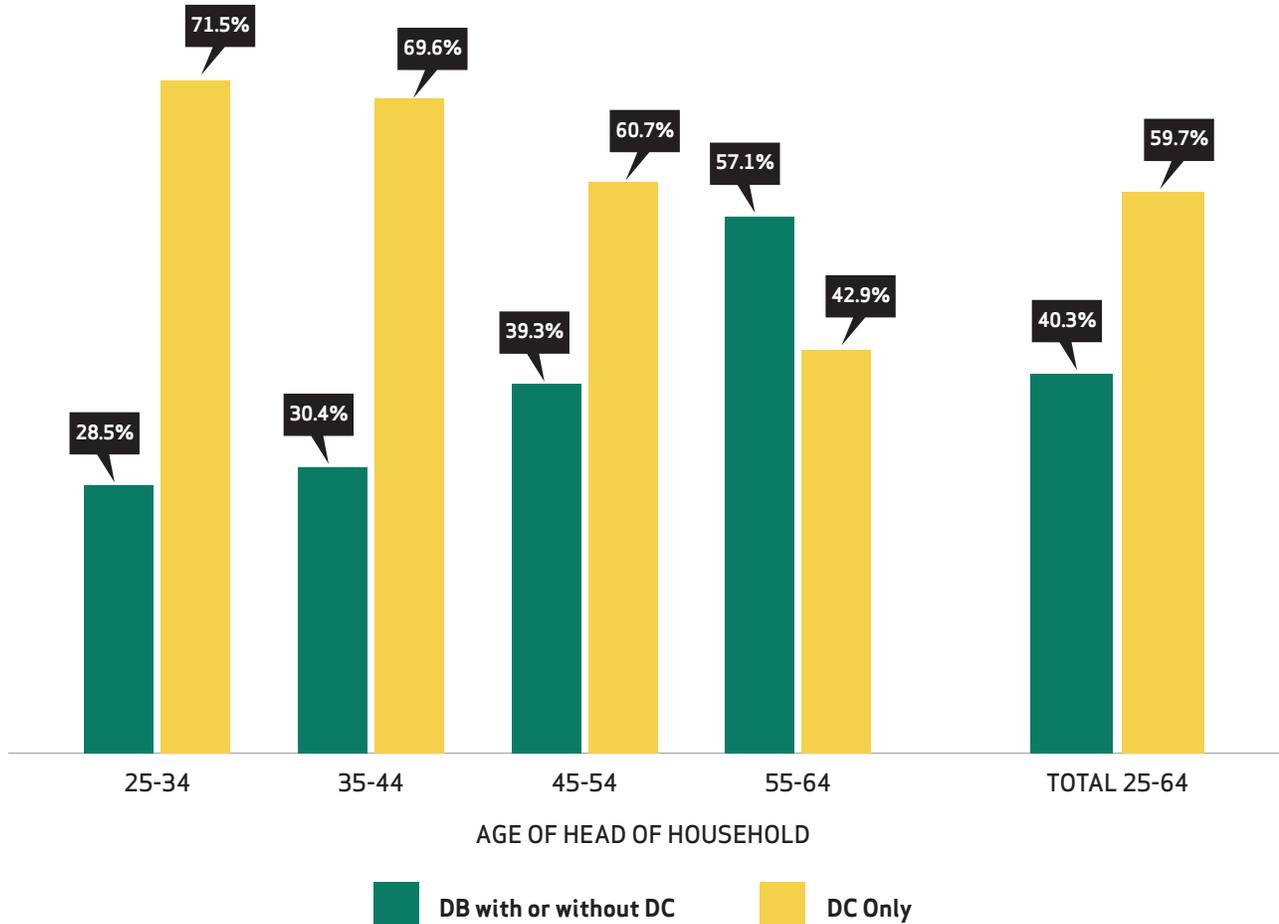
DB and DC plan participation among households covered by an employer-sponsored retirement plan, 1989-2013



Source: Authors' analysis of 2013 SCF. Universe is households with heads age 25-64 in which the head or spouse is covered by a retirement plan through their current job.

Figure 4: Young Households with Workplace Retirement Benefits Are Half as Likely as Near-Retirement Households to Have a DB Pension

DB and DC plan coverage among households covered by an employer-sponsored retirement plan, by age of head of household, 2013



Source: Authors' analysis of 2013 SCF. Universe is households with heads age 25-64 in which the head or spouse is covered by a retirement plan through their current job.

II. MARKED DISPARITIES: RETIREMENT ACCOUNT OWNERSHIP

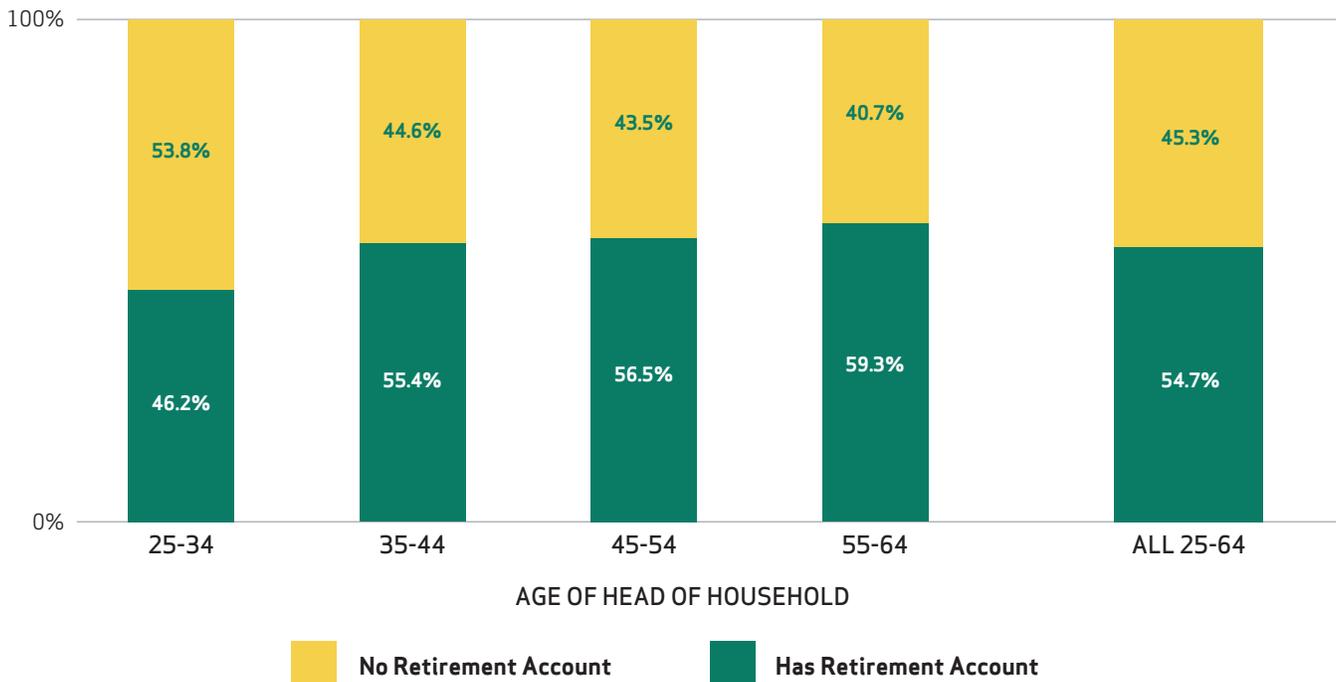
A large share of U.S. working-age households do not own any retirement account assets, and retirement account asset ownership rates are characterized by marked disparities according to income and wealth.¹⁷ This section examines rates of participation in retirement accounts among working-age households. Retirement accounts include both employer-sponsored plans like 401(k)s, 403(b)s, 457(b)s, SEP IRAs, and Simple IRAs, and private retirement accounts like traditional IRAs and Roth IRAs. They do not include DB pensions.¹⁸ This section also draws out key socioeconomic distinctions between households that own at least one retirement account and those with no assets held in a retirement account.

For the purposes of this analysis, a household is considered to own a retirement account if its total retirement account assets are greater than zero, consistent with the Federal Reserve’s analysis of SCF retirement accounts data.¹⁹

Figure 5 shows retirement account ownership rates among working-age households by age group. Significantly, a large share of households lack retirement account assets: 45 percent of all working-age households, and 41 percent of near-retirement households.²⁰ All told, nearly 40 million working-age households in the U.S. do not have retirement account assets (**Table 1**).

Figure 5: Over 45 Percent of all Working-Age Households Do Not Own Assets in a Retirement Account

Household retirement account ownership by age of head of household, 2013



Source: Authors’ analysis of 2013 SCF.

Table 1: 39.6 Million Working-Age Households Do Not Own Assets in a Retirement Account

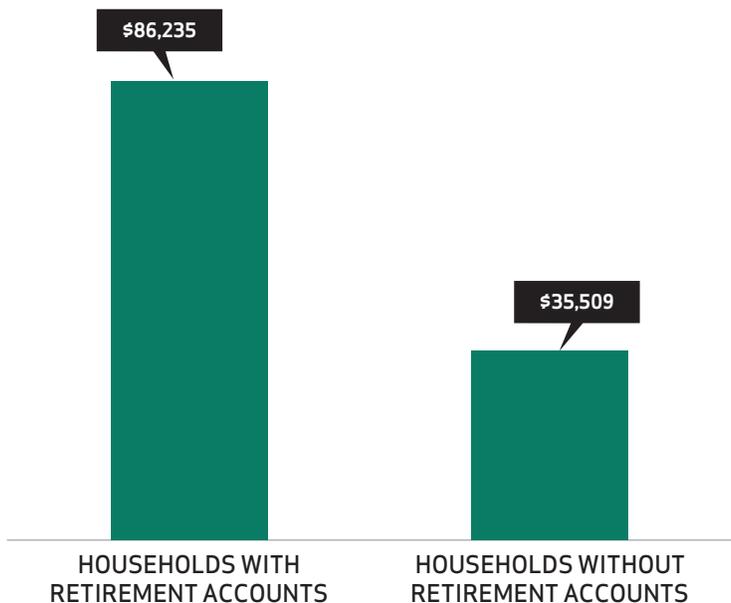
Number of households without retirement account assets, 2013

Age of Head	Number of Households (millions)
25-34	10.4
35-44	9.4
45-54	10.5
55-64	9.3
Total 25-64	39.6

Source: Authors' analysis of 2013 SCF.

Figure 6: Households with Retirement Accounts have 2.4 Times the Income of Households without Retirement Account Assets

Median income among working-age households by retirement account ownership status, 2013



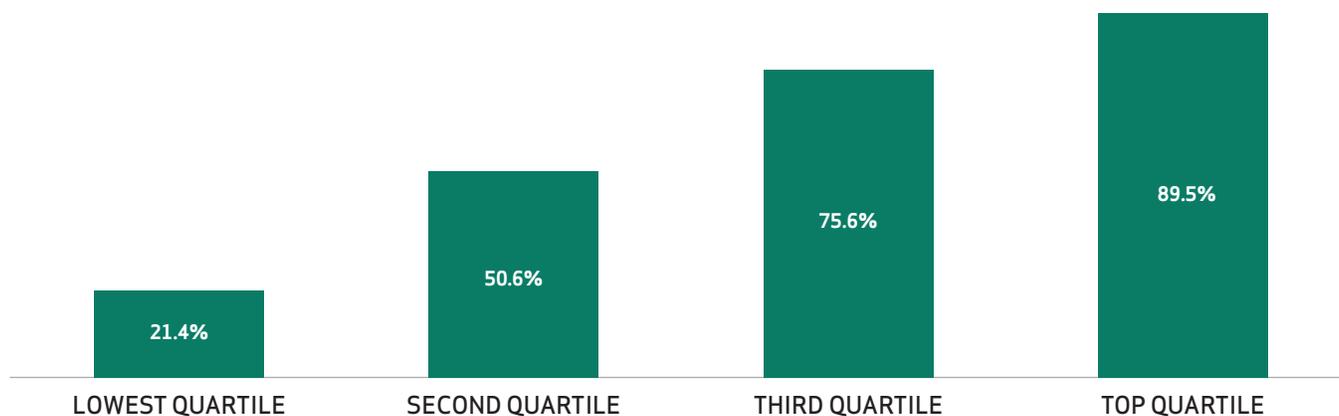
Source: Authors' analysis of 2013 SCF. Universe is households with heads age 25-64. Retirement account ownership status reported for 2013; income data reported for 2012. Those with negative earnings excluded. See Appendix for detailed methodology.

While there is a notable gap between older and younger households in retirement account ownership—46 percent among households age 25-34 versus 59 percent among households age 55-64—the participation gap is much wider across income groups (Figure 5). To begin, households with retirement accounts have a median income of \$86,235, compared to \$35,509 among households without retirement accounts—2.4 times as large (Figure 6).

Figure 7 shows the retirement account asset ownership of households by income quartile. (See Appendix for methodology.) The vast majority (90 percent) of households in the top income quartile own retirement account assets, as do 76 percent of the third (second-highest) income quartile. In comparison, 51 percent of the second-lowest income quartile and only 21 percent of households in the bottom income quartile own retirement account assets. In other words, retirement accounts are sharply concentrated in the top half of the income distribution. In addition, this retirement account ownership disparity has increased since 2010, when 90 and 72 percent of those in the highest two quartiles owned an account, versus 26 percent in the lowest quartile.²¹

Figure 7: Retirement Account Ownership is Heavily Concentrated Among Higher-Income Households

Share of households owning retirement accounts by household income quartile, 2013



Source: Authors' analysis of 2013 SCF. Universe is households with heads age 25-64. Retirement account ownership status reported for 2013; income data reported for 2012. Those with negative earnings excluded. See Appendix for detailed methodology.

III. RETIREMENT ACCOUNT BALANCES

While private saving has always played an important role in retirement, changes in the U.S. retirement system have put increasing emphasis on DC accounts in lieu of the DB pensions. The share of older adults who received DB pension income through their own or other spouse's former employer dropped from 52 percent in the late 1990s and early 2000s to 43 percent in 2010, and will continue to decline in the coming years.²²

The shift from DB pensions to DC plans has had profound consequences for American workers and families in terms of the risks and costs they now bear in saving and investing to fund their own retirement. Unfortunately, the typical household—even one near retirement—has negligible retirement account assets. A large majority of working-age households have little retirement savings in relation to their income.

This section examines median retirement account balances for the entire population of working-age households with heads age 25-64 and analyzes retirement account assets in relation to income for working households, defined as those

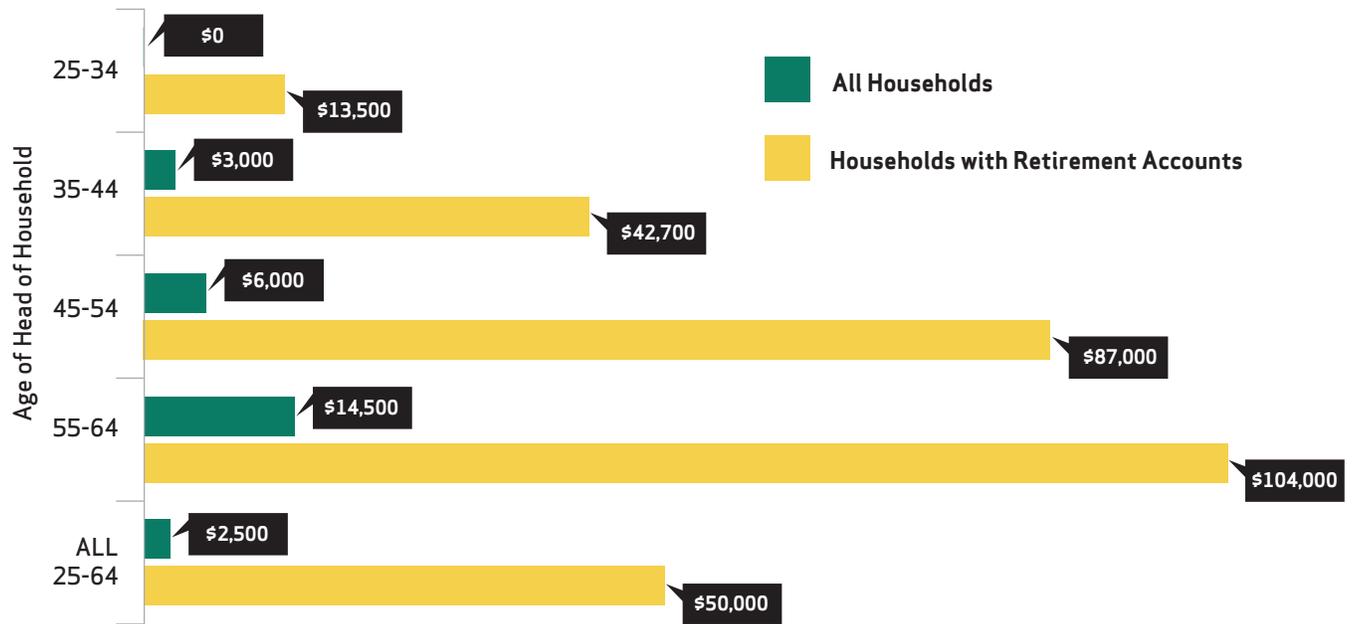
with earnings between \$5,000 and \$500,000, and total income below \$1 million.

Given that 45 percent of households do not own a retirement account, there is a large disparity between median (50th percentile) retirement asset balance figures counting only working-age households with retirement accounts, and those that count *all* working-age households (**Figure 8**). The median retirement account balance for households with retirement assets was \$50,000 in 2013, compared to \$2,500 for all households with heads age 25-64, compared to \$40,000 and \$3,000, respectively, in 2010 (unadjusted for inflation).

Even more significantly, among households approaching retirement (age 55-64), the median balance was \$104,000 for account-owning households and only \$14,500 for all households in that age group (**Figure 8**)—only a slight improvement from \$100,000 and \$12,000, respectively, in 2010. In other words, the average U.S. working-age household has virtually no retirement savings.

Figure 8: Typical Working-Age Household Has Only \$2,500 in Retirement Account Assets; Typical Near-Retirement Household Has Only \$14,500

Median retirement account balances, households with retirement accounts vs. contingent median account balance for all households, 2013



Source: Authors' analysis of 2013 SCF.

Even among households with retirement accounts, account balances are inadequate. For instance, take the 2013 median balance of \$104,000 for near-retirement households with a 401(k)-type account or IRA. This amount will only provide a few hundred dollars per month in income if the full account balance is annuitized, or if the household follows the traditionally recommended strategy of withdrawing 4 percent a year, which is risky in the current low-interest environment.²³

Another way to look at retirement savings is as a multiple of annual income. This provides a simple gauge with which to evaluate how well households are doing in preparing for retirement given their income level.

Figure 9 illustrates ratios of retirement account balances to household income among working-age households with at least one earner. Overall, some 40 percent of working households age 25-64 have no retirement savings. Another 39 percent have retirement savings less than 100 percent of

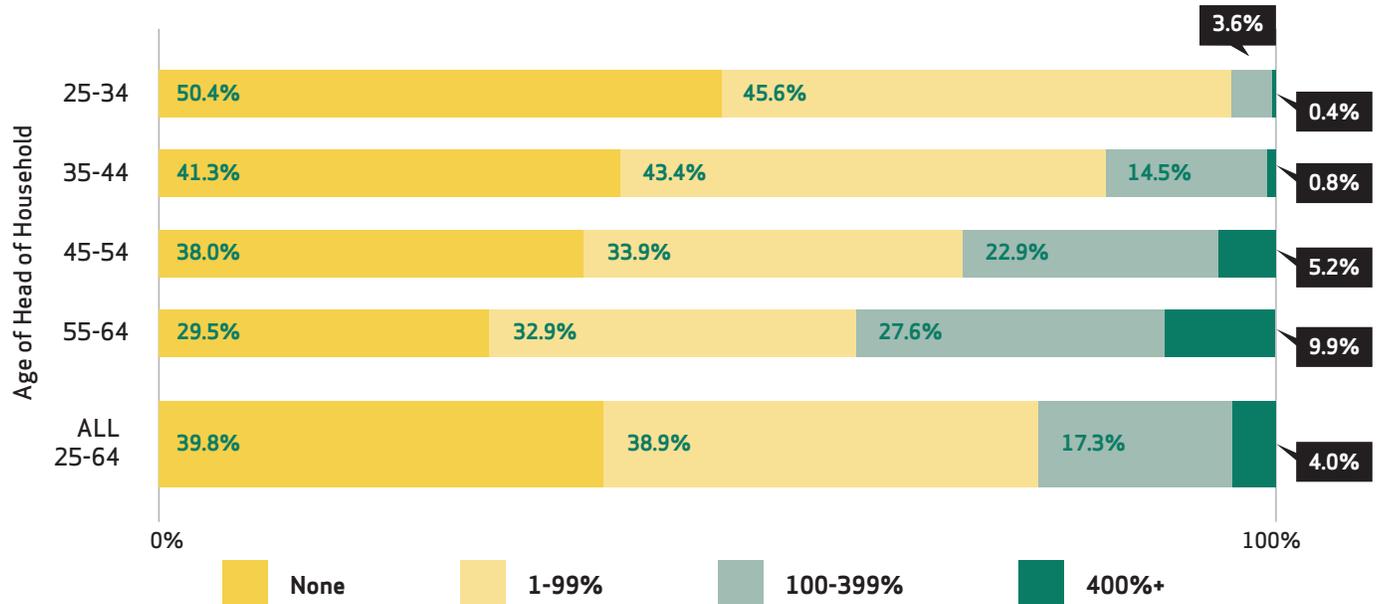
income. Among working households age 55-64, nearly 30 percent have no retirement savings, and another 33 percent have retirement savings less than 100 percent of their income. That is, 79 percent of all working households age 25-64 and 62 percent of working households approaching retirement have less than their annual income saved in retirement accounts.

Table 2 shows median ratios of retirement account balances and net worth to income, by age, for working households. The typical working household near retirement has less than one half the value of their annual income saved in a retirement account, and the typical young working household has no retirement savings. Further, the typical near-retirement working household has only about three times their annual income as their total net worth.

In short, most working households are behind in saving for retirement—not only in terms of 401(k) and IRA balances, but in terms of their total household assets. The following section explores this gap in more detail.

Figure 9: Nearly Four out of Five Working Households Have Retirement Savings Less than One Times Their Annual Income

Retirement account balance as a percentage of income among working households, 2013



Source: Authors' analysis of the 2013 SCF. Universe is households with heads age 25-64, with total earnings over \$5,000 and under \$500,000 and total incomes greater than zero and less than \$1 million.

Table 2: Typical Near-Retirement Households Have Less than Half of their Annual Income Saved in a Retirement Account

Median ratio of retirement wealth among working households, by age group, 2013

MEDIAN RATIO	AGE OF HEAD OF HOUSEHOLD			
	25-34	35-44	45-54	55-64
Retirement Account Balance to Income	0.00	0.09	0.18	0.46
Net Worth to Income	0.37	0.85	1.77	3.08

Source: Authors' analysis of the 2013 SCF. Universe is households with heads age 25-64, with total earnings over \$5,000 and under \$500,000 and total incomes greater than zero and less than \$1 million.

IV. FALLING SHORT BY ANY MEASURE: WORKING HOUSEHOLDS' RETIREMENT SAVINGS GAP

How much do households need to save in order to achieve retirement security? Most people do not have a clear idea of how much they need to save to have enough income—including Social Security—to maintain their standard of living in retirement. For instance, a \$200,000 retirement account balance may seem high, but is less than half of the minimum amount that a couple with \$60,000 in combined annual income will need, according to conservative estimates.

In order to determine how working households measure up to the standards suggested by some financial services experts as retirement savings goals, the following analysis compares net worth—total household assets minus household debt—to conservative retirement savings goals recommended by the financial services industry. Specifically, we used the age-specific savings benchmarks published by Fidelity Investments (see **Table 3**).²⁴

We chose the Fidelity standards as a benchmark because, all things considered, they represent a conservative, lower-bound estimate of savings needs. To begin, we acknowledge that for low- and middle- income workers, the 85 percent income replacement target underlying these standards is somewhat in the high range among estimates of the share of pre-retirement income that needs to be replaced in order to maintain a household's standard of living. Nonetheless, there are several factors that make the 8 times income target conservative:

- It does not fully account for increased medical and long term care costs in retirement.
- The expected Fidelity retirement age of 67 is several years later than today's median retirement age, and we believe that a large share of workers—including older women who take up caring for aging parents—will not be able to keep working until that age. An earlier retirement age than 67 requires greater retirement savings to maintain one's standard of living. For instance, Aon Hewitt, a large human resources consulting firm, estimates that the average workers will need to save 11 times salary in retirement assets in order to retire at age 65.²⁵

Table 3: Financial Industry Recommended Retirement Savings Targets

Recommended retirement savings targets as a ratio of income

Age	Savings Target as Multiple of Current Income	
	Fidelity (retire @ 67)	Aon Hewitt (retire @ 65)
25	0x	
30	.5x	
35	1x	
40	2x	
45	3x	
50	4x	
55	5x	
60	6x	
65	7x	11x
67	8x	

Source: Fidelity Investments 2012 and Aon Hewitt 2012. Both target 85% income replacement at retirement age.

- The savings target of 8 times income at age 67 is intended to last until 75th percentile life expectancy, which is somewhat short of the level recommended by most financial planners and leaves a one-in-four chance of running short of funds. In contrast, we define retirement income security in terms of the ability to maintain one's standard of living for as long as one lives—if not until maximum life expectancy, then at least the 85th or 90th percentile.

In addition, the measure that we chose to compare to the savings benchmarks—net worth—is a generous measure of retirement wealth, for three reasons. First, home equity accounts for a disproportionately large share of net worth—nearly 50 percent among near-retirees in the working households sample, and a greater share for the typical near-retiree household. While owning a home reduces housing costs, home equity is unlike financial wealth in that it is not easily converted into an income stream that can cover non-housing expenses. Second, net worth includes a variety of other financial and nonfinancial assets that are not intended to serve as a source of retirement income—e.g., college savings funds and Health Savings Accounts. Third, not all household assets will produce the level of returns that can be expected from a diversified portfolio held through a 401(k) or IRA. Thus in the following analysis, some assets are effectively over-valued in terms of their retirement income potential.

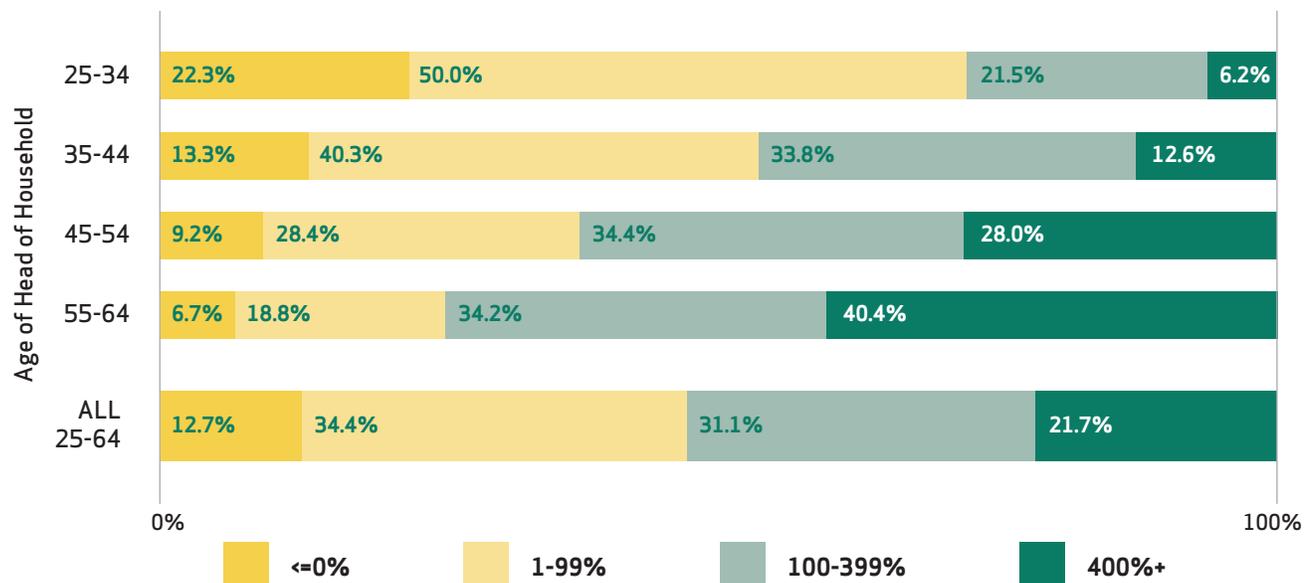
“Working households” in this analysis is defined as household with heads aged 25–64, earnings between \$5,000 and \$500,000 a year, and less than \$1 million total income. For this analysis, we calculated the percentage of working households

in the 2013 SCF sample that met Fidelity savings benchmarks listed in Table 2. Each household’s net worth was compared to the savings requirements that resulted from applying the target multipliers to household income. For instance, the median retirement savings target for households age 55–64 was approximately \$322,000 and the mean was \$630,000. A more detailed description of the methodology can be found in the Appendix.

An important caveat is that the following estimates rely on rule-of-thumb multipliers and are not based on detailed projections of the income needs of individual households, which vary with family size, marital status, income level and tax rates, health care needs, actual Social Security benefits, and other factors. Such a simple analysis provides a transparent and easy to understand assessment of household retirement readiness in *aggregate* terms, and thus are broadly suggestive rather than definitive. Nonetheless, the sensitivity analysis presented at the end of this section confirms that significantly lowering the savings bar for low-income households—which can expect higher income replacement from Social Security—makes little difference in the findings.

Figure 10: Nearly Half of Working Households Age 25-64 Have Net Worth Less than Annual Income

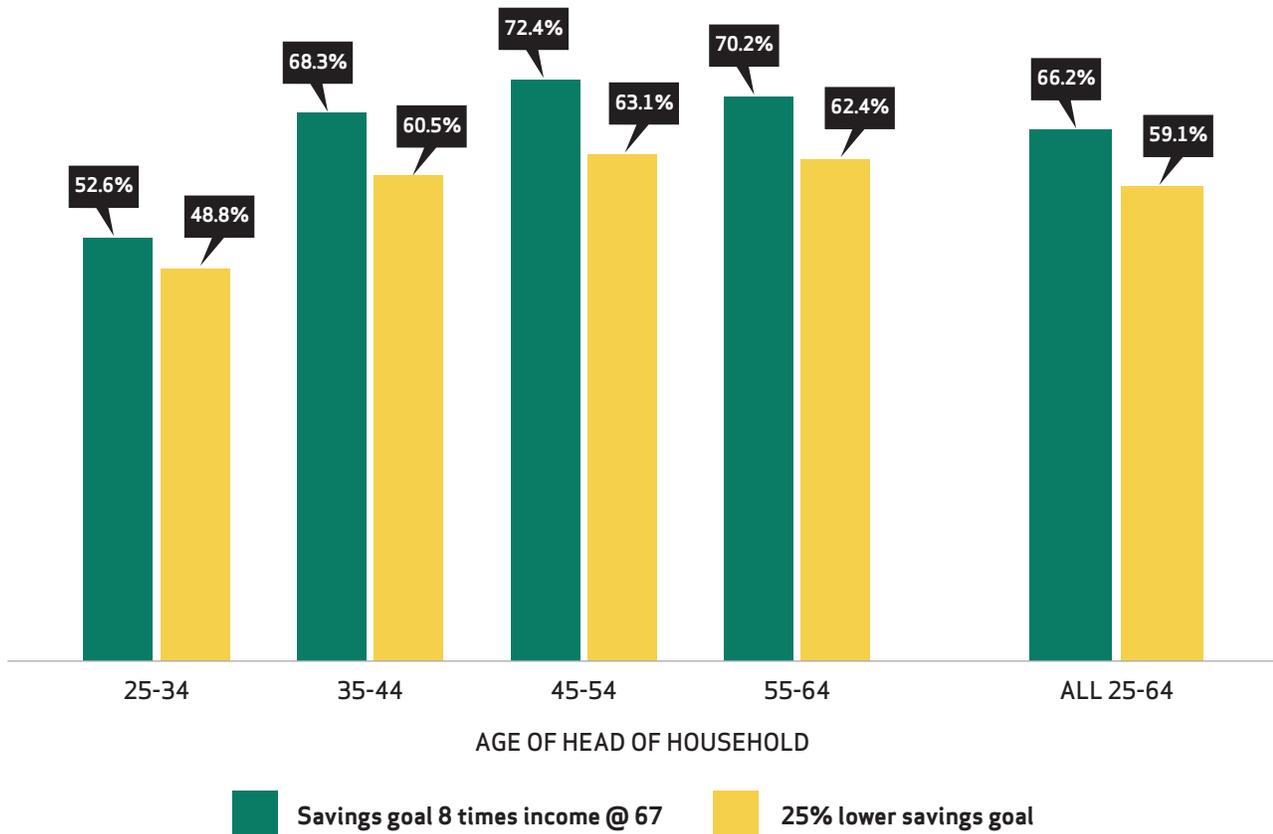
Ratio of net worth to income among working households, 2013



Source: Authors’ analysis of the 2013 SCF. Universe is households with heads age 25–64, with total earnings over \$5,000 and under \$500,000 and total incomes greater than zero and less than \$1 million.

Figure 11:
A Large Majority of Working Households Have Insufficient Retirement Wealth

Share of working households with net worth below retirement savings target, by age group, 2013



Source: Authors' analysis of 2013 SCF based on retirement savings targets adapted from Fidelity (2012). Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M. See methodology in Appendix.

As a context for the retirement savings target comparison, **Figure 10** illustrates the ratio of net worth to income among working households by age group. In 2013, nearly half (47.2 percent) of near-retiree households with at least one earner, and over one-third (37.6 percent) of households age 45-54 had net worth that was less than their annual income. Only two out of five households near retirement had net worth exceeding four times their annual income. Indeed, as Table 2 in the Section III showed, the typical near-retiree working household had net worth equal to about three times annual income—half the retirement savings level of 6 times income recommended by the savings benchmark for age 60. Among households age 45-54, the median ratio of net worth to income was only 1.77 in 2013—far short of the target of 4 times income by age 50.

Given the low level of household net worth relative to income, even among households nearing retirement age, it is no surprise that a large majority of working households age 25-64 fall short of financial industry recommended retirement savings targets. **Figure 11** shows the share of working households in each age group that did not meet savings targets in 2013. Results are shown for the baseline benchmarks targeting 8 times income by age 67, and a substantially reduced target of 6 times income by age 67. We will first discuss results for the baseline savings benchmark. Two-thirds (66 percent) of working households age 25-64 did not meet savings levels targeting 8 times income by age 67. This is comparable to the finding of 65 percent falling short in the previous study based on 2010 data. Among near-retiree households, a large majority (70 percent) did not meet this target. A similar share (72 percent) of households age 45-54 also fell short.

Readers should be cautious in interpreting the results for the youngest age cohort. A much larger share meet the retirement savings targets and thus appear to be doing much better than older generations, but this is largely an artifact of the way the savings trajectory is modeled by Fidelity. Expected contribution rates are much lower for this group, and the overall savings balance requirements are disproportionately lower than those for the older age groups after controlling for compound interest. Indeed, the compound interest assumptions in the Fidelity standards, combined with the use of the net worth measure, are generally favorable to the younger age cohorts. Other studies that incorporate detailed retirement income models, including those of the Center for Retirement Research (CRR) and the Employee Benefit Research Institute (EBRI), tend not to examine households under age 30. Analysis by CRR indicates that younger age cohorts are deemed at greater risk of experiencing a retirement income shortfall than older age cohorts.

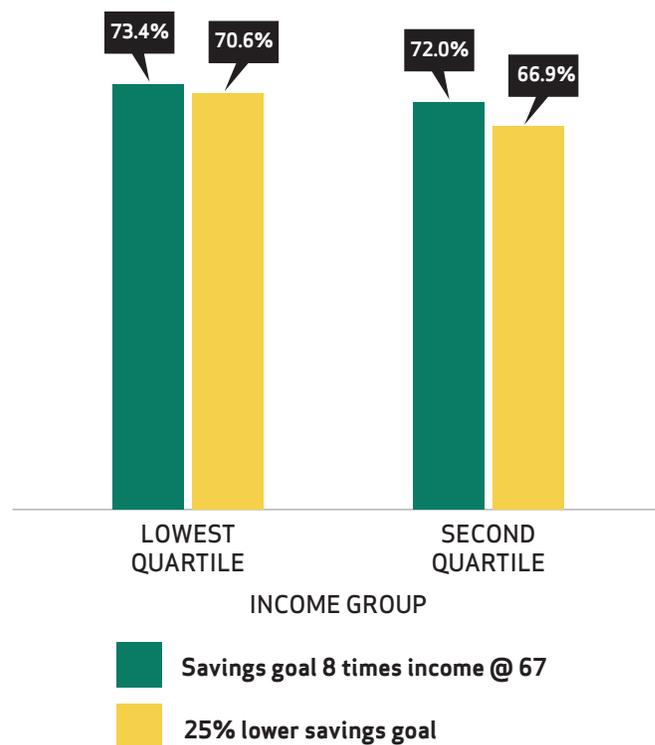
Reducing the savings goal by 25 percent, to only 6 times income by age 67, produces somewhat improved but still discouraging results. Three out of five households (59 percent) in the sample did not meet the reduced savings goal in 2013. For the top 50 percent of households, this level of retirement savings would mean reducing standard of living expectations in retirement. But what about the bottom 50 percent of households?

A typical low-wage worker will have a higher percentage of her pre-retirement income replaced by Social Security compared to a middle-wage worker—approximately 15 percentage points higher, depending on the data source. This gain is partially offset by the fact that she will also need to replace a greater share of her income in retirement.²⁶ The costs that decrease or disappear in retirement—income taxes, savings, and work related expenses—take up a smaller share of a typical low-wage worker’s pay.²⁷ Whatever the case, it turns out adjusting the savings benchmark makes little difference to low- or even low-moderate income households.

As **Figure 12** shows, a 25 percent reduction in the savings target increases the share of low-income households meeting the target by less than 3 percentage points, from 73.4 percent to 70.6 percent. Most low-income households (those in the bottom 25 percent) are so asset-poor—so far short of any reasonable retirement savings target—that moving the bar upwards or downwards makes little difference. The same reduction in the savings target reduces the share of the low-

Figure 12: Reducing the Benchmark Does Little to Improve Retirement Outlook for Lower Income Families

Share of households that do not meet retirement savings target based on net worth, bottom 50%, 2013



Source: Authors’ analysis of 2013 SCF based on retirement savings targets adapted from Fidelity (2012). Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M. Household income adjusted by marital status for ranking purposes. See methodology in Appendix.

to-middle income households (the second lowest 25 percent) falling from 72 percent to 67 percent, or 5 percentage points—again a negligible difference.

The findings in this section echo those of academic and industry studies. The National Retirement Risk Index from the Center for Retirement Research indicates that the share of U.S. households age 30-64 at risk of being unable to maintain their standard of living in retirement increased from 44 percent in 2007 to 53 percent in 2010 and 2013.²⁸ This estimate does not account for long term care costs, which the Center previously projected would increase the share of households at retirement risk by 16 percentage points.²⁹

In addition, EBRI's 2012 Retirement Security Projection Model estimates that approximately 41 percent of early Baby Boomers and 43 percent of late Baby Boomers and Generation Xers are at risk of having insufficient income to meet basic expenses in retirement based on current average expenditures for age and income.³⁰

A study by Aon Hewitt based on 2.2 million employees at 78 large companies projects that full-career employees “who currently contribute to their employers’ savings plans and who retire at age 65 . . . will, on average, accumulate retirement resources of 8.8 times their pay” counting DB pensions and DC accounts.³¹ This is 20 percent short of Aon Hewitt’s goal of 11 times pay, albeit 10 percent in excess of the goal set by Fidelity assuming a retirement age of 67 instead of 65. However, when *all* employees are included in the Aon Hewitt projection, including mid-career hires and

those who do not contribute to their DC plans, the average private asset shortfall is 5.3 times pay. Ultimately, only 15 percent of employees in that study are projected to have sufficient retirement income at age 65.

These troubling numbers are consistent with overall trends in an economic recovery in which overall wealth has remained stagnant, and income and wealth at the bottom have dropped for most groups, especially those at the bottom. Net worth for the typical household dropped precipitously between 2007 and 2010, and then declined still further.³² Indeed, the clearest sign of declining retirement income security is the fact that ratios of household net worth to income by age group have remained relatively flat over the past couple of decades, while Social Security and pension benefit cuts combined with longer life expectancy require greater personal savings just to keep up.³³

V. POLICY IMPLICATIONS

With declining workplace retirement plan coverage and fewer workers covered by secure pensions, Americans face a retirement savings burden that is heavier than ever. Unfortunately, the findings of this study clearly indicate that most households—especially middle- and low-income—are not meeting this burden. Nearly 45 percent U.S. working-age households (40 million) do not have a retirement account, whether in or out of the workplace. Most are in the bottom half of the income distribution. The typical working-age household has only \$2,500 in retirement savings. Among households with at least one earner, nearly 4 out of 5 have retirement savings less than their annual income. While experts recommend that people build a nest egg that is at least 8 to 11 times income in order to maintain their standard of living in retirement and some estimate that a contribution rate of 15 percent over a full career is necessary to meet this goal, a large majority of working households fail to meet conservative benchmarks modeled on the assumption that people will work longer, until age 67.

This analysis clearly indicates the significant challenges facing baby boomers and upcoming generations of working families when it comes to retirement security. Clearly, more households need to increase their retirement contributions, to the extent

that they are able to do so. Even so, the magnitude of the retirement savings gap is such that most people will have to work longer if they are able to stay employed, or experience a significant decline in their standard of living when they retire.

It is highly unlikely that most individuals and households will be able to fill such a large retirement income gap by themselves. They also need employers to become more engaged in assuring the retirement readiness of the workforce. In addition, public policy can play a critical role in putting all Americans on a path toward a secure retirement.

Specifically, the findings of this study have policy implications in three critical areas: 1) strengthening Social Security, 2) expanding access to low-cost, high quality retirement plans, especially DB plans, and 3) helping low-income workers and families save for retirement.

Strengthening Social Security

The majority of workers and families rely on Social Security for a significant share of their retirement income. Currently, Social Security and Supplement Security Income (SSI)

together account for over 90 percent of income for the bottom 25 percent of retirees. For the middle 50 percent, Social Security accounts for approximately 70 percent of income.³⁴ According to Supplemental Poverty Measure data released by the U.S. Census Bureau, which takes into account senior medical expenses, senior poverty was 15 percent in 2011—significantly higher than the 8.7 percent reported under the standard poverty measure.³⁵ Cuts to future Social Security benefits will likely increase elder poverty.

The Social Security system faces challenges stemming from an aging population that, while significant, are manageable. Primarily a pay-as-you-go system, benefits are funded through payroll taxes as well as the Social Security (Old Age and Survivors Insurance, or OASI) Trust Fund. The trust fund is projected to become depleted by 2033, after which payroll taxes will cover approximately three-quarters of promised benefits through 2087. The actuarial deficit for the next 75 years is 2.88 percent of Social Security taxable payroll, which is capped at \$118,500 per worker in 2015.³⁶

Given highly deficient household-level retirement savings, strengthening Social Security—a system on which all Americans rely—is critical to the foundation of retirement security. While current political debate about the program is often focused on benefit cuts—e.g., increasing the full retirement age and reducing Cost of Living Adjustments (COLAs)—a study by the National Academy of Social Insurance found strong public support for maintaining and expanding Social Security benefits as well as for increasing system revenues in order to preserve the system.³⁷

The challenges faced by vulnerable populations have spurred calls to expand benefits. One proposal calls for increasing minimum benefits for lifetime low-wage earners,³⁸ while another addresses the special challenges women face in their role as caregivers that result in fewer years in the labor force.³⁹ Several proposals to integrate the above elements, and more, into a broader package of reforms intended to strengthen and modernize Social Security have been advanced by former U.S. Senator Tom Harkin, the Economic Policy Institute, the Center for American Progress, and others.⁴⁰ These broad proposals share a common focus on increasing revenues by eliminating the payroll tax cap; increasing benefits for low-wage workers, survivors, and caregivers; and adjusting the benefit formula in order to better keep pace with living costs faced by seniors and to prevent seniors from falling into poverty at advanced ages.

Improving Low- and Middle-Income Workers' Access to Low-Cost, High Quality Retirement Plans

Aside from Social Security, employer-sponsored plans are the most important vehicle for retirement security among workers and families. At the same time, the employer-sponsored system is purely voluntary, both on the part of the employer and the employee. This system seems to best serve workers and families with higher incomes, who enjoy high rates of access to workplace retirement plans. However, a large share of workers—mostly low- and middle-wage workers and small businesses employees—are being left out. Automatic enrollment, which is standard for DB pensions, is becoming increasingly common as a recommended practice for 401(k) plans,⁴¹ and is bridging a part of the participation gap within firms that offer a retirement plan. However, small employers have less incentive and/or capacity to offer a plan.

In theory, workers without access to a workplace plan can utilize retail IRAs. However, the vast majority of IRA contributions are rollovers from employer plans like 401(k)s.⁴² Three-quarters of participants in IRAs and Keogh plans for self-employed workers are from the top half of the income distribution.⁴³ Retail IRAs lack the critical payroll deduction feature that participants in employer plans enjoy. And while 401(k) plans typically entail higher fees and lower returns than DB pensions, retail IRAs generally carry even higher fees and lower returns.⁴⁴

To begin, Congress could enact policies to make it easier for private employers to sponsor DB pensions, which have been under stress partly because of regulatory changes enacted in 2006.⁴⁵ Changes to make funding requirements more predictable—such as the restoration of smoothed interest rates—would reduce funding volatility, thus making private sector DB pensions more sustainable.⁴⁶ New plan designs, such as the Adjustable Pension Plan (APP), which uses conservative asset allocations and plan assumptions, coupled with the ability to adjust prospective benefits, should be more attractive to employers, as the design allows for much more predictability in contribution rates.

Citing low coverage of low- and middle-income workers and families, some policy experts have advanced a number of proposals at the national level to move toward more universal retirement plan coverage.⁴⁷ These proposals aim to provide

an additional layer of stable retirement income in the absence of traditional pensions. Most proposals feature automatic enrollment, payroll deduction, full portability, and low-cost professional investment management. The Auto IRA concept has support from the Obama administration, and one version has been introduced in Congress by U.S. Representative Richard Neal.⁴⁸ Basic provisions include requiring employers that do not offer their own plan to automatically enroll workers in an IRA and deduct a default contribution rate from paychecks, while allowing employees to individually opt out. While most Auto IRA proposals leave investment risk and funding responsibility to individuals, other proposals feature risk sharing and other pension-like benefits in order to provide an additional layer of secure income to supplement Social Security and private savings.⁴⁹

Meanwhile, efforts to expand retirement plan coverage are gaining momentum at the state level, based on growing concern among legislators and stakeholders that generations of workers might retire into economic hardship. In January 2015, Illinois passed SB2758, creating the Secure Choice Savings Program.⁵⁰ It is an Auto-IRA program with pooled, professional investment management that will cover workers who lack access to a workplace plan. Employers with 25 or more employees must auto-enroll their employees at a 3 percent contribution rate, with the option to opt out. Investment and administrative fees are capped at 0.75 percent of assets. This plan, scheduled to go into effect in 2017, is similar to a plan passed in 2012 in California. However, California is still in the process of commissioning a privately-funded study of program design, market analysis, and financial feasibility. Nearly 20 states considered or are considering similar proposals.⁵¹ However, state-level policy debates about broadly expanding coverage pose questions about subjecting employers to fiduciary liability involve uncertainty.⁵² Greater regulatory clarity and flexibility would assist those states that want to address the pressing retirement savings crisis.

According to a NIRS public opinion survey, 71 percent of respondents support a possible state retirement solution that

offers portability, professional investment management, and secure monthly income.⁵³

Helping Low-Income Households Save

Real wages have remained stagnant over the past several decades, lagging behind productivity growth, and this has made it difficult for low-income households to save. The primary way the federal government supports retirement savings is through the income tax deduction for retirement contributions. However, 70 percent of the tax subsidies for contributions to 401(k) type accounts and IRAs are claimed by the top one-fifth of households by income.⁵⁴ Because lower-income households have low marginal income tax rates, they have little incentive to save from the existing tax deduction. Low-wage workers are also less likely to receive an employer match, even if they do have access to an employer-sponsored DC plan.

In response to this situation, the federal government enacted the Saver's Credit in 2001 for lower-income households, which reduces income tax liability by 10-50 percent of the first \$2,000 in contributions to a qualified retirement account, depending on income and tax filing status. For single filers in the 2015 tax year, a credit of 50 percent is available for individuals with incomes up to \$18,250 AGI (Adjusted Gross Income), 20 percent for AGI between \$18,251 and \$19,750, and 10 percent for AGI between \$19,751 and \$30,500. The rapid phase-out at a low income level and lack of refundability limit the credit's effectiveness.⁵⁵ The average credit in 2006 was only \$172.⁵⁶

Expanding the Saver's Credit by increasing income limits and credit rates and making the credit refundable would increase incentives for lower-income families to save for retirement and increase their account balances. State-sponsored retirement savings programs, if implemented, could educate members about the Saver's Credit. In addition, creating a system for depositing the credit directly into retirement savings accounts would help bolster account accumulations.

CONCLUSION

The hope of retirement security is out of reach for many Americans in the face of a crumbling retirement infrastructure. Secure pensions that last through retirement have been replaced with volatile individual accounts, which were intended to supplement DB pension plans. The average American family has virtually no retirement savings, with a median retirement account balance of \$2,500. Among working-age families with at least one earner, nearly 4 out of 5 do not have retirement savings that at least equal their annual income. Two out of three working families have household net worth that falls short of recommended savings targets.

The heart of the issue consists of two problems: lack of access to retirement plans in and out of the workplace—particularly among low-income workers and families—and low retirement savings. These twin challenges amount to a severe retirement crisis that, if unaddressed, will result in grave consequences for the U.S. In the coming decades, the continued decline in the share of older households receiving DB pension income—a factor linked to reduced reliance on public programs⁵⁷—combined with inadequate retirement savings, is likely to generate increasing demand for public assistance. An increasingly dependent elder population will likely place increased strain on families and social service organizations.

The “American Dream” of retiring after a lifetime of work will be long delayed, if not impossible, for many.

How can the U.S. begin to address this retirement crisis? Policy action is warranted in three key areas. The first is to strengthen Social Security, the primary edifice of retirement income security for low- and middle-income Americans. The second is to expand low- and middle-wage workers’ access to high-quality, low-cost retirement plans with professional investment management, risk pooling, and lifetime payouts. In addition to making it easier for private employers to sponsor DB pensions, national and state level proposals to ensure universal retirement plan coverage could fill the wide gap in the employer-based system. Third, an expanded, refundable Saver’s Credit could help boost the retirement savings of families struggling with stagnant wages.

If the U.S. were to be given a grade for its retirement readiness today, it would be “Needs Improvement.” American workers, employers, and policymakers need to look closely at what we need to do individually and collectively, so that everyone can build sufficient assets to have adequate and secure income after a lifetime of work. Acting sooner rather than later will greatly improve our future retirement security.

APPENDIX: METHODOLOGY

About the Survey of Consumer Finances (SCF)

The SCF, sponsored by the U.S. Federal Reserve, is a triennial household survey that captures detailed data on family finances including debt, assets (including retirement account balances), and income. The sample is designed to be representative of the general population. In addition, families with high incomes and assets are over-sampled in light of the concentration of wealth. For the 2013 survey, 6,026 families were questioned, but the public dataset contains five records for each family, or PEU (primary economic unit), resulting in a total of over 30,000 records. The SCF defines the PEU as “the economically dominant single person or couple (whether married or living together as partners)” and all other persons who share the same residence and who are financially interdependent upon them.⁵⁸ In this report, “families” and “households” both refer to PEUs in the SCF.

All estimates were calculated using the sample weight (WGT).

Household Level Employer-Sponsored Retirement Plan Coverage

There are three variables in the SCF summary file related to retirement plan coverage through a current job held by the respondent and/or their spouse:

- DBPLANCJ — “Either head or spouse/partner has a defined benefit pension on a current job”
- BPLANCJ — “Either head or spouse/partner has both types of pension plan on a current job”
- DCPLANCJ — “Either head or spouse/partner has any type of account-based plan on a current job”

Households were determined to have current job-based coverage if the DBPLANCJ or DCPLANCJ values were “yes.” In the previous version of this report based on the 2010 SCF, we used a slightly different methodology to determine DC plan participation because DCPLANCJ was not available then in the public summary file downloaded by the author. As a proxy, we used THRIFT (“Total value of account-type pension plans from R and spouse’s current job”) value greater than zero to identify DC plan participation through a current job. We also included households that answered “yes” to BPLANCJ but did not report an account balance under THRIFT. This left out households only had a DC plan and did not report an account balance. As a result, the previous report slightly under-estimated the share of households with DC coverage, and slightly over-estimated the share of households with DB coverage in relation to the universe of households with any type of current workplace retirement plan.

Retirement Account Ownership and Balances

The SCF contains a key summary variable, RETQLIQ, which is the sum of quasi-liquid retirement assets in account-based pensions and retirement plans held by the head and/or spouse. These consist of:

- Employer-sponsored plans including 401(k)s, SEP-IRAs, Simple IRAs, and other account based retirement plans
 - » from previous jobs, and from which income is currently being drawn (CURRPEN)
 - » from previous jobs, from which income is not yet being drawn (FUTPEN)
 - » from a current job (THRIFT)
- IRAs (including traditional and Roth), and Keogh plans for small businesses (IRAKH)

A household was determined to have a retirement account if their RETQLIQ value was greater than zero and not to have an account if the value was zero. In determining retirement ownership rates by income group, we adjusted household income by marital status with the goal of accounting for differences in the cost of living between couples and singles. This is because a couple needs somewhat less than twice the income of a single person in order to reach the same standard of living. If the household head's marital status was single—not living with a spouse or partner—the income value remained the same. If the household head was married or living with a partner, then the household's income was divided by the square root of two. The resulting values were ranked in order to group households into income quartiles.

Target Retirement Savings

Table A1 below details the multipliers applied to each household, based on the age of the head, in order to calculate the amount that it would need to have saved in order to meet Fidelity's recommended retirement savings benchmarks. Each household's reported annual income for 2012 was multiplied by the factors from Table A1 to arrive at dollar values for target retirement savings. We chose to use income rather than earnings for this calculation because there is a steep drop-off in median earnings between the 45-54 and 55-64 age cohorts, as workers reduce work hours or exit the labor market for a variety of reasons related to health status, elder care demands, and both voluntary and involuntary retirement. At the same time, the latter age group's median income is slightly higher than the former's median income. Using only earnings to calculate retirement savings targets would unduly lower retirement consumption standards for near-retirement workers relative to the mid-career cohort, while using total income keeps retirement consumption standards similar.

The resulting target retirement savings level for each household was compared to that household's net worth (NETWORTH). Finally, in order to determine whether each household was on track to meet a significantly reduced savings target of 6 times income at age 67, we calculated whether that household met 75 percent of the age specific savings level outlined in table A1.

Table A1.
Target Retirement Savings Multipliers

Age of Head of Household	Multiplier (Ratio to Income)	Age of Head of Household	Multiplier (Ratio to Income)
25	0.00	53-57	5.00
26	0.06	58-62	6.00
27	0.15	63	6.75
28-32	0.50	64	7.00
33-37	1.00	65	7.40
38-42	2.00	66	7.70
43-47	3.00	67	8.00
48-52	4.00		

Source: Author's adaptation of target retirement savings benchmarks from Fidelity 2012.

ENDNOTES

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Department
of the
Treasury
**Internal
Revenue
Service**

Publication 571

(Rev. January 2017)

Cat. No. 46581C

Tax-Sheltered Annuity Plans (403(b) Plans)

For Employees of Public Schools and Certain Tax-Exempt Organizations



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Contents

What's New for 2016	1
What's New for 2017	2
Reminder	2
Introduction	2
Chapter 1. 403(b) Plan Basics	2
Chapter 2. Maximum Amount Contributable (MAC)	4
Chapter 3. Limit on Annual Additions	4
Chapter 4. Limit on Elective Deferrals	8
Chapter 5. Ministers and Church Employees	12
Chapter 6. Catch-Up Contributions	12
Chapter 7. Excess Contributions	13
Chapter 8. Distributions and Rollovers	13
Chapter 9. Worksheets	16
Chapter 10. Retirement Savings Contributions Credit (Saver's Credit)	20
Chapter 11. How To Get Tax Help	21
Index	23

Future Developments

For the latest information about developments related to Pub. 571, such as legislation enacted after it was published, go to www.irs.gov/pub571.

What's New for 2016

Retirement savings contributions credit. For 2016, the adjusted gross income limitations have increased from \$61,000 to \$61,500 for married filing jointly filers, from \$45,750 to \$46,125 for head of household filers, and from \$30,500 to \$30,750 for single, married filing separately, or qualifying widow(er) with dependent child filers. See chapter 10, *Retirement Savings Contributions Credit (Saver's Credit)*, for additional information.

Limit on elective deferrals. For 2016, the limit on elective deferrals remains unchanged at \$18,000.

Limit on annual additions. For 2016, the limit on annual additions remains unchanged at \$53,000.

Self certification available for missed rollover deadline. Beginning August 24, 2016, if

you inadvertently fail to complete the rollover of a distribution from an IRA or employer qualified retirement plan within 60 days, you may be able to obtain a waiver of the 60-day time limit through a self-certification procedure if you meet certain requirements. For more information, see *How do you self-certify that you qualify for a waiver?* under *Tax-Free Rollovers* in [chapter 8](#).

What's New for 2017

Retirement savings contributions credit.

For 2017, the adjusted gross income limitations have increased from \$61,500 to \$62,000 for married filing jointly filers, from \$46,125 to \$46,500 for head of household filers, and from \$30,750 to \$31,000 for single, married filing separately, or qualifying widow(er) with dependent child filers. See chapter 10, [Retirement Savings Contributions Credit \(Saver's Credit\)](#), for additional information.

Limit on elective deferrals. For 2017, the limit on elective deferrals remains unchanged at \$18,000.

Limit on annual additions. For 2017, the limit on annual additions has increased from \$53,000 to \$54,000.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication can help you better understand the tax rules that apply to your 403(b) (tax-sheltered annuity) plan.

In this publication, you will find information to help you do the following.

- Determine the maximum amount that can be contributed to your 403(b) account in 2017.
- Determine the maximum amount that could have been contributed to your 403(b) account in 2016.
- Identify excess contributions.
- Understand the basic rules for claiming the retirement savings contributions credit.
- Understand the basic rules for distributions and rollovers from 403(b) accounts.

This publication doesn't provide specific information on the following topics.

- Distributions from 403(b) accounts. This is covered in Pub. 575, *Pension and Annuity Income*.
- Rollovers. This is covered in Pub. 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, and Pub. 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*.

How to use this publication. This publication is organized into chapters to help you find information easily.

[Chapter 1](#) answers questions frequently asked by 403(b) plan participants.

[Chapters 2](#) through [6](#) explain the rules and terms you need to know to figure the maximum amount that could have been contributed to your 403(b) account for 2016 and the maximum amount that can be contributed to your 403(b) account in 2017.

[Chapter 7](#) provides general information on the prevention and correction of excess contributions to your 403(b) account.

[Chapter 8](#) provides general information on distributions, transfers, and rollovers.

[Chapter 9](#) provides blank worksheets that you will need to accurately and actively participate in your 403(b) plan. Filled-in samples of most of these worksheets can be found throughout this publication.

[Chapter 10](#) explains the rules for claiming the retirement savings contributions credit (saver's credit).

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments from irs.gov/formspubs. Click on "More Information" and then on "Give us feedback."

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Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question not answered by this publication, check IRS.gov and *How To Get Tax Help* at the end of this publication.

Useful Items

You may want to see:

Publication

- 517** Social Security and Other Information for Members of the Clergy and Religious Workers
- 575** Pension and Annuity Income
- 590-A** Contributions to Individual Retirement Arrangements (IRAs)
- 590-B** Distributions from Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- W-2** Wage and Tax Statement
- 1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- 5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- 5330** Return of Excise Taxes Related to Employee Benefit Plans
- 8880** Credit for Qualified Retirement Savings Contributions

1.

403(b) Plan Basics

This chapter introduces you to 403(b) plans and accounts. Specifically, the chapter answers the following questions.

- What is a 403(b) plan?
- What are the benefits of contributing to a 403(b) plan?
- Who can participate in a 403(b) plan?
- Who can set up a 403(b) account?
- How can contributions be made to my 403(b) account?
- Do I report contributions on my tax return?
- How much can be contributed to my 403(b) account?

What Is a 403(b) Plan?

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers.

Individual accounts in a 403(b) plan can be any of the following types.

- An annuity contract, which is a contract provided through an insurance company.
- A custodial account, which is an account invested in mutual funds.
- A retirement income account set up for church employees. Generally, retirement income accounts can invest in either annuities or mutual funds.

We use the term "403(b) account" to refer to any one of these funding arrangements throughout this publication, unless otherwise specified.

What Are the Benefits of Contributing to a 403(b) Plan?

There are three benefits to contributing to a 403(b) plan.

- The first benefit is that you don't pay income tax on allowable contributions until you begin making withdrawals from the plan, usually after you retire. Allowable contributions to a 403(b) plan are either excluded or deducted from your income. However, if your contributions are made to a Roth contribution program, this benefit doesn't apply. Instead, you pay income tax on the contributions to the plan but distributions from the plan (if certain requirements are met) are tax free.

Note. Generally, employees must pay social security and Medicare tax on their contributions to a 403(b) plan, including those made under a salary reduction agreement. See chapter 4, [Limit on Elective Deferrals](#), for more information.

- The second benefit is that earnings and gains on amounts in your 403(b) account aren't taxed until you withdraw them. Earnings and gains on amounts in a Roth contribution program aren't taxed if your withdrawals are qualified distributions. Otherwise, they are taxed when you withdraw them.
- The third benefit is that you may be eligible to take a credit for elective deferrals contributed to your 403(b) account. See chapter 10, [Retirement Savings Contributions Credit \(Saver's Credit\)](#).

Excluded. If an amount is excluded from your income, it isn't included in your total wages on your Form W-2. This means that you don't report the excluded amount on your tax return.

Deducted. If an amount is deducted from your income, it is included with your other wages on your Form W-2. You report this amount on your tax return, but you are allowed to subtract it when figuring the amount of income on which you must pay tax.

Who Can Participate in a 403(b) Plan?

Any eligible employee can participate in a 403(b) plan.

Eligible employees. The following employees are eligible to participate in a 403(b) plan.

- Employees of tax-exempt organizations established under section 501(c)(3). These organizations are usually referred to as section 501(c)(3) organizations or simply 501(c)(3) organizations.
- Employees of public school systems who are involved in the day-to-day operations of a school.
- Employees of cooperative hospital service organizations.

- Civilian faculty and staff of the Uniformed Services University of the Health Sciences.
- Employees of public school systems organized by Indian tribal governments.
- Certain ministers (explained next).

Ministers. The following ministers are eligible employees for whom a 403(b) account can be established.

1. Ministers employed by section 501(c)(3) organizations.
2. Self-employed ministers. A self-employed minister is treated as employed by a tax-exempt organization that is a qualified employer.
3. Ministers (chaplains) who meet both of the following requirements.
 - a. They are employed by organizations that aren't section 501(c)(3) organizations.
 - b. They function as ministers in their day-to-day professional responsibilities with their employers.

Throughout this publication, the term *chaplain* will be used to mean ministers described in the third category in the list above.

Example. A minister employed as a chaplain by a state-run prison and a chaplain in the United States Armed Forces are eligible employees because their employers aren't section 501(c)(3) organizations and they are employed as ministers.

Universal Availability. Generally, all eligible employees (with certain exceptions) of an employer must be permitted to make elective deferrals (including Roth elective deferrals) if any employee of the employer may make elective deferrals. If your employer offers a 403(b) plan, you should have received information about your eligibility to participate.

Who Can Set Up a 403(b) Account?

You can't set up your own 403(b) account. Only employers can set up 403(b) accounts. A self-employed minister can't set up a 403(b) account for his or her benefit. If you are a self-employed minister, only the organization (denomination) with which you are associated can set up an account for your benefit.

How Can Contributions Be Made to My 403(b) Account?

Generally, only your employer can make contributions to your 403(b) account. However, some plans will allow you to make after-tax contributions (defined below).

The following types of contributions can be made to 403(b) accounts.

1. **Elective deferrals.** These are contributions made under a salary reduction

agreement. This agreement allows your employer to withhold money from your paycheck to be contributed directly into a 403(b) account for your benefit. Except for Roth contributions, you don't pay income tax on these contributions until you withdraw them from the account. If your contributions are Roth contributions, you pay taxes on your contributions but any qualified distributions from your Roth account are tax free.

2. **Nonelective contributions.** These are employer contributions that aren't made under a salary reduction agreement. Nonelective contributions include matching contributions, discretionary contributions, and mandatory contributions made by your employer. You don't pay income tax on these contributions until you withdraw them from the account.
3. **After-tax contributions.** These are contributions (that aren't Roth contributions) you make with funds that you must include in income on your tax return. A salary payment on which income tax has been withheld is a source of these contributions. If your plan allows you to make after-tax contributions, they aren't excluded from income and you can't deduct them on your tax return.
4. **A combination** of any of the three contribution types listed above.

Self-employed minister. If you are a self-employed minister, you are considered both an employee and an employer, and you can contribute to a retirement income account for your own benefit.

Do I Report Contributions on My Tax Return?

Generally, you don't report contributions to your 403(b) account (except Roth contributions) on your tax return. Your employer will report contributions on your 2016 Form W-2. Elective deferrals will be shown in box 12 with code E for pre-tax amounts and code BB for Roth amounts, and the *Retirement plan* box will be checked in box 13. If you are a self-employed minister or chaplain, see the discussions next.

Self-employed ministers. If you are a self-employed minister, you must report the total contributions as a deduction on your tax return. Deduct your contributions on line 28 of the 2016 Form 1040.

Chaplains. If you are a chaplain and your employer doesn't exclude contributions made to your 403(b) account from your earned income, you may be able to take a deduction for those contributions on your tax return.

However, if your employer has agreed to exclude the contributions from your earned income, you won't be allowed a deduction on your tax return.

If you can take a deduction, include your contributions on line 36 of the 2016 Form 1040.

Enter the amount of your deduction and write "403(b)" on the dotted line next to line 36.

How Much Can Be Contributed to My 403(b) Account?

There are limits on the amount of contributions that can be made to your 403(b) account each year. If contributions made to your 403(b) account are more than these contribution limits, penalties may apply.

[Chapters 2](#) through [6](#) provide information on how to determine the amount that can be contributed to your 403(b) account.

Worksheets are provided in [chapter 9](#) to help you determine the maximum amount that can be contributed to your 403(b) account each year. Chapter 7, [Excess Contributions](#), describes how to prevent excess contributions and how to get an excess contribution corrected.

2. Maximum Amount Contributable (MAC)

Throughout this publication, the limit on the amount that can be contributed to your 403(b) account for any year is referred to as your maximum amount contributable (MAC). This chapter:

- Introduces the components of your MAC,
- Tells you how to figure your MAC, and
- Tells you when to figure your MAC.

Components of Your MAC

Generally, before you can determine your MAC, you must first figure the components of your MAC. The components of your MAC are:

- The limit on annual additions ([chapter 3](#)), and
- The limit on elective deferrals ([chapter 4](#)).

How Do I Figure My MAC?

Generally, contributions to your 403(b) account are limited to the lesser of:

- The limit on annual additions, or
- The limit on elective deferrals.

Depending upon the type of contributions made to your 403(b) account, only one of the limits may apply to you.

Which limit applies. Whether you must apply one or both of the limits depends on the type of contributions made to your 403(b) account during the year.

Elective deferrals only. If the only contributions made to your 403(b) account during the year were elective deferrals made under a salary reduction agreement, you will need to figure both of the limits. Your MAC is the lesser of the two limits.

Nonelective contributions only. If the only contributions made to your 403(b) account during the year were nonelective contributions (employer contributions not made under a salary reduction agreement), you will only need to figure the limit on annual additions. Your MAC is the limit on annual additions.

Elective deferrals and nonelective contributions. If the contributions made to your 403(b) account were a combination of both elective deferrals made under a salary reduction agreement and nonelective contributions (employer contributions not made under a salary reduction agreement), you will need to figure both limits. Your MAC is the limit on the annual additions.

Catch-up contributions. If you are age 50 or older, you may be able to make additional catch-up contributions, which are explained in [chapter 6](#).

You need to figure the limit on elective deferrals to determine if you have excess elective deferrals, which are explained in [chapter 7](#).

Worksheets. Worksheets are available in [chapter 9](#) to help you figure your MAC.

When Should I Figure My MAC?

At the beginning of 2017, you should refigure your 2016 MAC based on your actual compensation for 2016. This will allow you to determine if the amount that has been contributed to your 403(b) account for 2016 has exceeded the allowable limits. In some cases, this will allow you to avoid penalties and additional taxes. See [chapter 7](#).

Generally, you should figure your MAC for the current year at the beginning of each tax year using a conservative estimate of your compensation. If your compensation changes during the year, you should refigure your MAC based on a revised conservative estimate. By

doing this, you will be able to determine if contributions to your 403(b) account can be increased or should be decreased for the year.

3.

Limit on Annual Additions

The first component of MAC is the limit on annual additions. This is a limit on the total contributions (elective deferrals, nonelective contributions, and after-tax contributions) that can be made to your 403(b) account. The limit on annual additions generally is the lesser of:

- \$53,000 for 2016 and \$54,000 for 2017, or
- 100% of your includible compensation for your most recent year of service.

 **More than one 403(b) account.** If you contributed to more than one 403(b) account, you must combine the contributions made to all 403(b) accounts maintained by your employer. If you participate in more than one 403(b) plan maintained by different employers, you don't need to aggregate for annual addition limits.

Ministers and church employees. If you are a minister or a church employee, you may be able to increase your limit on annual additions or use different rules when figuring your limit on annual additions. For more information, see [chapter 5](#).

Participation in a qualified plan. If you participated in a 403(b) plan and a qualified plan, you must combine contributions made to your 403(b) account with contributions to a qualified plan and simplified employee pensions of all corporations, partnerships, and sole proprietorships in which you have more than 50% control to determine the total annual additions.

You can use Part I of [Worksheet 1 in chapter 9](#) to figure your limit on annual additions.

Includible Compensation for Your Most Recent Year of Service

Definition. Generally, *includible compensation for your most recent year of service* is the amount of taxable wages and benefits you received from the employer that maintained a 403(b) account for your benefit during your most recent year of service.

When figuring your includible compensation for your most recent year of service, keep in mind that your most recent year of service may not be the same as your employer's most recent annual work period. This can happen if your tax

year isn't the same as your employer's annual work period.

When figuring includible compensation for your most recent year of service, don't mix compensation or service of one employer with compensation or service of another employer.

Most Recent Year of Service

Your *most recent year of service* is your last full year of service, ending on the last day of your tax year that you worked for the employer that maintained a 403(b) account on your behalf.

Tax year different from employer's annual work period. If your tax year isn't the same as your employer's annual work period, your most recent year of service is made up of parts of at least two of your employer's annual work periods.

Example. A professor who reports her income on a calendar-year basis is employed on a full-time basis by a university that operates on an academic year (October through May). To figure her includible compensation for 2016, the professor's most recent year of service is her service from January through May 2016 and from October through December 2016.

Figuring Your Most Recent Year of Service



To figure your most recent year of service, begin by determining what is a full year of service for your position. A *full year of service* is equal to full-time employment for your employer's annual work period.

After identifying a full year of service, begin counting the service you have provided for your employer starting with the service provided in the current year.

Part-time or employed only part of the year. If you are a part-time or a full-time employee who is employed for only part of the year, your most recent year of service is your service this year and your service for as many previous years as is necessary to total 1 full year of service. To determine your most recent year of service, add the following periods of service.

- Your service during the year for which you are figuring the limit on annual additions.
- Your service during your preceding tax years until the total service equals 1 year of service or you have figured all of your service with the employer.

Example. You were employed on a full-time basis from July through December 2014 (1/2 year of service), July through December 2015 (1/2 year of service), and October through December 2016 (1/4 year of service). Your most recent year of service for figuring your limit on annual additions for 2016 is the total of your service during 2016 (1/4 year of service), your service during 2015 (1/2 year of service), and your service during the months October through December 2014 (1/4 year of service).

Not yet employed for 1 year. If, at the close of the year, you haven't yet worked for your employer for 1 year (including time you worked for the same employer in all earlier years), use the period of time you have worked for the employer as your most recent year of service.

Includible Compensation

After identifying your most recent year of service, the next step is to identify the includible compensation associated with that full year of service.

Includible compensation isn't the same as income included on your tax return. *Compensation* is a combination of income and benefits received in exchange for services provided to your employer.

Generally, *includible compensation* is the amount of income and benefits:

- Received from the employer who maintains your 403(b) account, and
- Must be included in your income.

Includible compensation includes the following amounts.

- Elective deferrals (employer's contributions made on your behalf under a salary reduction agreement).
- Amounts contributed or deferred by your employer under a section 125 cafeteria plan.
- Amounts contributed or deferred, at the election of the employee, under an eligible section 457 nonqualified deferred compensation plan (state or local government or tax-exempt organization plan).

Note. For information about treating elective deferrals under section 457 plans as Roth contributions, see Pub. 575.

- Wages, salaries, and fees for personal services earned with the employer maintaining your 403(b) account.
- Income otherwise excluded under the foreign earned income exclusion.
- Pre-tax contributions (employer's contributions made on your behalf according to your election) to a qualified transportation fringe benefit plan.

Includible compensation **does not** include the following items.

1. Your employer's contributions to your 403(b) account.
2. Compensation earned while your employer wasn't an eligible employer.
3. Your employer's contributions to a qualified plan that:
 - a. Are on your behalf, and
 - b. Are excludable from income.
4. The cost of incidental life insurance. See *Cost of Incidental Life Insurance*, later.



CAUTION If you are a church employee or a foreign missionary, figure includible compensation using the rules explained in [chapter 5](#).

Contributions after retirement. Nonelective contributions may be made for an employee for

up to 5 years after retirement. These contributions would be based on includible compensation for the last year of service before retirement.

Cost of Incidental Life Insurance

Includible compensation doesn't include the cost of incidental life insurance.



CAUTION If all of your 403(b) accounts invest only in mutual funds, then you have no incidental life insurance.

If you have an annuity contract, a portion of the cost of that contract may be for incidental life insurance. If so, the cost of the insurance is taxable to you in the year contributed and is considered part of your basis when distributed. Your employer will include the cost of your insurance as taxable wages in box 1 of Form W-2.

Not all annuity contracts include life insurance. Contact your plan administrator to determine if your contract includes incidental life insurance. If it does, you will need to figure the cost of life insurance each year the policy is in effect.



Figuring the cost of incidental life insurance. If you have determined that part of the cost of your annuity contract is for an incidental life insurance premium, you will need to determine the amount of the premium and subtract it from your includible compensation.

To determine the amount of the life insurance premiums, you will need to know the following information.

- The value of your life insurance contract, which is the amount payable upon your death.
- The cash value of your life insurance contract at the end of the tax year.
- Your age on your birthday nearest the beginning of the policy year.
- Your current life insurance protection under an ordinary retirement income life insurance policy, which is the amount payable upon your death minus the cash value of the contract at the end of the year.

You can use [Worksheet A](#), in chapter 9, to determine the cost of your incidental life insurance.

Example. Your new contract provides that your beneficiary will receive \$10,000 if you should die before retirement. Your cash value in the contract at the end of the first year is zero. Your current life insurance protection for the first year is \$10,000 (\$10,000 - 0).

The cash value in the contract at the end of year two is \$1,000, and the current life insurance protection for the second year is \$9,000 (\$10,000 - \$1,000).

The 1-year cost of the protection can be calculated by using [Figure 3-1](#). The premium rate is determined based on your age on your birthday nearest the beginning of the policy year.

Figure 3-1. Table of One-Year Term Premiums for \$1,000 Life Insurance Protection

Age	Cost	Age	Cost	Age	Cost
0	..\$0.70	35	..\$0.99	70	..\$20.62
1	..0.41	36	..1.01	71	..22.72
2	..0.27	37	..1.04	72	..25.07
3	..0.19	38	..1.06	73	..27.57
4	..0.13	39	..1.07	74	..30.18
5	..0.13	40	..1.10	75	..33.05
6	..0.14	41	..1.13	76	..36.33
7	..0.15	42	..1.20	77	..40.17
8	..0.16	43	..1.29	78	..44.33
9	..0.16	44	..1.40	79	..49.23
10	..0.16	45	..1.53	80	..54.56
11	..0.19	46	..1.67	81	..60.51
12	..0.24	47	..1.83	82	..66.74
13	..0.28	48	..1.98	83	..73.07
14	..0.33	49	..2.13	84	..80.35
15	..0.38	50	..2.30	85	..88.76
16	..0.52	51	..2.52	86	..99.16
17	..0.57	52	..2.81	87	..110.40
18	..0.59	53	..3.20	88	..121.85
19	..0.61	54	..3.65	89	..133.40
20	..0.62	55	..4.15	90	..144.30
21	..0.62	56	..4.68	91	..155.80
22	..0.64	57	..5.20	92	..168.75
23	..0.66	58	..5.66	93	..186.44
24	..0.68	59	..6.06	94	..206.70
25	..0.71	60	..6.51	95	..228.35
26	..0.73	61	..7.11	96	..250.01
27	..0.76	62	..7.96	97	..265.09
28	..0.80	63	..9.08	98	..270.11
29	..0.83	64	..10.41	99	..281.05
30	..0.87	65	..11.90		
31	..0.90	66	..13.51		
32	..0.93	67	..15.20		
33	..0.96	68	..16.92		
34	..0.98	69	..18.70		



If the current published premium rates per \$1,000 of insurance protection charged by an insurer for individual 1-year term life insurance premiums available to all standard risks are lower than those in the preceding table, you can use the lower rates for figuring the cost of insurance in connection with individual policies issued by the same insurer.

Example 1. Lynne Green, age 44, and her employer enter into a 403(b) plan that will provide her with a \$500 a month annuity upon retirement at age 65. The agreement also provides that if she should die before retirement, her beneficiary will receive the greater of \$20,000 or the cash surrender value in the life insurance contract. Using the facts presented, we can determine the cost of Lynne's life insurance protection as shown in [Table 3-1](#).

Lynne's employer has included \$28 for the cost of the life insurance protection in her current year's income. When figuring her includible compensation for this year, Lynne will subtract \$28.

Table 3-1. Worksheet A. Cost of Incidental Life Insurance

Note. Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.

1. Enter the value of the contract (amount payable upon your death)	<u>1</u> \$20,000.00
2. Enter the cash value in the contract at the end of the year	<u>2</u> 0.00
3. Subtract line 2 from line 1. This is the value of your current life insurance protection	<u>3</u> \$20,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	<u>4</u> 44
5. Enter the 1-year term premium for \$1,000 of life insurance based on your age. (From Figure 3-1)	<u>5</u> \$1.40
6. Divide line 3 by \$1,000	<u>6</u> 20
7. Multiply line 6 by line 5. This is the cost of your incidental life insurance	<u>7</u> \$28.00

Example 2. Lynne's cash value in the contract at the end of the second year is \$1,000. In year two, the cost of Lynne's life insurance is calculated as shown in [Table 3-2](#).

In year two, Lynne's employer will include \$29.07 in her current year's income. Lynne will subtract this amount when figuring her includible compensation.

Table 3-2. Worksheet A. Cost of Incidental Life Insurance

Note. Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.

1. Enter the value of the contract (amount payable upon your death)	<u>1</u> \$20,000.00
2. Enter the cash value in the contract at the end of the year	<u>2</u> \$1,000.00
3. Subtract line 2 from line 1. This is the value of your current life insurance protection	<u>3</u> \$19,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	<u>4</u> 45
5. Enter the 1-year term premium for \$1,000 of life insurance based on your age. (From Figure 3-1)	<u>5</u> \$1.53
6. Divide line 3 by \$1,000	<u>6</u> 19
7. Multiply line 6 by line 5. This is the cost of your incidental life insurance	<u>7</u> \$29.07

Figuring Includible Compensation for Your Most Recent Year of Service



You can use [Worksheet B](#) in chapter 9 to determine your includible compensation for your most recent year of service.

Example. Floyd has been periodically working full-time for a local hospital since September 2014. He needs to figure his limit on annual additions for 2017. The hospital's normal annual work period for employees in Floyd's general type of work runs from January to December.

During the periods that Floyd was employed with the hospital, the hospital has always been eligible to provide a 403(b) plan to employees. Additionally, the hospital has never provided the employees with a 457 deferred compensation plan, a transportation fringe benefit plan, or a cafeteria plan.

Floyd has never worked abroad and there is no life insurance provided under the plan.

[Table 3-3](#) shows the service Floyd provided to his employer, his compensation for the periods worked, his elective deferrals, and his taxable wages.

Table 3-4. **Worksheet B. Includible Compensation for Your Most Recent Year of Service¹**

Note. Use this worksheet to figure includible compensation for your most recent year of service.

1. Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	1.	\$66,000
2. Enter elective deferrals excluded from your gross income for your most recent year of service ²	2.	4,475 ³
3. Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	3.	-0-
4. Enter amounts contributed or deferred by your employer according to your election to your 457 account (a nonqualified plan of a state or local government, or of a tax-exempt organization) for your most recent year of service	4.	-0-
5. Enter pre-tax contributions (employer's contributions made on your behalf according to your election) to a qualified transportation fringe benefit plan for your most recent year of service	5.	-0-
6. Enter your foreign earned income exclusion for your most recent year of service	6.	-0-
7. Add lines 1, 2, 3, 4, 5, and 6	7.	70,475
8. Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	8.	-0-
9. Enter compensation that was both : <ul style="list-style-type: none"> • Earned during your most recent year of service, and • Earned while your employer wasn't qualified to maintain a 403(b) plan 	9.	-0-
10. Add lines 8 and 9	10.	-0-
11. Subtract line 10 from line 7. This is your includible compensation for your most recent year of service	11.	70,475

¹Use estimated amounts if figuring includible compensation before the end of the year.
²Elective deferrals made to a designated Roth account aren't excluded from your gross income and shouldn't be included on this line.
³\$4,475 (\$2,000 + \$1,650 + \$825).

Table 3-3. **Floyd's Compensation**

Note. This table shows information Floyd will use to figure includible compensation for his most recent year of service.

Year	Years of Service	Taxable Wages	Elective Deferrals
2017	6/12 of a year	\$42,000	\$2,000
2016	4/12 of a year	\$16,000	\$1,650
2015	4/12 of a year	\$16,000	\$1,650

Before Floyd can figure his limit on annual additions, he must figure includible compensation for his most recent year of service.

Because Floyd isn't planning to work the entire 2017 year, his most recent year of service will include the time he is planning to work in 2017 plus time he worked in the preceding 3 years until the time he worked for the hospital totals 1 year. If the total time he worked is less than 1 year, Floyd will treat it as if it were 1 year. He figures his most recent year of service shown in the following list.

- Time he will work in 2017 is $\frac{6}{12}$ of a year.
- Time worked in 2016 is $\frac{4}{12}$ of a year. All of this time will be used to determine Floyd's most recent year of service.
- Time worked in 2015 is $\frac{4}{12}$ of a year. Floyd only needs 2 months of the 4 months he

worked in 2015 to have enough time to total 1 full year. Because he needs only one-half of the actual time he worked, Floyd will use only one-half of his income earned during that period to calculate wages that will be used in figuring his includible compensation.

Using the information provided in [Table 3-3](#), wages for Floyd's most recent year of service are \$66,000 (\$42,000 + \$16,000 + \$8,000). His includible compensation for his most recent year of service is figured as shown in [Table 3-4](#).

After figuring his includible compensation, Floyd determines his limit on annual additions for 2017 to be \$54,000, the lesser of his includible compensation, \$70,475 ([Table 3-4](#)), and the maximum amount of \$54,000.

4.

Limit on Elective Deferrals

The second and final component of MAC is the limit on elective deferrals. This is a limit on the amount of contributions that can be made to your account through a salary reduction agreement.

A *salary reduction agreement* is an agreement between you and your employer that allows for a portion of your compensation to be directly invested in a 403(b) account on your behalf. You can enter into more than one salary reduction agreement during a year.



More than one 403(b) account. *If, for any year, elective deferrals are contributed to more than one 403(b) account for you (whether or not with the same employer), you must combine all the elective deferrals to determine whether the total is more than the limit for that year.*

403(b) plan and another retirement plan. *If, during the year, contributions in the form of elective deferrals are made to other retirement plans on your behalf, you must combine all of the elective deferrals to determine if they are more than your limit on elective deferrals. The limit on elective deferrals applies to amounts contributed to:*

- 401(k) plans, to the extent excluded from income;
- Roth contribution programs;
- Section 501(c)(18) plans, to the extent excluded from income;
- Savings incentive match plan for employees (SIMPLE) plans;
- Salary reduction simplified employee pension (SARSEP) plans; and
- All 403(b) plans.

Roth contribution program. Your 403(b) plan may allow you to designate all or a portion of your elective deferrals as Roth contributions. Elective deferrals designated as Roth contributions must be maintained in a separate Roth account and aren't excludable from your gross income.

The maximum amount of contributions allowed under a Roth contribution program is your limit on elective deferrals, less your elective deferrals not designated as Roth contributions. For more information on the Roth contribution program, see Pub. 560, Retirement Plans for Small Business.

Excess elective deferrals. If the amount contributed is more than the allowable limit, you must include the excess that isn't a Roth contribution in your gross income for the year contributed.

General Limit

Under the general limit on elective deferrals, the most that can be contributed to your 403(b) account through a salary reduction agreement is \$18,000 for 2016 and 2017. This limit applies without regard to community property laws.

15-Year Rule

If you have at least 15 years of service with an educational organization (such as a public or private school), hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organization) and it is allowed by the terms of the plan document, the limit on elective deferrals to your 403(b) account is increased by the least of:

1. \$3,000;
2. \$15,000, reduced by the sum of:
 - a. The additional pre-tax elective deferrals made in prior years because of this rule, plus
 - b. The aggregate amount of designated Roth contributions permitted for prior years because of this rule; or
3. \$5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

If you qualify for the 15-year rule (sometimes referred to as the special section 403(b) catch-up or the years-of-service catch-up), your elective deferrals under this limit can be as high as \$21,000 for 2016 and 2017.

To determine whether you have 15 years of service with your employer, see [Years of Service](#) next.

Years of Service

To determine if you are eligible for the increased limit on elective deferrals, you will first need to figure your years of service. How you figure your years of service depends on whether you were a full-time or a part-time employee, whether you worked for the full year or only part of the year, and whether you have worked for your employer for an entire year.

You must figure years of service for each year during which you worked for the employer who is maintaining your 403(b) account.

If more than one employer maintains a 403(b) account for you in the same year, you must figure years of service separately for each employer.

For purposes of the 15-year rule, years of service are calculated through the year for which the calculation is being made. For example, to determine the limit for 2016, you count years of service through 2016.

Definition

Your *years of service* are the total number of years you have worked as a full-time employee for the employer maintaining your 403(b) account as of the end of the year.

Figuring Your Years of Service

Take the following rules into account when figuring your years of service.

Status of employer. Your years of service include only periods during which your employer was a qualified employer. Your plan administrator can tell you whether or not your employer was qualified during all your periods of service.

Service with one employer. Generally, you can't count service for any employer other than the one who maintains your 403(b) account.

Church employee. If you are a church employee, treat all of your years of service with related church organizations as years of service with the same employer. For more information about church employees, see [chapter 5](#).

Self-employed ministers. If you are a self-employed minister, your years of service include full and part years in which you have been treated as employed by a tax-exempt organization that is a qualified employer.

Total years of service. When figuring prior years of service, figure each year individually and then add the individual years of service to determine your total years of service.

Example. The annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Marsha began working with ABC schools in September 2012. She has always worked full-time for each annual work period. At the end of 2016, Marsha had 4.5 years of service with ABC Public Schools, as shown in [Table 4-1](#).

Table 4-1. Marsha's Years of Service

Note. This table shows how Marsha figures her years of service, as explained in the previous example.

Year	Period Worked	Portion of Work Period	Years of Service
2012	Sept.–Dec.	.5 year	.5 year
2013	Feb.–May	.5 year	1 year
	Sept.–Dec.	.5 year	
2014	Feb.–May	.5 year	1 year
	Sept.–Dec.	.5 year	
2015	Feb.–May	.5 year	1 year
	Sept.–Dec.	.5 year	
2016	Feb.–May	.5 year	1 year
	Sept.–Dec.	.5 year	
Total years of service			4.5 years

Full-time or part-time. To figure your years of service, you must analyze each year individually and determine whether you worked full-time for the full year or something other than full-time. When determining whether you worked full-time or something other than full-time, use your employer's annual work period as the standard.

Employer's annual work period. Your employer's annual work period is the usual amount of time an individual working full-time in a specific position is required to work. Generally, this period of time is expressed in days, weeks, months, or semesters, and can span 2 calendar years.

Note. You can't accumulate more than 1 year of service in a 12-month period.

Example. All full-time teachers at ABC Public Schools are required to work both the September through December semester and the February through May semester. Therefore, the annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Teachers at ABC Public Schools who work both semesters in the same calendar year are considered working a full year of service in that calendar year.

Full-Time Employee for the Full Year

Count each full year during which you were employed full-time as 1 year of service. In determining whether you were employed full-time, compare the amount of work you were required to perform with the amount of work normally required of others who held the same position with the same employer and who generally received most of their pay from the position.

How to compare. You can use any method that reasonably and accurately reflects the amount of work required. For example, if you are a teacher, you can use the number of hours of classroom instruction as a measure of the amount of work required.

In determining whether positions with the same employer are the same, consider all of the facts and circumstances concerning the positions, including the work performed, the methods by which pay is determined, and the descriptions (or titles) of the positions.

Example. An assistant professor employed in the English department of a university will be considered a full-time employee if the amount of work that he or she is required to perform is the same as the amount of work normally required of assistant professors of English at that university who get most of their pay from that position.

If no one else works for your employer in the same position, compare your work with the work normally required of others who held the same position with similar employers or similar positions with your employer.

Full year of service. A full year of service for a particular position means the usual annual work period of anyone employed full-time in that general type of work at that place of employment.

Example. If a doctor works for a hospital 12 months of a year except for a 1-month vacation, the doctor will be considered as employed for a full year if the other doctors at that hospital also work 11 months of the year with a 1-month vacation. Similarly, if the usual annual work period at a university consists of the fall and spring semesters, an instructor at that university who teaches these semesters will be considered as working a full year.

Other Than Full-Time for the Full Year

If, during any year, you were employed full-time for only part of your employer's annual work period, part-time for the entire annual work period, or part-time for only part of the work period, your year of service for that year is a fraction of your employer's annual work period.

Full-time for part of the year. If, during a year, you were employed full-time for only part of your employer's annual work period, figure the fraction for that year as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Example. Jason was employed as a full-time instructor by a local college for the 4 months of the 2016 spring semester (February 2016 through May 2016). The annual work period for the college is 8 months (February through May and July through October). Given these facts, Jason was employed full-time for part of the annual work period and provided $\frac{1}{2}$

of a year of service. Jason's years of service computation for 2016 is as follows.

$$\frac{\text{Number of months Jason worked}}{\text{Number of months in annual work period}} = \frac{4}{8} = \frac{1}{2}$$

Part-time for the full year. If, during a year, you were employed part-time for the employer's entire annual work period, you figure the fraction for that year as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days normally required of someone holding the same position who works full-time.

Example. Vance teaches one course at a local medical school. He teaches 3 hours per week for two semesters. Other faculty members at the same school teach 9 hours per week for two semesters. The annual work period of the medical school is two semesters. An instructor teaching 9 hours a week for two semesters is considered a full-time employee. Given these facts, Vance has worked part-time for a full annual work period. Vance has completed $\frac{1}{3}$ of a year of service, figured as shown below.

$$\frac{\text{Number of hours per week Vance worked}}{\text{Number of hours per week considered full-time}} = \frac{3}{9} = \frac{1}{3}$$

Part-time for part of the year. If, during any year, you were employed part-time for only part of your employer's annual work period, you figure your fraction for that year by multiplying two fractions.

Figure the first fraction as though you had worked full-time for part of the annual work period. The fraction is as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Figure the second fraction as though you had worked part-time for the entire annual work period. The fraction is as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days normally required of someone holding the same position who works full-time.

Once you have figured these two fractions, multiply them together to determine the fraction representing your partial year of service for the year.

Example. Maria, an attorney, teaches a course for one semester at a law school. She teaches 3 hours per week. The annual work period for teachers at the school is two semesters.

All full-time instructors at the school are required to teach 12 hours per week. Based on these facts, Maria is employed part-time for part of the annual work period. Her year of service for this year is determined by multiplying two fractions. Her computation is as follows.

Maria's first fraction

$$\frac{\text{Number of semesters Maria worked}}{\text{Number of semesters in annual work period}} = \frac{1}{2}$$

Maria's second fraction

$$\frac{\text{Number of hours Maria worked per week}}{\text{Number of hours per week considered full-time}} = \frac{3}{12} = \frac{1}{4}$$

Maria would multiply these fractions to obtain the fractional year of service.

$$\frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$$

Figuring the Limit on Elective Deferrals

You can use Part II of [Worksheet 1](#) in chapter 9 to figure the limit on elective deferrals.

Example

Floyd has figured his limit on annual additions. The only other component needed before he can determine his MAC for 2017 is his limit on elective deferrals.

Figuring Floyd's limit on elective deferrals.

Floyd has been employed with his current employer for less than 15 years. He isn't eligible for the special 15-year increase. Therefore, his

limit on elective deferrals for 2017 is \$18,000 as shown in [Table 4-2](#).

Floyd's employer won't make any nonelective contributions to his 403(b) account and Floyd won't make any after-tax contributions. Additionally, Floyd's employer doesn't offer a Roth contribution program.

Figuring Floyd's MAC

Floyd has determined that his limit on annual additions for 2017 is \$54,000 and his limit on elective deferrals is \$18,000. Because elective deferrals are the only contributions made to Floyd's account, the maximum amount that can be contributed to a 403(b) account on Floyd's behalf in 2017 is \$18,000, the lesser of both limits.

Table 4-2. **Worksheet 1. Maximum Amount Contributable (MAC)**

Note. Use this worksheet to figure your MAC.

Part I. Limit on Annual Additions	
1. Enter your includible compensation for your most recent year of service	1. <u> \$70,475</u>
2. Maximum:	
• For 2016, enter \$53,000	
• For 2017, enter \$54,000	2. <u> 54,000</u>
3. Enter the lesser of line 1 or line 2. This is your limit on annual additions	3. <u> 54,000</u>
Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 18.	
Part II. Limit on Elective Deferrals	
4. Maximum contribution:	
• For 2016, enter \$18,000	
• For 2017, enter \$18,000	4. <u> 18,000</u>
Note. If you have at least 15 years of service with a qualifying organization, complete lines 5 through 17. If not, enter zero (-0-) on line 16 and go to line 17.	
5. Amount per year of service	5. <u> 5,000</u>
6. Enter your years of service	6. <u> </u>
7. Multiply line 5 by line 6	7. <u> </u>
8. Enter the total of all elective deferrals made for you by the qualifying organization for prior years	8. <u> </u>
9. Subtract line 8 from line 7. If zero or less, enter zero (-0-)	9. <u> </u>
10. Maximum increase in limit for long service	10. <u> 15,000</u>
11. Enter the total of additional pre-tax elective deferrals made in prior years under the 15-year rule	11. <u> </u>
12. Enter the aggregate amount of all designated Roth contributions permitted for prior years under the 15-year rule	12. <u> </u>
13. Add lines 11 and 12	13. <u> </u>
14. Subtract line 13 from line 10	14. <u> </u>
15. Maximum additional contributions	15. <u> 3,000</u>
16. Enter the least of line 9, 14, or 15. This is your increase in the limit for long service	16. <u> -0-</u>
17. Add lines 4 and 16. This is your limit on elective deferrals	17. <u> 18,000</u>
Part III. Maximum Amount Contributable	
18. • If you had only nonelective contributions, enter the amount from line 3. This is your MAC.	
• If you had only elective deferrals, enter the lesser of line 3 or 17. This is your MAC.	
• If you had both elective deferrals and nonelective contributions, enter the amount from line 3. This is your MAC. (Use the amount on line 17 to determine if you have excess elective deferrals as explained in chapter 7 .)	18. <u> 18,000</u>

5.

Ministers and Church Employees

Self-employed ministers and church employees who participate in 403(b) plans generally follow the same rules as other 403(b) plan participants.

This means that if you are a self-employed minister or a church employee, your MAC generally is the lesser of:

- Your limit on annual additions, or
- Your limit on elective deferrals.

For most ministers and church employees, the limit on annual additions is figured without any changes. This means that if you are a minister or church employee, your limit on annual additions generally is the lesser of:

- \$53,000 for 2016 and \$54,000 for 2017, or
- Your includible compensation for your most recent year of service.

Although, in general, the same limit applies, church employees can choose an alternative limit and there are changes in how church employees, foreign missionaries, and self-employed ministers figure includible compensation for the most recent year of service. This chapter will explain the alternative limit and the changes.

Who is a church employee? A church employee is anyone who is an employee of a church or a convention or association of churches, including an employee of a tax-exempt organization controlled by or associated with a church or a convention or association of churches.

Alternative Limit for Church Employees

If you are a church employee, you can choose to use \$10,000 a year as your limit on annual additions, even if your annual additions figured under the general rule is less.

Total contributions over your lifetime under this choice can't be more than \$40,000.

Changes to Includible Compensation for Most Recent Year of Service

There are two types of changes in determining includible compensation for the most recent year of service. They are:

- Changes in how the includible compensation of foreign missionaries and self-employed ministers is figured, and

- A change to the years that are counted when figuring the most recent year of service for church employees and self-employed ministers.

Changes to Includible Compensation

Includible compensation is figured differently for foreign missionaries and self-employed ministers.

Foreign missionary. If you are a foreign missionary, your includible compensation includes foreign earned income that may otherwise be excludable from your gross income under section 911.

If you are a foreign missionary, and your adjusted gross income is \$17,000 or less, contributions to your 403(b) account won't be treated as exceeding the limit on annual additions if the contributions aren't in excess of \$3,000.

You are a foreign missionary if you are either a layperson or a duly ordained, commissioned, or licensed minister of a church and you meet both of the following requirements.

- You are an employee of a church or convention or association of churches.
- You are performing services for the church outside the United States.

Self-employed minister. If you are a self-employed minister, you are treated as an employee of a tax-exempt organization that is a qualified employer. Your includible compensation is your net earnings from your ministry minus the contributions made to the retirement plan on your behalf and the deductible portion of your self-employment tax.

Changes to Years of Service

Generally, only service with the employer who maintains your 403(b) account can be counted when figuring your limit on annual additions.

Church employee. If you are a church employee, treat all of your years of service as an employee of a church or a convention or association of churches as years of service with one employer.

Self-employed minister. If you are a self-employed minister, your years of service include full and part years during which you were self-employed.

6.

Catch-Up Contributions

The most that can be contributed to your 403(b) account is the lesser of your limit on annual additions or your limit on elective deferrals.

If you will be age 50 or older by the end of the year, you may also be able to make additional catch-up contributions. These additional contributions can't be made with after-tax employee contributions.

You are eligible to make catch-up contributions if:

- You will have reached age 50 by the end of the year,
- Your employer's plan document allows for catch-up contributions, and
- The maximum amount of elective deferrals that can be made to your 403(b) account have been made for the plan year.

The maximum amount of catch-up contributions is the lesser of:

- \$6,000 for 2016 and 2017; or
- The excess of your compensation for the year, over the elective deferrals that aren't catch-up contributions.

Figuring catch-up contributions. When figuring allowable catch-up contributions, combine all catch-up contributions made by your employer on your behalf to the following plans.

- Qualified retirement plans. (To determine if your plan is a qualified plan, ask your plan administrator.)
- 403(b) plans.
- Salary reduction simplified employee pension (SARSEP) plans.
- SIMPLE plans.

The total amount of the catch-up contributions on your behalf to all plans maintained by your employer can't be more than the annual limit. The limit is \$6,000 for 2016 and 2017.

 *If you are eligible for both the 15-year rule increase in elective deferrals and the age 50 catch-up, allocate amounts first under the 15-year rule and next as an age 50 catch-up.*

 *Catch-up contributions aren't counted against your MAC. Therefore, the maximum amount that you are allowed to have contributed to your 403(b) account is your MAC plus your allowable catch-up contributions.*

You can use [Worksheet C](#) in chapter 9 to figure your limit on catch-up contributions.

7.

Excess Contributions

If your actual contributions (not including catch-up contributions) are greater than your MAC, you have an excess contribution. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. This chapter discusses excess contributions to your 403(b) account.

How Do I Know If I Have Excess Contributions?

At the end of the year or the beginning of the next year, you should refigure your MAC based on your actual compensation and actual contributions made to your account.

If the actual contributions (not including catch-up contributions) to your account are greater than your MAC, you have excess contributions. If, at any time during the year, your employment status or your compensation changes, you should refigure your MAC using a revised estimate of compensation to prevent excess contributions.

What Happens If I Have Excess Contributions?

Certain excess contributions in a 403(b) account can be corrected. The effect of an excess 403(b) contribution will depend on the type of excess contribution.

Types of excess contributions. If, after checking your actual contributions, you determine that you have an excess, the first thing is to identify the type of excess that you have. Excess contributions to a 403(b) account are categorized as either an:

- Excess annual addition, or
- Excess elective deferral.

Excess Annual Addition

An excess annual addition is a contribution (not including catch-up contributions) that is more than your limit on annual additions. To determine your limit on annual additions, see [chapter 3 \(chapter 5\)](#) for ministers or church employees).

In the year that your contributions are more than your limit on annual additions, the excess amount will be included in your income.

Excise Tax

If your 403(b) account invests in mutual funds, and you exceed your limit on annual additions, you may be subject to a 6% excise tax on the excess contribution. The excise tax doesn't apply to funds in an annuity account or to excess deferrals.

You must pay the excise tax each year in which there are excess contributions in your account. Excess contributions can be corrected by contributing less than the applicable limit in later years or by making permissible distributions. See [chapter 8](#) for a discussion on permissible distributions.

You can't deduct the excise tax.

Reporting requirement. You must file Form 5330 if there has been an excess contribution to a custodial account and that excess hasn't been corrected.

Excess Elective Deferral

An excess elective deferral is the amount that is more than your limit on elective deferrals. To determine your limit on elective deferrals, see [chapter 4](#).

Your employer's 403(b) plan may contain language permitting it to distribute excess deferrals. If so, it may require that in order to get a distribution of excess deferrals, you either notify the plan of the amount of excess deferrals or designate a distribution as an excess deferral. The plan may require that the notification or designation be in writing and may require that you certify or otherwise establish that the designated amount is an excess deferral. A plan isn't required to permit distribution of excess deferrals.

Correction of excess deferrals during year. If you have excess deferrals for a year, a corrective distribution may be made only if both of the following conditions are satisfied.

- The plan and either you or your employer designate the distribution as an excess deferral to the extent you have excess deferrals for the year.
- The correcting distribution is made after the date on which the excess deferral was made.

Correction of excess deferrals after the year. If you have excess deferrals for a year, you may receive a correcting distribution of the excess deferral no later than April 15 of the following year. The plan can distribute the excess deferral (and any income allocable to the excess) no later than April 15 of the year following the year the excess deferral was made.

Note. When April 15 falls on a Saturday, Sunday, or legal holiday, a return is considered timely filed if filed on the next succeeding day that isn't a Saturday, Sunday, or legal holiday.

Tax treatment of excess deferrals not attributable to Roth contributions. If the excess deferral is distributed by April 15, it is included in your income in the year contributed

and the earnings on the excess deferral will be taxed in the year distributed.

Note. When April 15 falls on a Saturday, Sunday, or legal holiday, a return is considered timely filed if filed on the next succeeding day that isn't a Saturday, Sunday, or legal holiday.

Tax treatment of excess deferrals attributable to Roth contributions. For these rules, see Regulations section 1.402(g)-1(e).

8.

Distributions and Rollovers

Distributions

Permissible distributions. Generally, a distribution can't be made from a 403(b) account until the employee:

- Reaches age 59½;
- Has a severance from employment;
- Dies;
- Becomes disabled;
- In the case of elective deferrals, encounters financial hardship; or
- Has a qualified reservist distribution.

In most cases, the payments you receive or that are made available to you under your 403(b) account are taxable in full as ordinary income. In general, the same tax rules apply to distributions from 403(b) plans that apply to distributions from other retirement plans. These rules are explained in Pub. 575. Pub. 575 also discusses the additional tax on early distributions from retirement plans.

Retired public safety officers. If you are an eligible retired public safety officer, distributions of up to \$3,000, made directly from your 403(b) plan to pay accident, health, or long-term care insurance, aren't included in your taxable income. The premiums can be for you, your spouse, or your dependents.

A **public safety officer** is a law enforcement officer, fire fighter, chaplain, or member of a rescue squad or ambulance crew.

For additional information, see Pub. 575.

Distribution for active reservist. The 10% penalty for early withdrawals won't apply to a qualified reservist distribution attributable to elective deferrals from a 403(b) plan. A *qualified reservist distribution* is a distribution that is made:

- To an individual who is a reservist or national guardsman and who was ordered or called to active duty for a period in excess of 179 days or for an indefinite period, and

- During the period beginning on the date of the order or call to duty and ending at the close of the active duty period.

Minimum Required Distributions

You must receive all, or at least a certain minimum, of your interest accruing after 1986 in the 403(b) plan by April 1 of the calendar year following the later of the calendar year in which you become age 70½, or the calendar year in which you retire.

TIP Check with your employer, plan administrator, or provider to find out whether this rule also applies to pre-1987 accruals. If not, a minimum amount of these accruals must begin to be distributed by the later of the end of the calendar year in which you reach age 75 or April 1 of the calendar year following retirement. For each year thereafter, the minimum distribution must be made by the last day of the year. If you don't receive the required minimum distribution, you are subject to a non-deductible 50% excise tax on the difference between the required minimum distribution and the amount actually distributed.

No Special 10-Year Tax Option

A distribution from a 403(b) plan doesn't qualify as a lump-sum distribution. This means you can't use the special 10-year tax option to calculate the taxable portion of a 403(b) distribution. For more information, see Pub. 575.

Transfer of Interest in 403(b) Contract

Contract exchanges. If you transfer all or part of your interest from a 403(b) contract to another 403(b) contract (held in the same plan), the transfer is tax free, and is referred to as a contract exchange. This was previously known as a 90-24 transfer. A contract exchange is similar to a 90-24 transfer with one major difference. Previously, you were able to accomplish the transfer without your employer's involvement. After September 24, 2007, all such transfers are accomplished through a contract exchange requiring your employer's involvement. In addition, the plan must provide for the exchange and the transferred interest must be subject to the same or stricter distribution restrictions. Finally, your accumulated benefit after the exchange must be equal to what it was before the exchange.

Transfers that don't satisfy this rule are plan distributions and are generally taxable as ordinary income.

Plan-to-plan transfers. You may also transfer part or all of your interest from a 403(b) plan to another 403(b) plan if you are an employee of (or were formerly employed by) the employer of the plan to which you would like to transfer. Both the initial plan and the receiving plan must provide for transfers. Your accumulated benefit

after the transfer must be at least equal to what it was before the transfer. The new plan's restrictions on distributions must be the same or stricter than those of the original plan.

Tax-free transfers for certain cash distributions. A tax-free transfer may also apply to a cash distribution of your 403(b) account from an insurance company that is subject to a rehabilitation, conservatorship, insolvency, or similar state proceeding. To receive tax-free treatment, you must do all of the following.

- Withdraw all the cash to which you are entitled in full settlement of your contract rights or, if less, the maximum permitted by the state.
- Reinvest the cash distribution in a single policy or contract issued by another insurance company or in a single custodial account subject to the same or stricter distribution restrictions as the original contract not later than 60 days after you receive the cash distribution.
- Assign all future distribution rights to the new contract or account for investment in that contract or account if you received an amount that is less than what you are entitled to because of state restrictions.

In addition to the preceding requirements, you must provide the new insurer with a written statement containing all of the following information.

- The gross amount of cash distributed under the old contract.
- The amount of cash reinvested in the new contract.
- Your investment in the old contract on the date you receive your first cash distribution.

Also, you must attach the following items to your timely filed income tax return in the year you receive the first distribution of cash.

1. A copy of the statement you gave the new insurer.
2. A statement that includes:
 - a. The words **ELECTION UNDER REV. PROC. 92-44**,
 - b. The name of the company that issued the new contract, and
 - c. The new policy number.

Direct trustee-to-trustee transfer. If you make a direct trustee-to-trustee transfer from your governmental 403(b) account to a defined benefit governmental plan, it may not be includible in gross income.

The transfer amount isn't includible in gross income if it is made to:

- Purchase permissive service credits; or
- Repay contributions and earnings that were previously refunded under a forfeiture of service credit under the plan, or under another plan maintained by a state or local government employer within the same state.

After-tax contributions. For distributions beginning after December 31, 2006, after-tax contributions can be rolled over between a 403(b) plan and a defined benefit plan, IRA, or a defined contribution plan. If the rollover is to or

from a 403(b) plan, it must occur through a direct trustee-to-trustee transfer.

Permissive service credit. A permissive service credit is credit for a period of service recognized by a defined benefit governmental plan only if you voluntarily contribute to the plan an amount that doesn't exceed the amount necessary to fund the benefit attributable to the period of service and the amount contributed is in addition to the regular employee contribution, if any, under the plan.

A permissive service credit may also include service credit for up to 5 years where there is no performance of service, or service credited to provide an increased benefit for service credit which a participant is receiving under the plan.

Check with your plan administrator as to the type and extent of service that may be purchased by this transfer.

Tax-Free Rollovers

You can generally roll over tax free all or any part of a distribution from a 403(b) plan to a traditional IRA or a non-Roth eligible retirement plan, except for any nonqualifying distributions, described later. You may also roll over any part of a distribution from a 403(b) plan by converting it through a direct rollover, described below, to a Roth IRA. Conversion amounts are generally includible in your taxable income in the year of the distribution from your 403(b) account. See Pub. 590-A for more information about conversion into a Roth IRA.

Note. A participant is required to roll over distribution amounts received within 60 calendar days in order for the amount to be treated as nontaxable. Distribution amounts that are rolled over within the 60 days aren't subject to the 10% early distribution penalty.

Rollovers to and from 403(b) plans. You can generally roll over tax free all or any part of a distribution from an eligible retirement plan to a 403(b) plan. Beginning January 1, 2008, distributions from tax-qualified retirement plans and tax-sheltered annuities can be converted by making a direct rollover into a Roth IRA subject to the restrictions that currently apply to rollovers from a traditional IRA into a Roth IRA. Converted amounts are generally includible in your taxable income in the year of the distribution from your 403(b) account. See Pub. 590-A for more information on conversion into a Roth IRA.

If a distribution includes both pre-tax contributions and after-tax contributions, the portion of the distribution that is rolled over is treated as consisting first of pre-tax amounts (contributions and earnings that would be includible in income if no rollover occurred). This means that if you roll over an amount that is at least as much as the pre-tax portion of the distribution, you don't have to include any of the distribution in income.

For more information on rollovers and eligible retirement plans, see Pub. 575.



If you roll over money or other property from a 403(b) plan to an eligible retirement plan, see Pub. 575 for information about possible effects on later distributions from the eligible retirement plan.

Hardship exception to rollover rules. The IRS may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of an individual.

Ways to get a waiver of the 60-day rollover requirement. There are three ways to obtain a waiver of the 60-day rollover requirement:

- You qualify for an automatic waiver,
- You self-certify that you met the requirements of a waiver, or
- You request and receive a private letter ruling granting a waiver.

How do you qualify for an automatic waiver? You qualify for an automatic waiver if all of the following apply.

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period.
- You followed all of the procedures set by the financial institution for depositing the funds into an IRA or other eligible retirement plan within the 60-day rollover period (including giving instructions to deposit the funds into a plan or IRA).
- The funds are not deposited into a plan or IRA within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited into a plan or IRA within 1 year from the beginning of the 60-day rollover period.
- It would have been a valid rollover if the financial institution had deposited the funds as instructed.

If you do not qualify for an automatic waiver, you can use the self-certification procedure to make a late rollover contribution or you can apply to the IRS for a waiver of the 60-day rollover requirement.

How do you self-certify that you qualify for a waiver? Based on Revenue Procedure 2016-47, 2016-37 I.R.B. 346, available at www.irs.gov/irb/2016-37_IRB/ar09.html, you may make a written certification to a plan administrator or an IRA trustee that you missed the 60-day rollover contribution deadline because of one or more of the 11 reasons listed in Revenue Procedure 2016-47. A plan administrator or an IRA trustee may rely on the certification in accepting and reporting receipt of the rollover contribution. You may make the certification by using the model letter in the appendix to the revenue procedure or by using a letter that is substantially similar. There is no IRS fee for self certification. A copy of the certification should be kept in your files and be available if requested on audit.

For additional information on rollovers, see Pub. 590-A.

How do you apply for a waiver ruling and what is the fee? You can request a ruling

according to the procedures outlined in Revenue Procedure 2003-16 and Revenue Procedure 2016-4. The appropriate user fee of \$10,000 must accompany every request for a waiver of the 60-day rollover requirement (see the user fee chart in Revenue Procedure 2016-8).

How does the IRS determine whether to grant a waiver in a private letter ruling? In determining whether to issue a favorable letter ruling granting a waiver, the IRS will consider all of the relevant facts and circumstances, including:

- Whether errors were made by the financial institution, i.e., the plan administrator, or IRA trustee, issuer or custodian;
- Whether you were unable to complete the rollover within the 60-day period due to death, disability, hospitalization, incarceration, serious illness, restrictions imposed by a foreign country, or postal error;
- Whether you used the amount distributed; and
- How much time has passed since the date of the distribution.

Note. The IRS can waive only the 60-day rollover requirement and not the other requirements for a valid rollover contribution. For example, the IRS cannot waive the IRA one-rollover-per-year rule

For more information on waivers of the 60-day rollover requirement, go to www.irs.gov/retirement-plans/retirement-plans-faqs-relating-to-waivers-of-the-60-day-rollover-requirement.

Eligible retirement plans. The following are considered eligible retirement plans.

- IRAs.
- Roth IRA.
- 403(a) annuity plans.
- 403(b) plans.
- Government eligible 457 plans.
- Qualified retirement plans.

If the distribution is from a designated Roth account, then the only eligible retirement plan is another designated Roth account or a Roth IRA.

Nonqualifying distributions. You can't roll over tax free:

- Minimum required distributions (generally required to begin at age 70½);
- Substantially equal payments over your life or life expectancy;
- Substantially equal payments over the joint lives or life expectancies of your beneficiary and you;
- Substantially equal payments for a period of 10 years or more;
- Hardship distributions; or
- Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or excess annual additions and any allocable gains.

Rollover of nontaxable amounts. You may be able to roll over the nontaxable part of a distribution (such as your after-tax contributions) made to another eligible retirement plan, traditional IRA, or Roth IRA. The transfer must be made either through a direct rollover to an eligi-

ble plan that separately accounts for the taxable and nontaxable parts of the rollover or through a rollover to a traditional IRA or Roth IRA.

If you roll over only part of a distribution that includes both taxable and nontaxable amounts, the amount you roll over is treated as coming first from the taxable part of the distribution.

Direct rollovers of 403(b) plan distributions.

You have the option of having your 403(b) plan make the rollover directly to a traditional IRA, Roth IRA, or new plan. Before you receive a distribution, your plan will give you information on this. It is generally to your advantage to choose this option because your plan won't withhold tax on the distribution if you choose it.

Distribution received by you. If you receive a distribution that qualifies to be rolled over, you can roll over all or any part of the distribution. Generally, you will receive only 80% of the distribution because 20% must be withheld. If you roll over only the 80% you receive, you must pay tax on the 20% you didn't roll over. You can replace the 20% that was withheld with other money within the 60-day period to make a 100% rollover.

Voluntary deductible contributions. For tax years 1982 through 1986, employees could make deductible contributions to a 403(b) plan under the IRA rules instead of deducting contributions to a traditional IRA.

If you made voluntary deductible contributions to a 403(b) plan under these traditional IRA rules, the distribution of all or part of the accumulated deductible contributions may be rolled over if it otherwise qualifies as a distribution you can roll over. Accumulated deductible contributions are the deductible contributions:

- Plus
 1. Income allocable to the contributions,
 2. Gain allocable to the contributions, and
- Minus
 1. Expenses and losses allocable to the contributions, and
 2. Distributions from the contributions, income, or gain.

Excess employer contributions. The portion of a distribution from a 403(b) plan transferred to a traditional IRA that was previously included in income as excess employer contributions isn't an eligible rollover distribution.

Its transfer doesn't affect the rollover treatment of the eligible portion of the transferred amounts. However, the ineligible portion is subject to the traditional IRA contribution limits and may create an excess IRA contribution subject to a 6% excise tax (see chapter 1 of Pub. 590-A).

Qualified domestic relations order. You may be able to roll over tax free all or any part of an eligible rollover distribution from a 403(b) plan that you receive under a qualified domestic relations order (QDRO). If you receive the interest in the 403(b) plan as an employee's spouse or former spouse under a QDRO, all of the rollover rules apply to you as if you were the employee. You can roll over your interest in the

plan to a traditional IRA or another 403(b) plan. For more information on the treatment of an interest received under a QDRO, see Pub. 575.

Spouses of deceased employees. If you are the spouse of a deceased employee, you can roll over the qualifying distribution attributable to the employee. You can make the rollover to any eligible retirement plan.

After you roll money and other property over from a 403(b) plan to an eligible retirement plan, and you take a distribution from that plan, you won't be eligible to receive the capital gain treatment or the special averaging treatment for the distribution.

Second rollover. If you roll over a qualifying distribution to a traditional IRA, you can, if certain conditions are satisfied, later roll the distribution into another 403(b) plan. For more information, see *IRA as a holding account (conduit IRA) for rollovers to other eligible plans* in chapter 1 of Pub. 590-A.

Nonspouse beneficiary. A nonspouse beneficiary may make a direct rollover of a distribution from a 403(b) plan of a deceased participant if the rollover is a direct transfer to an inherited IRA established to receive the distribution. If the rollover is a direct trustee-to-trustee transfer to an IRA established to receive the distribution:

- The transfer will be treated as an eligible rollover distribution,
- The IRA will be considered an inherited account, and
- The required minimum distribution rules that apply in instances where the participant dies before the entire interest is distributed will apply to the transferred IRA.

For more information on IRAs, see Pubs. 590-A and 590-B.

Frozen deposits. The 60-day period usually allowed for completing a rollover is extended for any time that the amount distributed is a frozen deposit in a financial institution. The 60-day period can't end earlier than 10 days after the deposit ceases to be a frozen deposit.

A frozen deposit is any deposit that on any day during the 60-day period can't be withdrawn because:

1. The financial institution is bankrupt or insolvent, or

2. The state where the institution is located has placed limits on withdrawals because one or more banks in the state are (or are about to be) bankrupt or insolvent.

Gift Tax

If, by choosing or not choosing an election, or option, you provide an annuity for your beneficiary at or after your death, you may have made a taxable gift equal to the value of the annuity.

Joint and survivor annuity. If the gift is an interest in a joint and survivor annuity where only you and your spouse have the right to receive payments, the gift will generally be treated as qualifying for the unlimited marital deduction.

More information. For information on the gift tax, see Pub. 559, *Survivors, Executors, and Administrators*.

9.

Worksheets

[Chapter 2](#) introduced you to the term maximum amount contributable (MAC). Generally, your MAC is the lesser of your:

- Limit on annual additions ([chapter 3](#)), or
- Limit on elective deferrals ([chapter 4](#)).

The worksheets in this chapter can help you figure the cost of incidental life insurance, your includible compensation, your limit on annual additions, your limit on elective deferrals, your limit on catch-up contributions, and your MAC.



After completing the worksheets, you should maintain them with your 403(b) records for that year. Do not attach them to your tax return. At the end of the year or the beginning of the next year, you should compare your estimated compensation figures with your actual figures.

If your compensation is the same as, or more than, the projected amounts and the calculations are correct, then you should simply file these worksheets with your other tax records for the year.

If your compensation was lower than your estimated figures, you will need to check the amount contributed during the year to determine if contributions are more than your MAC.

When Should I Figure MAC?

At the beginning of each year, you should figure your MAC using a conservative estimate of your compensation. Should your income change during the year, you should refigure your MAC based on a revised conservative estimate. By doing this, you will be able to determine if contributions to your 403(b) account should be increased or decreased for the year.

Checking the Previous Year's Contributions

At the beginning of the following year, you should refigure your MAC based on your actual earned income.

At the end of the current year or the beginning of the next year, you should check your contributions to be sure you didn't exceed your MAC. This means refiguring your limit based on your actual compensation figures for the year. This will allow you to determine if the amount contributed is more than the allowable amounts, and possibly avoid additional taxes.

Available Worksheets

The following worksheets have been provided to help you figure your MAC.

- [Worksheet A. Cost of Incidental Life Insurance.](#)
- [Worksheet B. Includible Compensation for Your Most Recent Year of Service.](#)
- [Worksheet C. Limit on Catch-Up Contributions.](#)
- [Worksheet 1. Maximum Amount Contributable \(MAC\).](#)

Worksheet A. Cost of Incidental Life Insurance

Note. Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.

1.	Enter the value of the contract (amount payable upon your death)	1.	_____
2.	Enter the cash value in the contract at the end of the year	2.	_____
3.	Subtract line 2 from line 1. This is the value of your current life insurance protection	3.	_____
4.	Enter your age on your birthday nearest the beginning of the policy year	4.	_____
5.	Enter the 1-year term premium for \$1,000 of life insurance based on your age. (From Figure 3-1)	5.	_____
6.	Divide line 3 by \$1,000	6.	_____
7.	Multiply line 6 by line 5. This is the cost of your incidental life insurance	7.	_____

Worksheet B. Includible Compensation for Your Most Recent Year of Service¹

Note. Use this worksheet to figure includible compensation for your most recent year of service.

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	1.	_____
2.	Enter elective deferrals excluded from your gross income for your most recent year of service ²	2.	_____
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	3.	_____
4.	Enter amounts contributed or deferred by your employer according to your election to your 457 account (a nonqualified plan of a state or local government or of a tax-exempt organization) for your most recent year of service	4.	_____
5.	Enter pre-tax contributions (employer's contributions made on your behalf according to your election) to a qualified transportation fringe benefit plan for your most recent year of service	5.	_____
6.	Enter your foreign earned income exclusion for your most recent year of service	6.	_____
7.	Add lines 1, 2, 3, 4, 5, and 6	7.	_____
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	8.	_____
9.	Enter compensation that was both : <ul style="list-style-type: none"> • Earned during your most recent year of service, and • Earned while your employer wasn't qualified to maintain a 403(b) plan 	9.	_____
10.	Add lines 8 and 9	10.	_____
11.	Subtract line 10 from line 7. This is your includible compensation for your most recent year of service	11.	_____

¹Use estimated amounts if figuring includible compensation before the end of the year.

²Elective deferrals made to a designated Roth account aren't excluded from your gross income and shouldn't be included on this line.

Worksheet C. **Limit on Catch-Up Contributions**

Note. If you will be age 50 or older by the end of the year, use this worksheet to figure your limit on catch-up contributions.

1. Maximum catch-up contributions	1. _____	\$6,000
2. Enter your includible compensation for your most recent year of service	2. _____	
3. Enter your elective deferrals	3. _____	
4. Subtract line 3 from line 2	4. _____	
5. Enter the lesser of line 1 or line 4. This is your limit on catch-up contributions	5. _____	

Worksheet 1. **Maximum Amount Contributable (MAC)**

Note. Use this worksheet to figure your MAC.

Part I. Limit on Annual Additions

- 1. Enter your includible compensation for your most recent year of service **1.** _____
- 2. Maximum¹:
 - For 2016, enter \$53,000
 - For 2017, enter \$54,000 **2.** _____
- 3. Enter the lesser of line 1 or line 2. This is your limit on annual additions **3.** _____

Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 18.

Part II. Limit on Elective Deferrals

- 4. Maximum contribution:
 - For 2016, enter \$18,000
 - For 2017, enter \$18,000 **4.** _____

Note. If you have at least 15 years of service with a qualifying organization, complete lines 5 through 17. If not, enter zero (-0-) on line 16 and go to line 17.

- 5. Amount per year of service **5.** _____ \$ 5,000
- 6. Enter your years of service **6.** _____
- 7. Multiply line 5 by line 6 **7.** _____
- 8. Enter the total of all elective deferrals made for you by the qualifying organization for prior years **8.** _____
- 9. Subtract line 8 from line 7. If zero or less, enter zero (-0-) **9.** _____
- 10. Maximum increase in limit for long service **10.** _____ \$15,000
- 11. Enter the total of additional pre-tax elective deferrals made in prior years under the 15-year rule **11.** _____
- 12. Enter the aggregate amount of all designated Roth contributions permitted for prior years under the 15-year rule **12.** _____
- 13. Add line 11 and line 12 **13.** _____
- 14. Subtract line 13 from line 10 **14.** _____
- 15. Maximum additional contributions **15.** _____ \$ 3,000
- 16. Enter the least of line 9, 14, or 15. This is your increase in the limit for long service **16.** _____
- 17. Add lines 4 and 16. This is your limit on elective deferrals **17.** _____

Part III. Maximum Amount Contributable

- 18.
 - If you had only nonelective contributions, enter the amount from line 3. This is your MAC.
 - If you had only elective deferrals, enter the lesser of line 3 or 17. This is your MAC.
 - If you had both elective deferrals and nonelective contributions, enter the amount from line 3. This is your MAC. (Use the amount on line 17 to determine if you have excess elective deferrals as explained in [chapter 7](#).) **18.** _____

¹If you participate in a 403(b) plan and a qualified plan, you must combine contributions made to your 403(b) account with contributions to a qualified plan and simplified employee pension plans of all corporations, partnerships, and sole proprietorships in which you have more than 50% control. You must also combine the contributions made to all 403(b) accounts on your behalf by your employer.

10.

Retirement Savings Contributions Credit (Saver's Credit)

If you or your employer make eligible contributions (defined later) to a retirement plan, you may be able to take a credit of up to \$1,000 (up to \$2,000 if filing jointly). This credit could reduce the federal income tax you pay dollar for dollar.

Can you claim the credit? If you or your employer make eligible contributions to a retirement plan, you can claim the credit if all of the following apply.

1. You aren't under age 18.
2. You aren't a full-time student (explained next).
3. No one else, such as your parent(s), claims an exemption for you on their tax return.
4. Your adjusted gross income (defined later) isn't more than:
 - a. \$61,500 for 2016 (\$62,000 for 2017) if your filing status is married filing jointly;
 - b. \$46,125 for 2016 (\$46,500 for 2017) if your filing status is head of household (with qualifying person); or
 - c. \$30,750 for 2016 (\$31,000 for 2017) if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.

Full-time student. You are a full-time student if, during some part of each of 5 calendar months (not necessarily consecutive) during the calendar year, you are either:

- A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance; or
- A student taking a full-time, on-farm training course given by either a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or a state, county, or local government.

You are a full-time student if you are enrolled for the number of hours or courses the school considers to be full-time.

Adjusted gross income. This is generally the amount on line 38 of your 2016 Form 1040 or line 22 of your 2016 Form 1040A. However,

you must add to that amount any exclusion or deduction claimed for the year for:

- Foreign earned income,
- Foreign housing costs,
- Income for bona fide residents of American Samoa, and
- Income from Puerto Rico.

Eligible contributions. These include:

1. Contributions to a traditional or Roth IRA;
2. Elective deferrals, including amounts designated as after-tax Roth contributions, to:
 - a. A 401(k) plan (including a SIMPLE 401(k)),
 - b. A section 403(b) annuity,
 - c. An eligible deferred compensation plan of a state or local government (a governmental 457 plan),
 - d. A SIMPLE IRA plan, or
 - e. A salary reduction SEP; and
3. Contributions to a section 501(c)(18) plan.

They also include voluntary after-tax employee contributions to a tax-qualified retirement plan or a section 403(b) annuity. For purposes of the credit, an employee contribution will be voluntary as long as it isn't required as a condition of employment.

Reducing eligible contributions. Reduce your eligible contributions (but not below zero) by the total distributions you received during the testing period (defined later) from any IRA, plan, or annuity included earlier under *Eligible contributions*. Also reduce your eligible contributions by any distribution from a Roth IRA that isn't rolled over, even if the distribution isn't taxable.

Do not reduce your eligible contributions by any of the following.

1. The portion of any distribution which isn't includible in income because it is a trustee-to-trustee transfer or a rollover distribution.
2. Distributions that are taxable as the result of an in-plan rollover to your designated Roth account.
3. Any distribution that is a return of a contribution to an IRA (including a Roth IRA) made during the year for which you claim the credit if:
 - a. The distribution is made before the due date (including extensions) of your tax return for that year,
 - b. You don't take a deduction for the contribution, and
 - c. The distribution includes any income attributable to the contribution.
4. Loans from a qualified employer plan treated as a distribution.
5. Distributions of excess contributions or deferrals (and income attributable to excess contributions and deferrals).
6. Distributions of dividends paid on stock held by an employee stock ownership plan under section 404(k).

7. Distributions from an eligible retirement plan that are converted or rolled over to a Roth IRA.
8. Distributions from a military retirement plan.
9. Distributions from an inherited IRA by a nonspousal beneficiary.

Distributions received by spouse. Any distributions your spouse receives are treated as received by you if you file a joint return with your spouse both for the year of the distribution and for the year for which you claim the credit.

Testing period. The testing period consists of:

- The year in which you claim the credit,
- The 2 years before the year in which you claim the credit, and
- The period after the end of the year in which you claim the credit and before the due date of the return (including extensions) for filing your return for the year in which you claimed the credit.

Example. You and your spouse filed joint returns in 2014 and 2015, and plan to do so in 2016 and 2017. You received a taxable distribution from a qualified plan in 2014 and a taxable distribution from an eligible section 457(b) deferred compensation plan in 2015. Your spouse received taxable distributions from a Roth IRA in 2016 and tax-free distributions from a Roth IRA in 2017 before April 18. You made eligible contributions to an IRA in 2016 and you otherwise qualify for this credit. You must reduce the amount of your qualifying contributions in 2016 by the total of the distributions you and your spouse received in 2014, 2015, 2016, and 2017.

Maximum eligible contributions. After your contributions are reduced, the maximum annual contribution on which you can base the credit is \$2,000 per person.

Effect on other credits. The amount of this credit won't change the amount of your refundable tax credits. A refundable tax credit, such as the earned income credit or the additional child tax credit, is an amount that you would receive as a refund even if you didn't otherwise owe any taxes.

Maximum credit. This is a nonrefundable credit. The amount of the credit in any year can't be more than the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the education credits, then you won't be entitled to this credit.

How to figure and report the credit. The amount of the credit you can get is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%. Your credit rate depends on your income and your filing status. See Form 8880, Credit for Qualified Retirement Savings Contributions, to determine your credit rate.

The maximum contribution taken into account is \$2,000 per person. On a joint return, up to \$2,000 is taken into account for each spouse.

Figure the credit on Form 8880. Report the credit on line 51 of your 2016 Form 1040 or line 34 of your 2016 Form 1040A, and attach Form 8880 to your return.

11.

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$54,000 or less, persons with disabilities, the elderly, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov and click on the Filing tab to see your options for preparing and filing your return which include the following.

- **Free File.** Go to IRS.gov/reefile. See if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to IRS.gov/vita, download the free IRS2Go app, or call 1-800-906-9887 to find the nearest VITA location for free tax preparation.
- **TCE.** Go to IRS.gov/tce, download the free IRS2Go app, or call 1-888-227-7669 to find the nearest TCE location for free tax preparation.



Getting answers to your tax law questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to IRS.gov/help or IRS.gov/letushelp pages for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to IRS.gov/ita for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.

- Go to IRS.gov/pub17 to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2016 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML or as a PDF or, better yet, download it to your mobile device to enjoy eBook features.
- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to IRS.gov/forms to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or, you can go to IRS.gov/orderforms to place an order and have forms mailed to you within 10 business days.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and *IRS e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. IRS issues more than 90% of refunds in less than 21 days.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to IRS.gov/transcripts. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 1-800-908-9946.
- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to IRS.gov/tools for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/eic\)](http://IRS.gov/eic) determines if you are eligible for the EIC.
- The [Online EIN Application \(IRS.gov/ein\)](http://IRS.gov/ein) helps you get an employer identification number.
- The [IRS Withholding Calculator \(IRS.gov/w4app\)](http://IRS.gov/w4app) estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The [First Time Homebuyer Credit Account Look-up \(IRS.gov/homebuyer\)](http://IRS.gov/homebuyer) tool provides information on your repayments and account balance.
- The [Sales Tax Deduction Calculator \(IRS.gov/salestax\)](http://IRS.gov/salestax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to IRS.gov/idprotection for information and videos.

- If your SSN has been lost or stolen or you suspect you are a victim of tax-related identity theft, visit IRS.gov/id to learn what steps you should take.

Checking on the status of your refund.

- Go to IRS.gov/refunds.
- Due to changes in the law, the IRS can't issue refunds before February 15, 2017, for returns that claim the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to IRS.gov/payments to make a payment using any of the following options.

- **IRS Direct Pay:** Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** If cash is your only option, you may be able to pay your taxes at a participating retail store.

What if I can't pay now? Go to IRS.gov/payments for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/opa\)](http://IRS.gov/opa) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier \(IRS.gov/oic\)](http://IRS.gov/oic) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to IRS.gov and click on [Where's My Amended Return? \(IRS.gov/wmar\)](http://IRS.gov/wmar) under the "Tools" bar to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it show up in our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to IRS.gov/notices to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be resolved on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to [IRS.gov/letushelp](https://www.irs.gov/letushelp) for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without waiting. Before you visit, go to [IRS.gov/taclocator](https://www.irs.gov/taclocator) to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

Watching IRS videos. The IRS Video portal ([IRSvideos.gov](https://www.irs.gov/irsvideos)) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- [Spanish \(IRS.gov/spanish\)](https://www.irs.gov/spanish).
- [Chinese \(IRS.gov/chinese\)](https://www.irs.gov/chinese).
- [Vietnamese \(IRS.gov/vietnamese\)](https://www.irs.gov/vietnamese).
- [Korean \(IRS.gov/korean\)](https://www.irs.gov/korean).
- [Russian \(IRS.gov/russian\)](https://www.irs.gov/russian).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service Is Here To Help You

What is the Taxpayer Advocate Service?

Taxpayer Advocate Service (TAS) is an *independent* organization within the IRS that helps

taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](https://www.irs.gov/advocate).

What Can the Taxpayer Advocate Service Do For You?

We can help you resolve problems that you can't resolve with the IRS. And our service is free. If you qualify for our assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach Us?

We have offices [in every state, the District of Columbia, and Puerto Rico](https://www.irs.gov/advocate). Your local advocate's number is in your local directory and at [taxpayeradvocate.irs.gov](https://www.taxpayeradvocate.irs.gov). You can also call us at 1-877-777-4778.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at [taxpayeradvocate.irs.gov](https://www.taxpayeradvocate.irs.gov) can help you understand [what these rights mean to you](https://www.irs.gov/advocate) and how they apply. These are *your* rights. Know them. Use them.

How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to us at [IRS.gov/sams](https://www.irs.gov/sams).

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) serve individuals whose income is below a certain level and need to resolve tax problems such as audits, appeals, and tax collection disputes. Some clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. To find a clinic near you, visit [IRS.gov/litc](https://www.irs.gov/litc) or see IRS Publication 4134, [Low Income Taxpayer Clinic List](https://www.irs.gov/advocate).



<p>403(b) account 2</p> <p>403(b) plans:</p> <ul style="list-style-type: none"> Basics 2 Benefits 3 Participation 3 Self-employed ministers 3 What is a 403(b) plan? 2 Who can set up a 403(b) account? 3 	<p>Minimum required 14</p> <p>Qualified domestic relations order 15</p> <p>Rollovers 14</p> <p>Second rollover 16</p> <p>Transfers 14</p>	<p>L</p> <p>Limit on annual additions 4</p> <p>Limit on elective deferrals 8</p> <ul style="list-style-type: none"> 15-year rule 8 Figuring 10 General limit 8 	<p>Rollovers 13, 14</p> <p>Roth contribution program 8</p>
<p>A</p> <p>After-tax contributions 3</p> <p>Assistance (See Tax help)</p>	<p>E</p> <p>Elective deferrals 3, 4</p> <p>Eligible employees 3, 8</p> <p>Employer's annual work period 9</p> <p>Excess contributions 13</p> <ul style="list-style-type: none"> Correcting 13 Determining 13 Excess amounts 13 Excess deferrals 13 Excess elective deferral 13 Excise tax 13 <p>Excise tax:</p> <ul style="list-style-type: none"> Excess contributions 13 Reporting requirement 13 	<p>M</p> <p>MAC (See Maximum amount contributable)</p> <p>Maximum amount contributable 4</p> <ul style="list-style-type: none"> Components 4 How to figure MAC 4 When to figure MAC 4 <p>Minimum required distributions 14</p> <p>Ministers 3, 12</p> <p>Missing children 2</p> <p>More information (See Tax help)</p> <p>Most recent year of service 5</p> <p>Most recent year of service, figuring 5</p>	<p>S</p> <p>Salary reduction agreement 8</p> <p>Self-employed ministers 3, 8, 12</p> <p>Suggestions for publication 2</p>
<p>B</p> <p>Basics 2</p> <p>Benefits 3</p>	<p>F</p> <p>Free tax services 21</p> <p>Full-time or part-time 8</p>	<p>N</p> <p>Nonelective contributions 3, 4</p>	<p>T</p> <p>Tax help 21</p> <p>Transfers 14</p> <ul style="list-style-type: none"> 90-24 transfer 14 Conservatorship 14 Direct-trustee-to-trustee 14 Insolvency 14 Permissive service credit 14 <p>TTY/TDD information 21</p>
<p>C</p> <p>Catch-up contributions 12</p> <p>Chaplain 3</p> <p>Church employees 12</p> <ul style="list-style-type: none"> Years of service 12 <p>Comments on publication 2</p> <p>Contributions 3</p> <ul style="list-style-type: none"> After-tax 3 Catch-up 12 Elective deferrals 3, 4 Nonelective 3 Reporting 3 <p>Correcting excess contributions 13</p> <p>Credit, for retirement savings contributions 20</p>	<p>G</p> <p>Gift tax 16</p>	<p>P</p> <p>Pre-tax contributions 5, 7, 14, 17</p> <p>Publications (See Tax help)</p>	<p>V</p> <p>Voluntary deductible contributions 15</p>
<p>D</p> <p>Distributions 13</p> <ul style="list-style-type: none"> 10-year tax option 14 90-24 transfer 14 Deceased employees 16 Direct rollover 15 Eligible retirement plans 15 Frozen deposit 16 Gift tax 16 	<p>H</p> <p>Help (See Tax help)</p>	<p>Q</p> <p>Qualified domestic relations order 15</p>	<p>W</p> <p>What is a 403(b) plan? 2</p>
<p>I</p> <p>Incidental life insurance 5</p> <p>Includible compensation 5</p> <ul style="list-style-type: none"> 403(b) plan 12 Figuring 6 Foreign missionaries 12 Incidental life insurance 5 Self-employed ministers 12 <p>Includible compensation for your most recent year of service:</p> <ul style="list-style-type: none"> Definition 4 	<p>J</p>	<p>R</p> <p>Reporting Contributions:</p> <p>Reporting contributions:</p> <ul style="list-style-type: none"> Chaplains 3 Self-employed ministers 3 <p>Required distributions 14</p> <p>Retirement savings contributions credit 1, 2, 20</p>	<p>Y</p> <p>Years of service 8</p> <ul style="list-style-type: none"> Church employees 8, 12 Definition 8 Employer's annual work period 9 Full-time employee for the full year 9 Full-time for part of the year 9 Full year of service 9 Other than full-time for the full year 9 Part-time for the full year 9 Part-time for the part of the year 9 Self-employed minister 12 Total years of service 8

Participants

A 403(b) plan is a retirement plan offered by public schools and 501(c)(3) tax-exempt organizations. You can only obtain a 403(b) annuity or custodial account* under your employer's 403(b) plan. These annuities are funded by your elective salary deferrals, employer contributions or a combination of both.

403(b) plans offer significant tax advantages for participants:

- contributions and earnings are tax-deferred (in a traditional 403(b) annuity),
- earnings on after-tax Roth contributions may be tax-free,
- you may be eligible for a saver's credit on your individual tax return, and
- you can carry your annuity with you when you change employers or retire.

Be Aware of Common Mistakes

As a participant in a 403(b) plan, you need to be familiar with the tax rules governing your 403(b) annuity so you can:

- maximize your retirement benefits,
- comply with the law, and
- avoid additional taxes and penalties.

* Unless otherwise stated, references to 403(b) annuities in this publication will generally also apply to 403(b) custodial accounts.

403(b)

Highlights

Plan Feature

403(b) Requirements

Eligible participants

all common-law employees of public school systems and 501(c)(3) organizations

General contribution limits

- for elective deferrals
 - \$18,000 (in 2017, indexed for inflation)
- for employer and employee contributions
 - \$54,000 (for 2017, indexed for inflation), or
 - 100% of includible compensation, if less

15-years-of-service catch-up contributions*

- available for certain employers (such as schools, hospitals, churches)
- employee must have 15 years of service
- limited to least of:
 - \$3,000,
 - \$15,000 less previously excluded special catch-ups, or
 - \$5,000 multiplied by years of service minus previously excluded deferrals

Age-50 catch-up contributions

additional \$6,000 (in 2017, indexed for inflation)

Loans

- available, if both the plan and your specific annuity permit
- \$50,000 limit for all loans at any time
- payments at least quarterly
- term of no more than 5 years (except for purchase of main home)
- reasonable rate of interest

Other distributions

- hardship, if both the plan and your specific annuity permit
- domestic relations order

Timing of distributions

- elective deferrals are available generally upon:
 - death,
 - age 59½,
 - severance from employment, or
 - disability,
 and no later than the later of age 70½ or retirement
- employer contributions may be available earlier if provided in the plan and your annuity (but not if the funds are held in a custodial account)

Rollovers

- permitted to and from other retirement plans (such as a 401(k), other 403(b)) and IRAs
- must satisfy eligible distribution rules

Trustee-to-trustee transfer

- transfers to another 403(b) plan are permitted
- in-service transfers to purchase service credit in government defined benefit plans are permitted

***Note:** The special 403(b) 15-years-of-service catch-up is included in the general limit, but the age-50 catch-up is excluded from this limit. Catch-up contributions must be applied first to the 15-years-of-service catch-up, if available, before being applied to the age-50 catch-up. See [irs.gov/retirement](https://www.irs.gov/retirement) for examples of how the ordering works.

Common Mistakes

It's important to know the tax rules that apply to a 403(b) plan to help you get the maximum benefit from your plan.

The IRS commonly finds mistakes in 403(b) plans in these areas:

Universal availability. If a 403(b) plan allows any employee to make elective deferrals, it must allow all employees the same opportunity. Certain groups of employees may be excluded, such as those normally working fewer than 20 hours per week (less than 1,000 hours per year), students performing certain service, employees who are eligible for elective deferrals under another plan of their employer and non-resident aliens. Employers must notify employees of their eligibility to make an initial or change an existing deferral election at least once a year.

Contribution limits and catch-ups. Contributions must stay under the applicable general, age 50 catch-up and 15-years-of-service catch-up contribution limits. Any excess elective deferrals must be returned by the following April 15th to avoid additional taxes and penalties.

Depositing elective deferrals. Your employer must send your deferrals to your annuity issuer as soon as is reasonable for proper plan administration (but no later than 15 days following the month you would have been paid).

Rollovers. You're permitted to roll over any part of your otherwise taxable eligible distribution from a 403(b) annuity into another 403(b) annuity, a 457(b) plan, a traditional IRA or other eligible retirement plan. Likewise, if permitted by the 403(b) annuity, you may roll over your otherwise taxable distributions from another retirement plan into your 403(b) annuity.

Loans. Loans may be available under the 403(b) plan and your 403(b) annuity. If you default on your loan or it fails other conditions, the IRS may treat your loan as a taxable distribution. Your loan may continue to accrue interest until you're eligible for a distribution to pay the loan back. If you're under age 59½ when your loan is deemed a distribution, a 10% additional tax may apply.

Hardship. Hardship distributions may be permitted under your 403(b) plan and your 403(b) annuity. Hardships must be because of an immediate and heavy financial need. If you take a hardship distribution, most plans require you to stop making deferrals for six months.

Contributions after you leave employment. Plans may allow for elective deferrals and/or employer contributions after you separate from service.

- **Elective deferrals.** If your plan permits, you may defer — up to your annual deferral limit — your unpaid regular pay and unused accrued vacation and sick pay, if done before the end of the calendar year you leave employment, or within 2½ months after leaving, if later.

- **Employer contributions.** If your plan permits, your employer may contribute up to the combined annual employer and employee contribution limit for you for up to five years following the end of the year you left employment. (Note: You can't elect to receive this money in cash instead of deferring it in your 403(b) account.) These employer contributions must end upon your death.

Moving funds while you're still working.

- **Exchanges within the same plan.** For these to occur, the 403(b) plan must permit you to move funds from one approved annuity issuer to another. In addition, the new annuity issuer must agree to share information with your employer.
- **Plan-to-plan movement of funds.** For this to occur, both 403(b) plans must permit the movement of the funds.

As a participant, you need to be aware of these common mistakes. By helping your employer to correct mistakes timely, you can avoid additional taxes and penalties that may affect both you and your employer.

To Learn More . . .

For assistance or information on retirement plan tax-related issues:

- visit www.irs.gov/retirement – See
 - “Choosing a retirement plan,” then:
 - “Types of Retirement Plans,” then “403(b) Plans”
 - “Retirement Plans FAQs,” then “403(b) Tax-Sheltered Annuity Plans”
- call 877-829-5500 – Tax Exempt and Government Entities Customer Account Services

The following publications cover 403(b) annuities:

- **Publication 571**, Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- **Publication 575**, Pension and Annuity Income
- **Publication 590-A**, Contributions to Individual Retirement Arrangements (IRAs)
- **Publication 590-B**, Distributions from Individual Retirement Arrangements (IRAs)
- **Publication 4483**, 403(b) Tax-Sheltered Annuity Plans for Sponsors
- **Publication 4546**, 403(b) Plan Checklist

Download these publications at www.irs.gov/retirement.

Sponsors

A 403(b) plan is a retirement plan offered by a public school or 501(c)(3) tax-exempt organization for its employees. An employee can only obtain a 403(b) annuity or custodial account* under an employer's 403(b) plan. These annuities and custodial accounts are funded by employee elective deferrals made under salary reduction agreements, employer contributions or a combination of both.

Read on to learn about:

- Common 403(b) plan mistakes, and
- IRS products (including the 403(b) Fix-It Guide), services and assistance to help you keep your 403(b) plan healthy

Be aware of common mistakes

As a 403(b) plan sponsor, it's important to know the tax rules that apply to your 403(b) plan and to pay attention to the operation of your plan so you can:

- maximize your employees' retirement benefits,
- comply with the law, and
- avoid additional taxes and penalties

*Unless otherwise stated, references to 403(b) annuities in this publication will generally also apply to 403(b) custodial accounts.

403(b)

Common Mistakes

It's important to know the tax rules that apply to your 403(b) plan and to pay attention to the operation of your plan.

The IRS commonly finds mistakes in 403(b) plans in these areas:

Written plan requirement. You must have a written plan that describes the way the plan will work and you must operate your plan accordingly.

A 403(b) plan doesn't need to be a single plan document. For example, you may compile the salary reduction agreements, the contracts that fund the plan, and written procedures for eligibility, benefits, dollar limitations, nondiscrimination and universal availability. However, a single plan document makes administration easier, especially if your plan has multiple vendors.

Ineligible employer. Generally, only public schools and 501(c)(3) tax-exempt organizations may sponsor a 403(b) plan.

Universal availability. If you allow one employee to make elective deferrals, you must allow all eligible employees to make them. You may exclude certain groups of employees, such as those normally working fewer than 20 hours per week (less than 1,000 hours per year), students performing certain service, employees who are eligible for elective deferrals under another plan you sponsor and non-resident aliens. You must notify employees of their eligibility to make an initial or change an existing deferral election at least once a year.

Depositing elective deferrals. You must send your employees' deferrals to their annuity providers as soon as is reasonable for proper plan administration (but no later than 15 days following the month of the pay date). If your plan provides an earlier time for transferring elective deferrals, you must follow it.

Excess elective deferrals. The general limit on employee elective deferrals is \$18,000 in 2017 (indexed thereafter). If the plan allows, employees may also make catch-up contributions.

- 15-years-of-service catch-up contribution
 - available for certain employers (such as schools, hospitals, churches)
 - employee must have 15 years of service
 - limited to least of:
 - \$3,000,
 - \$15,000 less previously excluded special catch-ups, or
 - \$5,000 multiplied by years of service minus previously excluded deferrals
- Age 50 catch-up contribution
 - additional \$6,000 (in 2017, indexed for inflation)

Catch-up contributions must be applied to the 15-years-of-service catch-up (if available) before being applied to the age-50 catch-up (See [irs.gov/retirement](https://www.irs.gov/retirement) for examples).

You must distribute excess deferrals plus earnings to employees no later than the following April 15 to avoid additional taxes and penalties for the employee and employer. If you don't timely correct excess deferrals, then you'll have underreported your employees' taxable wages on your employment tax return. This will result in withholding too few taxes from your employees' wages and you'll be responsible for the underpayment and penalties.

Employer and employee contributions. The limit on total employer and employee contributions is \$54,000 (for 2017, indexed thereafter). The 15-years-of-service catch-up is included in this limit, but the age-50 catch-up isn't. Therefore, the limit for employees who are at least age 50 is up to \$60,000 for 2017.

Loans. Loans that don't meet the tax rules may be deemed a taxable distribution that's reported to the employee as income. Some examples are loans when required payments are missed or loans that exceed the limit, often because of loans from multiple vendors.

Hardship distributions. Hardship distributions are considered early distributions if:

- you didn't get adequate documentation of the financial need,
- the employee didn't use other reasonably available financial means, or
- distributions from all vendors exceed the amount of the hardship or the amount of the employee's elective deferrals.

Post-severance contributions. Plans may allow for elective deferral and/or employer contributions after an employee separates from service.

■ **Elective deferrals.** Employees may generally defer—up to their annual limits—their unpaid regular pay and unused vacation and sick pay if done before the end of the year they left your employment, or 2½ months from the date of severance, if later.

■ **Employer contributions.** You may contribute up to the annual limit to a former employee's account for up to five years following the end of the year they left your employment. (Note: The former employee can't elect to receive this money in cash instead of depositing it in their 403(b) account.) All contributions must end upon the employee's death.

In-service exchanges and transfers.

■ In-service contract exchanges take place within the same plan. For these to occur, the 403(b) plan must permit the movement of the funds and you must follow the plan terms. Benefits can't be reduced and the moved funds must have at least the same distribution restrictions. You and the receiving annuity issuer must agree to share certain information needed for plan administration.

■ Plan transfers take place between two 403(b) plans. For these to occur, both plans must permit the movement of the funds. In addition, the participant must be a current or former

employee of the receiving plan sponsor. Benefits can't be reduced and the moved funds must be subject to at least the same distribution restrictions.

If you find a mistake in your 403(b) plan, take steps to bring it into compliance so your employees can continue to save for retirement on a tax-favored basis. You need to timely correct plan mistakes to avoid additional taxes and penalties that may affect you and your employees. You may want to contact a tax professional for help. You can correct most 403(b) plan mistakes through the IRS correction programs. See [Correcting plan errors](#) at www.irs.gov/retirement for additional information.

To Learn More . . .

The following publications cover 403(b) plans, other retirement plans and correction programs:

- [Publication 15](#), (Circular E), Employer's Tax Guide
- [Publication 571](#), Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- [Publication 575](#), Pension and Annuity Income
- [Publication 590-A](#), Contributions to Individual Retirement Arrangements (IRAs)
- [Publication 590-B](#), Distributions from Individual Retirement Arrangements (IRAs)
- [Publication 4224](#), Retirement Plan Correction Programs
- [Publication 4482](#), 403(b) Tax-Sheltered Annuities for Participants
- [Publication 4484](#), Choose a Retirement Plan
- [Publication 4546](#), 403(b) Plan Checklist

Download these publications at www.irs.gov/retirement.

Visit www.irs.gov/retirement for online resources covering specific retirement plans (including 403(b) plans). This site has tools such as:

- the [403\(b\) Plan Fix-It Guide](#),
- a checklist for maintaining your plan,
- answers to frequently asked questions, and
- a page devoted to correction programs to assist you in correcting errors if you discover them in the operation of your plan.



Plan Feature Comparison Chart

Choose a Retirement Plan

- **What is the maximum annual contribution?**
- **Which plans offer catch-up contributions?**
- **What are the minimum employee coverage requirements?**
- **When do distributions begin?**

- Plans for employees of tax-exempt and government entities (schools, hospitals, churches, charities)

- Highlights of eight types of retirement plans — noting latest tax laws specific to each plan





Experts estimate that in the American workforce as a whole, workers will need 70 to 90 percent of their pre-retirement income to maintain their current standard of living when they stop working. Lower income earners may need more than 90 percent. Among these workers 25-64 years of age, a little more than half are participants in an employer-sponsored retirement plan.



Advantages of Having a Retirement Plan

By starting a retirement savings plan, you will help your employees save for the future, and you will help secure your own retirement. Offering a retirement plan may also help you attract and retain better qualified employees.

Tax advantages have made it more appealing than ever to establish and contribute to a retirement plan.

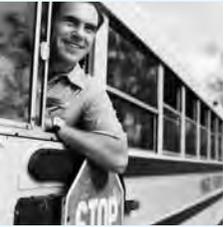
Tax Advantages:

- Higher contribution limits that allow employees and employers to contribute larger amounts to retirement plans.
- Catch-up rules that allow employees age 50 and over to set aside additional amounts.
- Increased portability of retirement money.
- In some plans, employees can invest a certain amount of their salary before it is taxed.
- A tax credit, known as the Retirement Savings Contributions Credit, is available for eligible contributions to a retirement plan. This credit could reduce federal income tax up to 50 cents on the dollar.
- Money in the retirement program grows tax-free.

Choose a Retirement Plan

The most basic retirement plan is an Individual Retirement Arrangement (IRA). Private-sector employers (for-profit and not-for-profit) and government employers can offer savings plans that use IRAs to hold savings contributions.

IRA-based plans include Payroll Deduction IRAs, Simplified Employee Pension plans (SEPs), and Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)



IRA plans. In these plans, and also with 401(k), 403(b) and 457(b) plans, the ultimate retirement benefits depend on the dollar amount accumulated in the employee's account.

A defined benefit plan promises a specific benefit at retirement — \$1,000 a month, for example. The amount of this benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan.

Retirement Plan Correction Programs

The IRS has programs structured to provide financial incentives for finding and correcting mistakes earlier rather than later. In fact, many mistakes can be corrected easily, without penalty and without notifying the IRS.

The IRS system of retirement plan correction programs, the Employee Plans Compliance Resolution System (EPCRS), helps business owners protect participant benefits and keep their plans within the law. EPCRS includes:

Self-Correction Program — Find and correct a mistake before an audit.

Voluntary Correction Program — Correct your plan's mistakes with help from the IRS.

Audit Closing Agreement Program — If the IRS audits your plan and finds an error, you can still correct the problem. However, the fee will be larger than if you had found and fixed the error yourself, or brought it in voluntarily.



Plan Feature Comparison Chart

Starting with the brief summary table below, find the plans that fit you and your employees best. Then click on the plan tabs to view and compare the complete details on each plan.

Sponsor/ Eligible Employer	Key Advantage	Plans to Consider
<ul style="list-style-type: none"> Any employer 	<ul style="list-style-type: none"> easy to set up and maintain 	Payroll Deduction IRA LEARN MORE
<ul style="list-style-type: none"> Any employer 	<ul style="list-style-type: none"> easy to set up and maintain 	SEP LEARN MORE
<ul style="list-style-type: none"> Employers with 100 or fewer employees that do not currently maintain another plan 	<ul style="list-style-type: none"> salary reduction plan with little administrative paperwork 	SIMPLE IRA Plan LEARN MORE
<ul style="list-style-type: none"> Any non-government employer Governments, only if plan was established prior to May 1986 	<ul style="list-style-type: none"> permits high level of salary deferrals by employees may include designated Roth program 	401(k) LEARN MORE
<ul style="list-style-type: none"> Public education employers 501(c)(3) organizations 	<ul style="list-style-type: none"> permits high level of salary deferrals by employees may include designated Roth program 	403(b) LEARN MORE
<ul style="list-style-type: none"> State and local governments 	<ul style="list-style-type: none"> permits high level of salary deferrals by employees may include designated Roth program 	457(b) Governmental LEARN MORE
<ul style="list-style-type: none"> Any tax-exempt organization 	<ul style="list-style-type: none"> permits high level of salary deferrals by employees 	457(b) Tax-Exempt Organization (Non-Church) LEARN MORE
<ul style="list-style-type: none"> Any employer 	<ul style="list-style-type: none"> provides a fixed, pre-established benefit for employees 	Defined Benefit LEARN MORE

Payroll Deduction IRA

Sponsor/Eligible Employer

- any employer

Key Advantage

- easy to set up and maintain

Employer's Role

- arrange for employees to make payroll deduction contributions
- transmit contributions for employees to IRA
- no annual filing requirement

Contributors to the Plan

- employee can decide how much to contribute

Maximum Annual Contribution* (per participant)

- employee: \$5,500 for 2015

Catch-Up Contributions*

- age 50 or over—additional employee contribution - \$1,000 for 2015

Minimum Employee Coverage Requirement

- should be made available to all employees

Withdrawals, Loans, and Distributions

- withdrawals permitted any time subject to federal income taxes
- subject to 10% additional tax if before age 59½
- must start receiving distributions by April 1 of the year following attainment of age 70½ (special rules apply to Roth IRAs)
- loans are not permitted from IRAs

Rollovers/Transfers

- rollovers permitted from one IRA to another and to an eligible retirement plan (special rules apply to Roth IRAs)

Vesting

- contributions are immediately 100% vested

Employee Plans Compliance Resolution System (EPCRS)

- no

* See www.irs.gov/retirement for annual updates

Sponsor/Eligible Employer	<ul style="list-style-type: none"> any employer
Key Advantage	<ul style="list-style-type: none"> easy to set up and maintain
Employer's Role	<ul style="list-style-type: none"> set up plan—employer may use Form 5305-SEP transmit contributions for employees to SEP-IRA generally, no annual filing requirement bank or financial institution handles most of the paperwork
Contributors to the Plan	<ul style="list-style-type: none"> employer can decide whether to make contributions year-to-year only employer contributes
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none"> up to 25% of compensation but no more than \$53,000 for 2015
Catch-Up Contributions	<ul style="list-style-type: none"> N/A
Minimum Employee Coverage Requirement	<ul style="list-style-type: none"> must be offered to all employees who are at least 21 years of age, employed by the employer for 3 of the last 5 years, and had compensation of at least \$600 for 2015
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none"> withdrawals permitted any time subject to federal income taxes subject to 10% additional tax if before age 59½ must start receiving distributions by April 1 of the year following attainment of age 70½ loans are not permitted from SEP-IRAs
Rollovers/Transfers	<ul style="list-style-type: none"> rollovers permitted from one IRA to another and to an eligible retirement plan
Vesting	<ul style="list-style-type: none"> contributions are immediately 100% vested
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none"> yes

* See www.irs.gov/retirement for annual updates

Sponsor/Eligible Employer	<ul style="list-style-type: none">■ employer with 100 or fewer employees that does not currently maintain another plan
Key Advantage	<ul style="list-style-type: none">■ salary reduction plan with little administrative paperwork
Employer's Role	<ul style="list-style-type: none">■ set up plan — employer may use Form 5304-SIMPLE or Form 5305-SIMPLE■ transmit contributions for employees to SIMPLE IRA■ no annual filing requirement■ bank or financial institution handles most of the paperwork
Contributors to the Plan	<ul style="list-style-type: none">■ employee can decide how much to contribute■ employer must make matching contributions or contribute 2% of each eligible employee's compensation
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none">■ employee:<ul style="list-style-type: none">- \$12,500 in 2015■ employer:<ul style="list-style-type: none">- either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any 2 of 5 years), or- contribute 2% of each eligible employee's compensation
Catch-Up Contributions*	<ul style="list-style-type: none">■ age 50 or over— additional employee contribution - \$3,000 in 2015
Minimum Employee Coverage Requirement	<ul style="list-style-type: none">■ must be offered to all employees who have compensation of at least \$5,000 in any prior 2 years and are reasonably expected to earn at least \$5,000 in the current year
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none">■ withdrawals permitted any time subject to federal income taxes■ subject to 10% additional tax if before age 59½ (25% if less than 2 years of participation)■ must start receiving distributions by April 1 of the year following attainment of age 70½■ loans are not permitted from SIMPLE IRA plans
Rollovers/Transfers	<ul style="list-style-type: none">■ rollovers permitted from one SIMPLE IRA to another SIMPLE IRA any time■ however, a rollover from a SIMPLE IRA to a non-SIMPLE IRA or to an eligible retirement plan can be made tax-free only after a 2-year participation in the SIMPLE IRA plan
Vesting	<ul style="list-style-type: none">■ employer and employee contributions are immediately 100% vested
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none">■ yes

* See www.irs.gov/retirement for annual updates

Sponsor/Eligible Employer	<ul style="list-style-type: none"> any non-government employer governments, only if plan was established prior to May 1986
Key Advantage	<ul style="list-style-type: none"> permits high level of salary deferrals by employees may include designated Roth program
Employer's Role	<ul style="list-style-type: none"> arrange for employees to make elective deferral contributions and transmit contributions annual filing of Form 5500 is required (unless government entity) may require annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees no model form to establish this plan
Contributors to the Plan	<ul style="list-style-type: none"> employee elective deferral contributions employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none"> employee elective deferrals: <ul style="list-style-type: none"> \$18,000 in 2015 employer & employee: <ul style="list-style-type: none"> lesser of \$53,000 (2015) or 100% of compensation, subject to nondiscrimination testing
Catch-Up Contributions*	<ul style="list-style-type: none"> age 50 or over—additional elective deferrals - \$6,000 in 2015
Minimum Employee Coverage Requirement	<ul style="list-style-type: none"> must pass minimum coverage test
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none"> withdrawals permitted after a distributable event occurs (e.g., retirement, death, disability, severance from employment) must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½ plan may permit loans and hardship withdrawals early withdrawals subject to 10% additional tax
Rollovers/Transfers	<ul style="list-style-type: none"> rollovers permitted to an eligible retirement plan or IRA
Vesting	<ul style="list-style-type: none"> employee elective deferral contributions are immediately 100% vested employer contributions may vest over time according to plan terms
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none"> yes

* See www.irs.gov/retirement for annual updates

Sponsor/Eligible Employer	<ul style="list-style-type: none"> public education employers 501(c)(3) organizations
Key Advantage	<ul style="list-style-type: none"> permits high level of salary deferrals by employees may include designated Roth program
Employer's Role	<ul style="list-style-type: none"> arrange for employees to make elective deferral contributions and transmit contributions may require Form 5500 filing if employer contributions are made (unless government entity) no model form to establish this plan
Contributors to the Plan	<ul style="list-style-type: none"> employee elective deferral contributions employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none"> employee elective deferrals - \$18,000 in 2015 employer & employee - lesser of \$53,000 (2015) or 100% of includible compensation age 50 or over— additional elective deferrals - \$6,000 (2015)
Catch-Up Contributions*	<p>Special 403(b) catch-up:</p> <ul style="list-style-type: none"> selected employers employee must have 15 years of service limited to least of: 1) \$3,000; 2) \$15,000 less previously excluded special catch-ups; and 3) \$5,000 multiplied by years of service minus previously excluded deferrals
Minimum Employee Coverage Requirement	<ul style="list-style-type: none"> employee elective deferral contributions: <ul style="list-style-type: none"> all eligible employees may elect to have a contribution of more than \$200 by salary reduction other contributions: <ul style="list-style-type: none"> must pass minimum coverage test (except government entities)
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none"> withdrawals permitted after a distributable event occurs (e.g., retirement, death, disability, severance from employment) must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½ plan may permit loans and hardship withdrawals early withdrawals subject to 10% additional tax
Rollovers/Transfers	<ul style="list-style-type: none"> rollovers permitted to an eligible retirement plan transfers permitted from one 403(b) to another 403(b) purchase permissive service (government plans)
Vesting	<ul style="list-style-type: none"> employee elective deferral contributions are immediately 100% vested employer contributions may vest over time according to plan terms
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none"> yes

* See www.irs.gov/retirement for annual updates

Sponsor/Eligible Employer	<ul style="list-style-type: none">■ state and local governments
Key Advantage	<ul style="list-style-type: none">■ permits high level of salary deferrals by employees■ may include designated Roth program
Employer's Role	<ul style="list-style-type: none">■ arrange for employees to make salary reduction contributions■ no model form to establish this plan
Contributors to the Plan	<ul style="list-style-type: none">■ employee salary reduction contributions■ employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none">■ employer & employee:<ul style="list-style-type: none">- \$18,000 in 2015- age 50 or over— additional salary reduction contribution - \$6,000 (2015)
Catch-Up Contributions*	<p>Special 457 catch-up:</p> <ul style="list-style-type: none">■ 3 years prior to the year of normal retirement age■ limited to lesser of:<ol style="list-style-type: none">1) \$36,000 (twice the basic annual limit) in 2015, or2) the basic annual limit plus underutilized basic annual limit in prior years (only allowed if not using the age 50 or over catch-up)
Minimum Employee Coverage Requirement	<ul style="list-style-type: none">■ common-law employees■ independent contractors■ does not need to pass a minimum coverage test
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none">■ withdrawals permitted after severance from employment■ must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½■ plan may permit loans and distribution for unforeseen emergency or small inactive accounts
Rollovers/Transfers	<ul style="list-style-type: none">■ rollovers permitted to an eligible retirement plan■ transfers permitted from one government 457(b) to another government 457(b)■ purchase permissive service
Vesting	<ul style="list-style-type: none">■ employee salary reduction contributions are immediately 100% vested■ employer contributions may vest over time according to plan terms
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none">■ no■ special 180-day rule to correct■ submission accepted on a provisional basis outside EPCRS

* See www.irs.gov/retirement for annual updates

457(b) Tax-Exempt Organization (Non-Church)

Sponsor/Eligible Employer	<ul style="list-style-type: none">■ any tax-exempt organization
Key Advantage	<ul style="list-style-type: none">■ permits high level of salary deferrals by employees
Employer's Role	<ul style="list-style-type: none">■ arrange for employees to make salary reduction contributions■ no model form to establish this plan
Contributors to the Plan	<ul style="list-style-type: none">■ employee salary reduction contributions■ employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	<ul style="list-style-type: none">■ employer & employee:<ul style="list-style-type: none">- \$18,000 in 2015- no age 50 or over additional salary reduction contribution
Catch-Up Contributions*	<p>Special 457 catch-up:</p> <ul style="list-style-type: none">■ 3 years prior to the year of normal retirement age■ limited to lesser of:<ol style="list-style-type: none">1) \$36,000 (twice the basic annual limit) in 2015, or2) the basic annual limit plus underutilized basic annual limit in prior years
Minimum Employee Coverage Requirement	<ul style="list-style-type: none">■ selected group of management or highly compensated employees■ independent contractors■ does not need to pass a minimum coverage test
Withdrawals, Loans, and Distributions	<ul style="list-style-type: none">■ withdrawals permitted after severance from employment■ must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½■ plan may not permit loans■ special rules apply to independent contractors
Rollovers/Transfers	<ul style="list-style-type: none">■ no rollovers permitted■ post-severance transfers permitted from one tax-exempt 457(b) to another tax-exempt 457(b)
Vesting	<ul style="list-style-type: none">■ employee and employer contributions must be subject to claims of creditors
Employee Plans Compliance Resolution System (EPCRS)	<ul style="list-style-type: none">■ no

* See www.irs.gov/retirement for annual updates

Defined Benefit

Sponsor/Eligible Employer

- any employer

Key Advantage

- provides a fixed, pre-established benefit for employees

Employer's Role

- annual filing of Form 5500 required (unless government entity)
- an actuary must determine annual contributions
- no model form to establish this plan

Contributors to the Plan

- primarily funded by employer

Maximum Annual Contribution* (per participant)

- actuarially determined contribution
- plan benefits are subject to nondiscrimination testing
- maximum annual benefit which may be funded is the lesser of \$210,000 or 100% of a participant's average compensation for his or her highest 3 consecutive calendar years

Catch-Up Contributions

N/A

Minimum Employee Coverage Requirement

- must pass minimum coverage test

Withdrawals, Loans, and Distributions

- payment of benefits after a distributable event occurs (e.g., retirement, death, disability, severance from employment)
- must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½
- loans permitted
- early withdrawals subject to 10% additional tax

Rollovers/Transfers

- generally, participant's benefit can be rolled over to another qualified plan that accepts rollovers or an IRA

Vesting

- may vest over time according to plan terms

Employee Plans Compliance Resolution System (EPCRS)

- yes

* See www.irs.gov/retirement for annual updates

Retirement Plan Information Resources

Download the following publications at www.irs.gov, or order a free copy through the IRS by dialing (800) 829-3676.

- Publication 560, *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)*
- Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations*
- Publication 575, *Pension and Annuity Income*
- Publication 590, *Individual Retirement Arrangements (IRAs)*

The following publications are only available online at www.irs.gov/formspubs:

- Publication 963, *Federal-State Reference Guide*
- Publication 4222, *401(k) Plans for Small Businesses*
- Publication 4224, *Retirement Plan Correction Programs*
- Publication 4333, *SEP Retirement Plans for Small Businesses*
- Publication 4334, *SIMPLE IRA Plans for Small Businesses*
- Publication 4587, *Payroll Deduction IRAs for Small Businesses*
- Publication 4674, *Automatic Enrollment 401(k) Plans for Small Businesses*
- Publication 4806, *Profit Sharing Plans for Small Businesses*

For assistance or information on retirement plans, see:

- Plan Sponsor at www.irs.gov/retirement

Tax Exempt and Government Entities

Customer Account Services

(877) 829-5500

Five Trends for Retirement Plan Sponsors in 2018

Michael A. Webb, CEBS
Vice President, Cammack Retirement Group

With the holiday season upon us and the New Year fast approaching, it is time to consider what 2018 will bring for retirement plan sponsors. Below are five trends that we predict will be popular with plan sponsors in the New Year:

1. NEXT GENERATION AUTO-ENROLLMENT TECHNIQUES

While many plans utilize auto-enrollment for new hires (even some that do not require employee contributions), others have not implemented it for existing employees, nor have they implemented auto-escalation (where employees' deferral percentages increase by a certain number of percentage points each year until a maximum deferral percentage is reached). Recently, however, we have witnessed an uptick in the use of these features. As was the case when auto-enrollment first began to take hold, we predict a surge in existing employee auto-enrollment and auto-escalation in 2018.

2. LOCATING "MISSING" PARTICIPANTS

Due to the recent Department of Labor (DOL) crackdown in this area, participants with bad addresses will be high on the radar screens of plan sponsors. And, thanks to the magic of the Internet, we predict that many "missing" participants will be located in 2018.

3. LARGE PLAN SPONSORS PUSHING THE ENVELOPE ON 403(B) INVESTMENT OFFERINGS

By regulation and history, 403(b) plans have only two types of investments: annuities and mutual funds. But the University of California [recently added Collective Investment Trusts \(CITs\)](#) to its 403(b) investment array. We believe this development will encourage other large plan sponsors to test the waters with CITs, ETFs and the like.

4. FIXED-DOLLAR RECORDKEEPING FEES

Many retirement plans, particularly 403(b) plans, are charged a percentage of their plan assets as recordkeeping fees, an expense that grows in terms of dollars as their plan assets grow. However, we have been asking recordkeepers to provide fixed-dollar pricing (a fixed-dollar fee per participant that does not grow as assets grow) and they have increasingly responded with competitive pricing. We believe that it is only a matter of time before fixed-fee pricing becomes the norm rather than the exception, even in 403(b) plans.

5. MILLENNIALS SAVING AS MUCH AS EVERYONE ELSE - OR EVEN MORE

While many plan sponsors believe that millennials are more interested in binge

watching their favorite TV shows than saving for retirement, several studies have revealed this to be a myth. In fact, millennials are increasingly among the most robust savers in a number of our clients' retirement plans. There is even a movement known as FIRE (Financial Independence, Retire Early) for millennials who choose a path of savings. The movement is growing, and we believe it will lead to even more robust retirement savings rates for this demographic in 2018.

CONCLUSION

What do you predict will be the most significant retirement trend for 2018? We would love to hear from you at info@cammackretirement.com!

From all of us at Cammack Retirement Group, we wish you a happy and healthy holiday season and a wonderful New Year!

ABOUT CAMMACK RETIREMENT GROUP

Cammack Retirement Group has been helping retirement plan sponsors meet their goals for half a century. Solely focused on serving retirement plan sponsors, we provide a tailored approach to investment advisory and consulting services. We work with some of the nation's leading academic and research institutions, healthcare providers, corporations, non-profit organizations and public sector employers to help them manage fiduciary risk.

For more information on our services, please contact **Mike Volo**, Senior Partner, at **781.997.1426** or **mvolo@cammackretirement.com**.

***Note:** This feature is to provide general information only, does not constitute legal advice, and cannot be used or substituted for legal or tax advice.*

Investment products available through Cammack LaRhette Brokerage, Inc. Investment advisory services available through Cammack LaRhette Advisors, LLC, 100 William Street, Suite 215, Wellesley, MA 02481 | p 781-237-2291



Automatic Enrollment Guide

Best Practices for 403(b) Non-ERISA Plans

MAY 2015

Why Automatic Enrollment?

Increases participation in retirement plans

One of the constants in the topic of behavioral finance (or “BeFi”) is the concept of inertia. Without significant prodding, many people don’t take the time to opt into employer-sponsored retirement plans. Setting these plans up to have an automatic enrollment feature, sometimes referred to as an “opt-out provision,” can lead to enormous gains for participation rates.” The plan sponsor merely enrolls the employee at a set deferral rate from the get-go, unless the employee decides not to participate. One study showed a 41% increase in participation by new employees in plans that adopted automatic enrollment.¹

Saves employers money

Traditional defined benefit pension plans are expensive for employers and place a great burden on them in terms of cost, administration and risk. Defined contribution plans, on the other hand, grant employers tax benefits while costing less to administer and shifting the investment risk and asset ownership to employees. The long-term trend in the last quarter century has been away from traditional pension plans to defined contribution plans like 403(b) and 457 plans.

Lessens the burden on taxpayers

Greater coverage and participation in retirement plans logically leads to fewer retirees relying on the government to cover their expenses associated with post-retirement needs such as health care, housing and general survival. The more workplace plans are in place, and the more people they cover, the less that other taxpayers will need to shoulder the burden of their fellow citizens in retirement.

Issues to Consider Before Adoption in a Non-ERISA Plan

Federal and state laws

The Pension Protection Act (PPA) was enacted in 2006 and included automatic enrollment provisions encouraging employers to facilitate their employees’ participation in workplace-sponsored retirement plans. The PPA also encouraged automatic enrollment by providing fiduciary safe harbors for employers subject to ERISA. The PPA additionally established that automatic enrollment programs are not subject to state wage restrictions, except when it comes to state and local government employers offering non-ERISA plans. Thus, while the Internal Revenue Code now expressly permits 403(b) and 457(b) defined contribution plans to contain default enrollment and contribution features without disqualification, these plans must still consider their state’s wage deduction laws as well as other laws and regulations before adopting such features.

State laws vary but as of 2015, there are generally only a few scenarios of concern:

- Three states have explicitly made automatic enrollment in non-ERISA plans legal: Arkansas, Colorado and Kansas.
- 19 states make automatic enrollment legal through permissive statutes that allow it if the federal government allows it (which it does): Arizona, California, Connecticut, Delaware, Idaho, Iowa, Kentucky, Maryland, Michigan, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, South Carolina, Texas, Virginia and Washington.
- Eight states prohibit automatic enrollment unless it is required by law: Hawaii, Illinois, Louisiana, North Dakota, Oklahoma, Oregon, Utah and West Virginia.
- 12 states prohibit automatic enrollment because they require written permission from the employee to make payroll deductions: Florida, Indiana, Maine, Massachusetts, Minnesota, Missouri, Nevada, Pennsylvania, Rhode Island, South Dakota, Tennessee and Wyoming.
- Additionally, eight states and the District of Columbia have yet to address the issue clearly or at all: Alabama, Alaska, Georgia, Mississippi, Montana, Ohio, Vermont and Wisconsin.

Plan sponsors should be reminded that laws are subject to change and this could potentially require alterations to existing automatic enrollment arrangements at a future date. Plan sponsors should therefore check with their qualified tax advisor prior to implementing an automatic enrollment feature.

**See the following page for a detailed map of the scenario across the country.*

Collective bargaining agreements and union issues

Related to the issue of employee consent noted above are collective bargaining agreements and union issues. While state laws may allow for automatic enrollment arrangements, existing agreements between employers and their employees through collective bargaining could restrict or prohibit automatic deductions even though they are for the benefit of employees. Plan sponsors should become aware of whether agreements like these might impact their ability to adopt automatic arrangements.

Available resources

Plan sponsors obviously need to consider what they can afford to offer their employees in terms of benefits, and there are a number of potential workplace benefits to balance, including health care, retirement, transportation, and education assistance. Sponsoring a retirement plan for employees requires certain administrative costs and the dedication of at least some amount of staff time to oversee the plan’s operation, whether the bulk of the plan’s activities are performed in-house or through an outside consultant.

1. Vanguard. Measuring the Effectiveness of Automatic Enrollment. December 2007.

Other considerations

In addition to the employer resources freed up to incentivize employees through providing benefits, plan sponsors should also consider things like the relative age of employees, the type of work being performed (which could impact the length of tenures or the health expenses required in retirement), the salary levels being paid, etc.

Advisor Questions for Plan Sponsors Before Adoption

Is automatic enrollment permissible in your location?

Here, the onus is on the employer as noted above, though we recommend providers give warning to plan sponsors that laws change all the time. All parties should remain vigilant to whether new laws might affect existing automatic contribution arrangements.

Is automatic enrollment appropriate for your employees?

Different kinds of professionals and different kinds of employers give rise to different workforces with different sensibilities, different levels of sophistication and different savings needs. Employers should take these things into account when deciding whether to adopt a plan with an automatic enrollment feature.

For an Eligible Automatic Contribution Arrangement (EACA), which employees will be covered by the automatic enrollment?

Will all plan participants be automatically enrolled? All plan participants who do not have an affirmative election in effect regarding elective deferrals? All plan participants who become plan participants on or after the effective date of the EACA automatic enrollment and who do not have an affirmative election in effect regarding elective deferrals? If an employee is automatically enrolled but decides he/she does not want to make deferral contributions, he/she may request a distribution of the “accidental” contribution within 90 days of the first elective deferral contribution. It will be necessary to make these decisions.

Which features do you want for your employees?

Beyond the automatic enrollment nature of the plan itself, there are many different plan features that can be designed into the plan, including automatic escalation, employer matching contributions, loan availability, and so on.

What will the default investment be?

If your employee(s) do not affirmatively opt out of the plan, you should select a default investment option for their deferrals. The U.S. Department of Labor (DOL) requires a qualified default investment alternative (QDIA) for ERISA plans. We recommend the same solution for non-ERISA plans. The decision

about which option to choose for your employees who do not direct their investments includes deciding whether the default option is part of the plan package being offered or something wholly separate.

What are your default contribution percentages or dollar amounts?

This is another decision for employers to make: how much will you automatically deduct from your employees’ paychecks for the retirement plan? We recommend a minimum of 3% of salary. (There is a cap at 10% of salary, but some policy proposals from lawmakers could eliminate that in the future.)

What type of automatic elective deferral will be deducted from participants pay?

Here the options are a regular pre-tax deferral or a designated Roth elective deferral, which is a deferral after taxes have been deducted.

Who on staff will approve disclosures to employees?

If you have a human resources officer, this responsibility may law with this individual.. Otherwise, you will have to make a decision about your internal contact point for plan issues.

Advisor Communications with Participants before Enrollment

With ERISA plans, the IRS and DOL have existing regulations and notices for automatic enrollment features. We recommend that, for non-ERISA plans, communications similarly track those established guidelines.

For an instructional checklist plan providers can give to employers before adoption of an automatic enrollment feature, see Appendix A.

For a sample notice that should be distributed to participants electronically and in a paper format before automatic enrollment is adopted, see Appendix B.

For a sample questionnaire for employers to give to employees before enrollment, see Appendix C.

If an employer uses the three appendices in this guide, the versions used will need to be added to the plan document.

Advisor Communications to Participants after Enrollment

What kinds of direct contact with participants will the plan sponsor allow?

Not every plan sponsor, particularly in the public school arena, is comfortable with worksite visits from advisors, and sometimes it may be objectively inappropriate to interrupt the workday to work with or even recruit clients.

At a minimum, we recommend plan-level, product-neutral financial literacy education for your employees. This can be achieved through either written materials, complimentary



pre-taped media or allowing the plan's consultant or TPA to provide the employees with education-based documents or presentations which include provider names, contact information, company information, etc.. If face-to-face, presenters would perhaps not be speaking about what product is "better," but merely providing enough information to allow employees to make determinations for themselves.

An interesting and potentially less disruptive suggestion is to hold a "benefits fair" or presentation at an all-staff employee meeting.

How will advisors contact individuals in the default investment?

We recommend that the plan sponsor designate a time or arena through which advisors can communicate with employees who are "defaulted" into the QDIA at enrollment because they did not make investment directions of their own.

How will advisors and plan sponsors develop access so that it's impartial?

It is important that a level playing field exist where each vendor operating in the plan has the same access to all participants. Both the plan's vendors and the plan sponsor should coordinate on methods of delivering impartial information for participants.

New Hire Package Contents

With new hires there is a greater need for clear rules of engagement for advisors. Individuals whose assets are now being invested should be able to immediately know from their vendors:

- what services and investments automatically come with enrollment;
- what services and investments are available;
- how to change aspects of the participants' plan;
- how to contact the providers; and
- which providers are available for which services and options.

Special thanks to the following individuals for assembling this guide:

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Susan D. Diehl, CPC, QPA, ERPA	Joseph E. Rollins
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Appendix A – Employer Instructions

ADDING AN AUTO ENROLLMENT FEATURE

Instructions to the Employer

1. Decide which type of Auto Enrollment Program (Refer to attached Explanation)
 - ACA (Automatic Contribution Arrangement)
 - EACA (Eligible Automatic Contribution Arrangement)
 2. Select a Default Investment for Employees that do not affirmatively elect out of the Plan:
-
3. Review the Notice to Employees regarding your automatic enrollment feature
 4. Remove any language/sections that do not apply to your Plan
 5. Review procedures with your payroll employees regarding the automatic enrollment feature
 6. Amend your 403(b) Plan, Benefits booklet, and enrollment materials prior to implementation
 7. Distribute information to Employees (Decide the most effective way to reach your employees – face-to-face employee meeting; intranet; distribution of materials; plan’s website)

Appendix B - Sample Notice

_____ (Enter Plan Name)
Automatic Enrollment Notice

Note to the Employer: The highlighted boxes below that are embedded in this document refer to Employer Contributions (matching and nonelective). If the Employer is not contributing to this Plan these sections should not be included in this notice and be removed. If the Employer is contributing, references to no Employer Contributions should be revised accordingly.

If you have any questions about how the Plan works or your rights and obligations under the Plan, please contact the Administrator or your Financial Advisor at:

Administrator Information

Name:	
Address:	
Phone:	
Email:	

Financial Advisor Information

Name:	
Address:	
Phone:	
Email:	

Beginning in _____ (year), _____ (employer) is making saving for retirement under our 403(b) Plan even easier.

We are offering an automatic enrollment feature, and will make new Employer matching contributions.

The new automatic enrollment feature won't change your contribution level if you already turned in a Salary Reduction Form electing the level of your contributions to the Plan or electing not to contribute. Your earlier election will continue to be followed. You can change your contribution level by turning in a new Salary Reduction Form at any time.

If you have not turned in a contribution election form, you will be automatically enrolled in the Plan starting with your first paycheck in 20___. This means that amounts will be taken from your pay and contributed to the Plan. For pay during 20___, these automatic contributions will be _____% (Enter default percentage) of your eligible pay each pay period. But, you can choose a different amount. You can choose to contribute more, less, or even nothing.

Keep in mind that the Employer will match one dollar for each dollar you contribute, up to 1% of your eligible pay. The Employer will also match 50 cents for each dollar you contribute that is between 1% and 6% of your eligible pay. So, to get the most from these matching contributions, you must contribute at least 6% of your eligible pay each pay period. This is more than the 3% automatic contribution rate. It may also be more than your current contribution rate. (This is sample language only; adjust to reflect the Plan's matching formula.)

This notice gives you important information about some Plan rules, including the Plan's automatic enrollment feature. The notice covers these points:

- Whether the Plan's automatic enrollment feature applies to you;
- What amounts will be automatically taken from your pay and contributed to the Plan;
- How your Plan account will be invested;
- When you can get your Plan account; and
- How you can change your contributions.

If the Plan permits employer matching or nonelective contributions, then the following should be added to the list on the previous page.

- *Whether your Employer will contribute to your Plan account and if so, the types of Employer Contributions; and*
- *If your employer is making employer contributions, when your Plan account will be vested (that is, not lost when you leave your job), and when you can get your Plan account.*

You can find out more about the Plan by contacting the Administrator of the Plan or your Financial Advisor, using the contact information at the beginning of this notice.

1. Does the Plan's automatic enrollment feature apply to me?

The Plan's automatic enrollment feature will not apply to you if you already elected (by turning in a Salary Reduction Form to the Administrator) to make contributions to the Plan or to not contribute. If you made an election, your contribution level will not automatically change. But, you can always change your contribution level by turning in a new contribution form.

If you have not elected a contribution level, you will be enrolled in the Plan starting with your first paycheck in _____ (enter year). This means money will be automatically taken from your pay and contributed to your Plan account. If you do not want to be enrolled, you need to turn in the enclosed contribution form to the Administrator by _____ (Enter the date).

2. If I do nothing, how much will be taken from my pay and contributed to the Plan?

If you do not turn in a completed contribution form by _____ (Enter Date), _____% of your eligible pay for each pay period will be taken from your pay and contributed to the Plan. This will start with your first paycheck in _____ (enter year) and continue through the end of _____ (enter year). After _____ (enter year), your contribution level will increase by 1% each year (unless you choose a different level), until it reaches _____ % (enter maximum percentage cap) of your eligible pay. To learn more about the Plan's definition of eligible pay, you can contact the Administrator of the Plan or your Financial Advisor, using the contact information at the beginning of this notice.

Your contributions to the Plan are taken out of your pay and are not subject to federal income tax at that time. Instead, they are contributed to your Plan account and can grow over time with earnings. Your account will be subject to federal income tax only when withdrawn. This helpful tax rule is a reason to save for retirement through Plan contributions.

Contributions will be taken out of your pay if you do nothing. But you are in charge of the amount that you contribute. You may decide to do nothing and become automatically enrolled, or you may choose to contribute an amount that better meets your needs.

For example, you may want to get the full amount of the Employer's matching contributions by contributing at least _____% (enter percentage needed to receive maximum match) of your eligible pay. You can change your contributions by turning in a new contribution form to the Administrator at the address listed at the beginning of this notice.

If you want to contribute more to your account than would be provided automatically, there are limits on the maximum amount. For more information you can contact the Administrator of the Plan or your Financial Advisor, using the contact information at the beginning of this notice.

3. In addition to the contributions taken out of my pay, what amounts will the Employer contribute to my Plan account?

This 403(b) Plan does not accept Employer Contributions.

Besides contributing the amounts taken from your pay, the Employer will make other contributions to your Plan account. The Employer will match, on a dollar-for-dollar basis, the first _____% of eligible pay you contribute each pay period. The Employer will also match _____ cents for each dollar you contribute between _____% and _____% of your eligible pay each pay period. These matching contributions will be made if you are automatically enrolled or if you choose your own contribution level.

The Employer's matching contributions depend on the amount you contribute out of your pay each pay period.

For example: If you earn \$2,000 in eligible pay during a pay period and you elect to contribute 6% of your pay, the Employer will deduct \$120 from your pay for the pay period (that is, 6% x \$2,000). The \$120 will be put in your Plan account. The Employer will also make matching contributions to your Plan account of \$70 for the pay period. In other words, the Employer will make a dollar-for-dollar matching contribution on your contributions up to 1% of eligible pay (100% of 1% x \$2,000, or \$20) plus a 50¢-per-dollar matching contribution on your contributions between 1% and 6% of eligible pay (50% of 5% x \$2,000, or \$50). Or, if you contribute 3% of your eligible pay for the pay period, the Employer will take \$60 out of your pay and put it in your Plan account, and will also make \$40 in matching contributions for the pay period. Or, if you choose not to contribute to the Plan for a pay period, you will get no matching contributions for the pay period.

Remember, you can always change the amount you contribute to the Plan by turning in a new salary reduction form.

4. How will my Plan account be invested?

The Plan lets you invest your account in a number of different investment funds. Unless you choose a different investment fund or funds, your Plan account will be invested in the _____ Fund.

[Note to plan sponsors:

1. In order for the Plan's default investment to satisfy section 404(c)(5) of ERISA, the default investment fund must be a qualified default investment alternative ("QDIA") under DOL Reg. § 2550.404c-5. You must describe the Plan's QDIA, including its investment objectives, risk and return characteristics, and fees and expenses, and must describe other circumstances, if any, under which assets may be invested in the QDIA. This Plan is not subject to ERISA however these guidelines may be reviewed and adopted by you under this Plan.

2. In order for the Plan's default investment to satisfy section 404(c)(5) of ERISA, you must describe any restrictions, fees, or expenses that apply when participants or beneficiaries transfer assets from the QDIA to other investment funds.

3. Best practices also are with respect to the default investment to select an investment provider that is not an approved vendor under your 403(b) plan.]

You can change how your Plan account is invested, among the Plan's offered investment funds, by turning in the enclosed ????? (Enter name of Investment Change form) Form to the Administrator or your Financial Advisor at the address listed at the beginning of this notice or visit the Plan's website at: _____

To learn more about the Plan's investment funds and procedures for changing how your Plan account is invested you can review the _____ section of the Plan's website at _____. Also, you can contact the Administrator or your Financial Advisor using the contact information at the beginning of this notice.

5. When will my Plan account be vested and available to me?

You will always be fully vested in your contributions to the Plan.

You will also be fully vested in matching contributions when you complete _____ years of service.

To be fully vested in Plan contributions means that the contributions (together with any investment gain or loss) will always belong to you, and you will not lose them when you leave your job.

For more information about years of service, you can review the _____ section of the Plan's website at _____. Also, you can contact the Administrator or your Financial Advisor using the contact information at the beginning of this notice.

Even if you are vested in your Plan account, there are limits on when you may withdraw your funds. These limits may be important to you in deciding how much, if any, to contribute to the Plan. Generally you may only withdraw vested money after you leave your job, reach age 59-1/2, or become disabled. Also, there is generally an extra 10% tax on distributions before age 59-1/2. Your beneficiary can get any vested amount remaining in your account when you die.²

You also can borrow certain amounts from your vested Plan account, and may be able to take out certain vested money if you have a hardship. Hardship distributions are limited to the dollar amount of your contributions. They may not be taken from earnings or matching contributions. Hardship distributions must be for a specified reason – for qualifying medical expenses, costs of purchasing your principal residence (or preventing eviction from or foreclosure on your principal residence, or repairing qualifying damages to your principal residence), qualifying post-secondary education expenses, or qualifying burial or funeral expenses.

2. This paragraph may be customized based on the plan's distribution provisions.

Before you can take a hardship distribution, you must have taken other permitted withdrawals and loans from qualifying Employer plans. If you take a hardship distribution, you may not contribute to the Plan or other qualifying Employer plans for 6 months.³

You can learn more about the Plan's hardship withdrawal and loan rules by contacting the Administrator or your Financial Advisor using the contact information at the beginning of this notice. Or you may visit the Plan's website at _____.

You can also learn more about the extra 10% tax in IRS Publication 575, Pension and Annuity Income.

6. Can I change the amount of my contributions?

You can always change the amount you contribute to the Plan. If you know now that you do not want to contribute to the Plan (and you haven't already elected not to contribute), you will want to turn in a salary reduction form electing zero contributions by _____ (Insert date). That way, you avoid any automatic contributions.

But, if you do not turn in the form in time to prevent automatic contributions, you can withdraw the automatic contributions for a short time, despite the general limits on Plan withdrawals. During the 90 days after automatic contributions are first taken from your pay, you can withdraw the prior automatic contributions by turning in a distribution form to the Administrator. The amount you withdraw will be adjusted for any gain or loss.

If you take out your automatic contributions, you lose Employer contributions that matched the automatic contributions.

Also, your withdrawal will be subject to federal income tax (but not the extra 10% tax that normally applies to early distributions). If you take out automatic contributions, the Employer will treat you as having chosen to make no further contributions. However, you can always choose to continue or restart your contributions by turning in a new salary reduction agreement form.

3. This paragraph may be modified or deleted based on the availability of loans or hardship distributions.

Appendix C - Sample Questionnaire for Employees

AUTOMATIC CONTRIBUTION ARRANGEMENT (“ACA”)

What is Automatic Enrollment (ACA)?

Automatic Enrollment means that if an employee fails to enroll in the 403(b) plan, the employer will establish an account for the employee and deduct a percentage of their compensation to be contributed to the 403(b) plan on a before tax basis, unless Designated Roth is elected below. The employee must be provided the opportunity to revoke the “automatic” enrollment.

(Note: This provision may be prohibited under State Law. You should check with your legal counsel before adopting this provision.)

Will Automatic Enrollment (ACA) apply to your plan?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
Will Automatic Enrollment (ACA) apply every year?	<input type="checkbox"/> YES	<input type="checkbox"/> NO

If selected, the following percentage or amount shall be automatically deducted from the Employee’s compensation and contributed to the Plan as an Elective Deferral:

- _____%
- _____%, with automatic increases each subsequent Plan Year of _____% up to a maximum of _____%
- \$ _____
- \$ _____, with automatic increases each subsequent Plan Year of \$_____ or _____% of compensation up to a maximum of _____.

Which type of deferral will this be:

Unless otherwise elected by the Employee, the automatic Elective Deferral will be deducted from pay as a:

- Regular Pre-Tax Deferral
- Designated Roth Elective Deferral

The Default Investment for Employees that do not elect an investment option will be: _____

(Note: This may not be an investment option selected from an approved Vendor under the Plan.)

Universal Availability - Important Note: *In order to remain compliant, if your plan excludes certain employees from eligibility and therefore the automatic enrollment option does not apply to them, make sure that you re-look at eligible employees each year. If a prior noneligible employee becomes eligible and you do not cover that person or provide the auto reenrollment material, your plan will have a violation. **Review this rule annually!***

ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (“EACA”)**What is an EACA and how is it different from the ACA?**

Eligible automatic contribution arrangement that is exempt from some of the standard distributions restrictions - permits a 90 day return of deferrals measured from the date they were deducted from pay, if the employee changes their mind.

Will Eligible Automatic Enrollment (ACA) apply to your plan?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
Will Eligible Automatic Enrollment (ACA) apply every year?	<input type="checkbox"/> YES	<input type="checkbox"/> NO

Employees covered under this Auto Enrollment are:

- (1) All Plan participants
- (2) All Plan participants who do not have an affirmative election in effect regarding Elective Deferrals
- (3) All Plan participants who become Plan participants on or after the effective date of the EACA Auto Enrollment and who do not have an affirmative election in effect regarding Elective Deferrals

Default Percentage (Check one of the options below and insert a percentage or percentages and, if applicable, a date.)

- (1) The Default Percentage is _____%
- (2) The initial Default Percentage is _____% and will increase by one percentage point until the Default Percentage is _____% (insert the highest default percentage that will apply). Each increase will be effective at the beginning of the Plan Year unless a different date is inserted here: _____

The Default Investment for Employees that do not elect an investment option will be: _____

(Note: This may not be an investment option selected from an approved Vendor under the Plan.)

NAGDCA

BEST PRACTICES GUIDE TO ADMINISTERING YOUR GOVERNMENTAL DEFINED CONTRIBUTION PLAN

PLAN ADMINISTRATION



September 2013

TABLE OF CONTENTS

INTRODUCTION	1
PLAN ADMINISTRATION	3
● Plan Set-Up: 457, 401(k), 403(b)	4
● Plan Sponsors and Plan Documents	5
● Service Categories Overview	6
● Bundled and Unbundled Models	7
● Contracted and In-House	7
● Consultants	8
○ Investments	9
○ Plan administration/Plan design	9
● Auditors	10
● Role of IRS	10

INTRODUCTION

The National Association of Government Defined Contribution Administrators (“NAGDCA”) is an association for defined contribution retirement plans of government employers. Our mission is to unite representatives from state and local governments, and from private sector organizations servicing defined contribution plans, for the common purpose of providing our plan participants with financial security at retirement.

NAGDCA provides an environment to foster growth in professional development of its members through peer networking, educational opportunities and information sharing. NAGDCA is well-regarded by Federal lawmakers and regulatory agencies because it offers an objective window into the behaviors, preferences and aspirations of Governmental plan participants.

This “Best Practices Guide-Plan Administration” publication is the first in a series of guides designed as a resource for state and local government administrators of defined contribution plans. Our goal is to provide you with some of the best thinking from the plans that comprise NAGDCA’s membership.

A “best” practice is by definition subjective. It is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark. Best practices are used to maintain quality. But of course what’s “best” for one plan sponsor may not be what’s “best” for all plan sponsors. In addition to being subjective it is also dynamic. Our ideas about what’s best can and will evolve over time. When applying best practice to organizations, the strategic ability to balance the unique qualities of one’s own organization with the practices that it has in common with others is important.

At NAGDCA we believe that the most valuable benefit of being a member is having the opportunity to learn from one another. Approach this guide as if you were sitting down with your peers and asking a few basic questions: How is your plan structured? How do you select your providers? Do you work with a Consultant? What do you do well? What’s working in your plan? What struggles have you encountered and how have you addressed those issues? Consider the information in this guide along with other resources you may currently rely on (experts within your organization, educational materials, consultants, providers, etc.). With access to all these valuable resources you can make well-informed decisions for your plan.

Above all, continue to reach out to other NAGDCA members to learn more. If you’re confronted with an issue that feels challenging, chances are others have encountered something similar and can share their experience. It’s the personal connections and sharing of experiences that makes our organization such a valuable resource.

**What struggles
have you en-
countered and
how have you
addressed those
issues?**

And remember – there are no trivial questions. We deal in an industry that is complex, and which continues to increase in complexity as time goes by. All of NAGDCA’s members serve important roles. Some of us are experts in certain areas and students in others. That’s what makes the administration of these plans stimulating and rewarding.

We hope this guide is a helpful tool for you and others within your organization. If you have questions that are not addressed in this guide, please reach out to NAGDCA so we can help with answering those questions. We are always here to provide help when you need it, and wish you much success in administering your program.

OVERVIEW

Defined contribution plans allow employees of an organization to save for their retirement needs in certain tax-advantaged ways. The benefit the employee receives from a defined contribution plan is based on the assets accumulated in one’s account. Defined contribution plans differ from defined benefit plans, which provide a benefit based on a specific formula set by the employer, usually including factors such as final average compensation, age at retirement and years of service at the employer.

Among governmental employers, defined contribution plans are generally supplemental to defined benefit plans. In some cases, however, employers may use the defined contribution plan as the primary retirement saving vehicle, or create “hybrid” plans incorporating elements of both defined contribution as well as defined benefit. This guide is focused on the use of defined contribution plans as supplemental plans.

PLAN ADMINISTRATION

Plan Administration is concerned with the ways we create our plans and structure the services we provide. Think of Plan Administration as if you were setting up a small business, like a bakery shop. To get your bakery started you need to create the legal structure (by determining what type of tax entity it will be, obtaining licenses and permits, etc.), identify the products you’ll be offering (cakes, pies, bread, etc.), and determine the extent to which you’ll be using internal or external resources to get things done (e.g. making your own pies versus contracting with a pie-maker).



We follow essentially the same path with our defined contribution plans. We create the plans

within the legal structures by which we are governed, decide what services will be offered, and evaluate whether we'll be doing the work ourselves or entering into contracts with experts. Later chapters of this guide will examine some of the more complex issues with plan administration in greater detail.

The “you” that creates a defined contribution plan is referred to as a “**Plan Sponsor.**” The plan sponsor is responsible for not only creating the plan but defining the rules under which the plan will operate (within the limitations imposed by law).

Now let's dive into the particulars of what is administered and how it's done.

I. Plan Set-Up: 457(b), 401(k), 403(b) and the “Plan Document”

The term “defined contribution plan” in the government sector involves learning a bit of alphabet soup from the Internal Revenue Code (IRC). We'll first take a look at what the term means broadly, and then examine how the alphabet soup works in the universe of governmental plans.

A defined contribution plan is a retirement savings program which allows employees to set aside part of their income in a tax-advantaged way. The tax advantages are broken down into two key categories:

- Pre-Tax Saving – This means you contribute income into the plan you have not paid taxes on; tax is paid later when you withdraw from your account.
- Post-Tax Saving (referred to as “Roth”) – This means you contribute after-tax income into the plan; your investment grows tax-free, and you're not taxed on your earnings when you withdraw from your account, provided you meet certain conditions.

With either approach, the tax code is providing a tax benefit to the saver. Some individuals will realize more benefits from avoiding tax today and paying it tomorrow; others will realize more benefits from paying today and avoiding it later.

Now, on to the alphabet soup. There are three primary IRC sections that are used to create governmental defined contribution plans: 401(k), 457(b), and 403(b).

“**401(k) Plans**” are the retirement plans discussed most frequently in the media. This is because they are widely used by private sector employers as either the primary or supplemental retirement programs. Some governmental plans offer 401(k) plans, but most do not because the Federal government closed the window in the 1980s for governmental plans to create new 401(k) plans; governmental entities which had established 401(k) plans prior to that date could keep them, but new plans could not be established. No such restriction exists in the private sector, where new 401(k) plans are created every day.

“**457(b) Plans**” are designed specifically for state and local government entities. Their rules are very similar to 401(k) plans but there are a few differences. Most state and local govern-

ment entities offering defined contribution plans do so under IRC Section 457(b). 457(b) plans are also available to school districts, most universities, and tax-exempt employers under IRC section 501(c).

“403(b) Plans” are designed primarily for school districts, educational institutions, and non-profits, such as healthcare providers and religious institutions.

It should be noted that some plan sponsors also use 401(a) plans as part of their plan design structure. 401(a) plans permit plan sponsors to contribute employer monies on behalf of plan participants, and are often used as part of hybrid DB/DC structures in which participants can elect to receive 401(a) plan contributions in lieu of receiving a DB plan benefit.

For most governmental agencies, decisions around plan type have already been resolved, and it's likely you are working with a program that is already established. If your entity is considering some change (for example, a school district with a 403(b) plan might be contemplating adding a 457(b) plan), then you may want to work with your entity's tax counsel and consultants as part of your assessment. You may also wish to consult with other school districts (including those who are NAGDCA members) offering both plan types to learn more about the issues involved in creating a new plan.

When considering defined contribution plans, remember that more is not necessarily better. Investing can be complex and difficult for most employees, so plan sponsors should make participation and decision making as easy as possible. Offering multiple plans, providers, and/or too many investment options can discourage participation¹. Offering multiple plan providers also increases the plan sponsor's responsibilities.

It's important to note that certain important regulatory guidelines and provisions should be considered in relation to these programs. For each Internal Revenue Code section the Treasury Department has regulations providing greater detail and explanation for how to apply the statutes. Other Federal and state laws can also come into play, including those which regulate fiduciary responsibilities and certain types of investment products. One of the most significant of these is the Federal Employee Retirement Income Security Act of 1974, or ERISA. ERISA establishes standards for retirement plans in the areas of disclosure and standards of conduct for those acting in a fiduciary capacity for plan assets. While many provisions within ERISA do not typically apply to state and local government plans, some sponsors still use the provisions as guidelines or best practices for their plans.

Plan Documents - A Plan Document is a written document that describes the Plan's terms and conditions related to the operation and administration of a Plan. Someone might ask, “If the Federal government sets the rules, why do I need a Plan Document?” First, within the

¹ [When Choice is Demotivating: Can One Desire Too Much of a Good Thing?](#) Iyengar, S. S., & Lepper, M. Journal of Personality and Social Psychology, 79, 995-1006. (2000)

broad rules that the Federal government establishes, a number of features are optional to plan sponsors (for example, allowing loans and hardship withdrawals). Second, there are certain internal processes that are unique to each plan that can be spelled out in a Plan Document (for example, your rules around payroll processing of contributions).

Plan Documents are living, evolving documents. As the law changes (and it changes often), updates will be required. Additionally, as you refine the administration of your plan, you will need to incorporate those changes into your Plan Document.

A best practice for administering your Plan Document is to review it on a regular basis (e.g. annually), to make sure the document is current. It's easy for your internal processes to evolve over time and get out of synch with your Plan Document. The Plan Document is the source document the IRS uses to ensure your plan is administered in accordance with the applicable code and the established rules. It is prudent as a plan sponsor to periodically conduct your own review to ensure consistency.

II. Plan Services

Within a defined contribution plan there are various areas of service offered to plan participants. The best practice in understanding these services is to identify them as separate and important parts of plan administration, with each having its own goals and objectives to help ensure your overall plan goals are met.



The major categories include:

- **Recordkeeping** – Recordkeeping means keeping track of participant accounts, including contributions, withdrawals, balances, transactions (e.g. fund transfers), and other activities. Most agencies will contract with an outside vendor to provide recordkeeping services. Some large government plans perform them in-house.
- **Administration** – Administrative services are often performed by the recordkeeping provider, but not always. These include items such as processing payroll files, distributions from the plan, hardship withdrawals, maintaining plan documents, compliance services, and other ministerial functions of the plan.
- **Communications** – Communications includes education and promotion of your plan. It encompasses all communication venues, including print materials, quarterly statements, a website, agents who enroll employees or provide educational seminars, a customer service line, etc. It can also include participant advisory services.
- **Investments** – Providing participant access to a broad range of diversified investment choices is a primary responsibility of Plan sponsors. This topic will be explored in detail in a separate installment addressing best practices for investments.

- **Custodian/Directed Trustee** – Responsible for the safekeeping of plan assets; complying with applicable rulings, regulations, and legislation; and acting in accordance with the provisions of custodial agreements.

A firm that the plan sponsor contracts with to provide any of the services noted above is generally referred to as a “service provider”, or “third party administrator (TPA).”

III. Bundled and Unbundled Models

Two terms you’ll often hear referred to within defined contribution plan administration are “bundled” and “unbundled.” They refer to how the major participant service categories identified in this section are administered and delivered to plan participants.

“**Bundled**” involves an arrangement where a plan sponsor contracts with a single provider to provide most or all of the major service categories: recordkeeping, administration, communications and investment management. For example, a plan sponsor might contract with XYZ Bundled Mutual Fund Company which, in addition to offering its XYZ Funds, will also provide recordkeeping and communications services. A good analogy for this is the contract you might have with a cable or phone company to provide a bundled service package for your television, telephone and Internet.



A plan sponsor can also have “bundled” services with more than one provider. This would typically not be considered a best practice because such an investment structure creates a greater likelihood for marketing bias (since providers are directly competing against one another for your participants’ investment dollars), confusion, higher fees, and more administrative costs that are ultimately passed on to participants (see Best Practice Alert, page 7).

“**Unbundled**” means that the plan sponsor is breaking apart the primary group of key services rather than allowing one provider to handle all such services. A typical example of this would involve a plan sponsor contracting with one company to provide recordkeeping and communication services, and another company to handle the selection of investment products (usually referred to as open architecture).

BEST PRACTICE ALERT – Unbundling investment services from recordkeeping and communications is generally considered a best practice for defined contribution plans as they grow in size. Why? Because unbundling offers the plan sponsor greater leverage in being able to obtain best-in-class services and more transparent pricing. In bundled arrangements, it's unlikely that you will be able to obtain a provider that is “best-in-class” for not only all of your recordkeeping/communication services but each of your investment categories as well. By separately contracting for investment and administrative/recordkeeping services plans can avoid situations in which it becomes necessary to determine if it is acceptable to maintain subpar investment or administrative services in order to maintain another element of the plan. However, unbundling can involve additional responsibilities on the part of the plan sponsor in terms of administering multiple service contracts, using consultants to assist in oversight, etc.

Nevertheless, if you presently administer a bundled plan, you may want to consider unbundling the services in your next procurement process. You can “unbundle” the plan by procuring your investment and recordkeeping/communications services separately. You can work with a consultant to help you design your procurement; additionally you can consult with other NAGDCA members who have unbundled their programs to determine how they did it and how they designed their procurement process.

Case Study –Prior to 1999 the City of Los Angeles had bundled contracts with two providers, an insurance company and a bank. Each firm provided recordkeeping for its products. Working with a consulting firm, the City issued two Requests for Proposal (RFP), one for investment management services and one for recordkeeping/communication services. For the investment management RFP, each investment category was evaluated separately. As a result, different vendors were chosen to administer the various primary asset classes (e.g. Large-Cap Stocks, International Stocks, etc.). One vendor was chosen to provide recordkeeping/communications services. As a result of that RFP, the City reduced both administrative as well as investment management fees by as much as 80%. Just as importantly, the City will not have to weigh the quality of investment management against the quality of administrative services offered to the plan.

IV. Contracted and In-House

Plan sponsors can provide services using their own technological and human resources, or they can use contracted service providers. The more typical approach is to use a mix of the two.

In general, the more technical or specialized a service, the more cost-effective it will be to use a contracted provider. But the more involved a particular service is with the unique operational environment of the plan sponsor, the more it will make sense for the plan sponsor to perform the task. Let's review some examples.

We'll first look at a situation where working with an outside vendor might make more sense. “Recordkeeping” is a function that is complex and has grown more complex over time. Among

7

the many responsibilities falling into this category are tracking the different types of money that can be held within a participant's account. For example, a participant might:

- Make voluntary pre-tax deferrals into a Section 457(b) plan
- Make voluntary after-tax deferrals into a Section 457(b) designated Roth plan
- Roll-over a Traditional IRA
- Roll-over a 401(k) or 403(b) account
- Create an account through a marital separation
- Acquire an account as a beneficiary following a participant's death
- Have an outstanding loan



Each of these “money types” must be tracked separately as they have different tax implications upon withdrawal. A plan sponsor may be able to handle the programming and administrative responsibilities to manage all this, but an outside vendor in the business of administering plans for a large number of clients can typically carry out the functions more efficiently and cost-effectively.

However, there are certain functions that are dependent upon employment data that may be processed more efficiently by the Plan Sponsor. Let's consider a plan sponsor performing the function of approving distribution requests from plan participants. The approval process involves verifying termination of employment, which a service provider could do if they had access to all the proper information. But perhaps the plan sponsor utilizes an old payroll system that does not efficiently transfer employee data, requiring a more intricate, manual process to verify termination of employment. In this case, the plan sponsor might decide that it can more efficiently administer this function by using its own staff.

Evaluating the scope of services involves much more than asking, “Can we do it?” or “Can they do it?” The real question is who can provide the service most efficiently. Who should do it? Efficiency involves not just an evaluation of cost, but also speed, accuracy and qualitative factors.

V. Consultants

Consultants are often used by plan sponsors to assist with important plan functions requiring the advice or services of experts. Consultants can assist with and enhance the fiduciary oversight of your retirement plans. They work with you to establish and maintain the tools necessary for you to demonstrate an ongoing process of prudent plan management. They provide a more efficient means of accessing technical and creative expertise than would otherwise be available to a plan sponsor from its internal resources. Consultants are not necessarily required in any or all subjects. Each plan sponsor should assess the degree to which its needs can be met by its internal resources and where the plan might benefit from outside firms with



broader experience.

Key consulting service areas include the following:

Investments – Investment consultants can provide support in the procurement, review, and termination of investment managers. Investment consultants can assist with:

- Recordkeeping and investment searches
- Investment menu design
- Investment-related regulatory compliance
- Development of an Investment Policy Statement
- Analysis of potential new investment product categories
- Design of procurement processes
- Analysis of vendor responses
- Contract development (where necessary)
- Ongoing monitoring/analysis of performance, corporate viability, and fund management, including support for terminating fund managers

Plan Administration/Regulatory – Plan Administration/Regulatory consultants can provide support in the overall design of your plan and ensuring compliance with applicable laws and regulations. These consultants can assist with:



- Plan design
- Regulatory compliance
- Analysis of potential new plan services
- Design procurement processes
- Analysis of vendor responses
- Contract development (where necessary)
- Ongoing monitoring of plan administration service providers
- Peer/Industry Benchmarking
- Total Plan Cost Analysis/Full Fee Disclosure

Communications – Communications consultants can provide support in the development of communications materials used to inform and educate your plan participants. These consultants can assist with:

- Developing educational materials
- Promoting the Plan
- Creating communications objectives and strategies

Tax and Legal Counsel – Tax and legal counsel consulting can provide support in the review of specific legal or regulatory issues impacting your plan. Such counsel also enhances the fiduciary oversight of your plan. These consultants can assist with:

- Interpreting applicable law and regulation
- Producing and updating your Plan Document
- Resolving certain investment/administrative/communication issues

Auditing – Auditing firms can provide support in reviewing the financial and regulatory processes utilized in your plan. Auditors can assist with:

- Performing financial reviews of the accounting and cash management operations within the plan
- Determining the level of compliance of plan operations relative to applicable law and your Plan Document
- Determining the need for amending or adding plan services

VI. Role of Internal Revenue Service

The Internal Revenue Service can also provide support to your plan, both in qualifying your plan as being compliant with laws and regulations and in assisting you with interpretive questions arising in ongoing administration. Some issues may be addressed with the IRS informally, and others may require a more formal review (for example, by seeking a private letter ruling). Because of the costs and time involved in more formal reviews, plan sponsors should carefully evaluate whether it is wiser to address regulatory questions directly through the IRS or through services which may be available through contracted service providers, in-house counsel, or contracted tax counsel.

Neither NAGDCA, nor its employees or agents, nor members of its Executive Board, provide tax, financial, accounting or legal advice. This memorandum should not be construed as tax, financial, accounting or legal advice; it is provided solely for informational purposes. NAGDCA members, both government and industry, are urged to consult with their own attorneys and/or tax advisors about the issues addressed herein.

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SUCCESSFUL STRATEGY FOR EFFECTIVE MARKETING INITIATIVES

Marketing and branding initiatives for any retirement plan must meet both contemporary standards and participant expectations. These critical needs will vary based on the significant differences in demographic composition of a plan constituency, and targeting participants based on demographics and retirement goals is an important concern. With better engagement strategies, plans will note increased participation, higher contribution rates, and decreased expense to participants based on economies of scale and lower expense ratios on investment products. This article describes a six-part strategy for marketing and branding a plan of any size.

IDENTIFY THE TARGET AUDIENCE

Every plan and employer varies. Some plans have constituencies that include many different employers with differing types of employees. Every segment of employee has different desires, needs, and motivations. When initiating a marketing strategy, the initial decision must be to identify the target audience and tailor the message to this group based on particularized characteristics. One very important audience is non-enrolled employees, and focus on this group must be a primary target.

With the targeted audience determined, a plan should leverage its information technology resources to segment the general population of participants into the target audience. This segmentation could be by gender, age, location, salary, investments, or any combination of demographics. By using employer based data, or that from a third-party administrator or record keeper, the plan can focus the marketing initiative accordingly.

By way of example, a plan could target lower income earners through an employer match incentive, or a plan could target participants for financial advice that have a single investment or mis-alignment between age and investment strategy.

DETERMINE THE PRIMARY BENEFIT

With the basis of the initiative and target audience determined, a plan should then identify the primary benefit from the promotion. This primary benefit is the overall driver of the initiative and will steer the direction of the effort. In the low-income earner example, this might be increased retirement preparedness and security. For financial advice, it may be the increased account balance or overall growth of retirement assets and financial position.

The initiative could also focus on other general plan benefits such as loans or hardship withdrawals, that may induce enrollment or increase participant comfort with saving. Specifically, the initiative may focus on the ability to address financial emergencies through accumulated retirement savings, especially for employees that might not participate otherwise.

Another benefit could be the overall fee structure for the plan, as its impact is not likely known by the participant and can lead to major differences in account value over time. A plan might make direct

comparison to another plan or another type of investment to show the difference across varied fee levels.

Other benefits for promotion can include anything that is important for the uniformed participant to know, such as:

- Investment options
- Roth options and how post-tax investing options are better suited for different types of employees or investors
- Special Catch-up provisions for employees nearing retirement age to propose increase contribution levels
- Required Minimum Distributions or other distribution options for retirees to inform employees at or near retirement age
- Customer service alternatives, online enrollment, deferral change, beneficiary or address updates, advisory services, investment selection, and any other routine operational impact to participants

EXAMINE THE COMPETITION

Employees have options outside of an employer based plan and even multiple options from the employer, so a plan is well served to review these other options and make direct comparison to highlight the benefits of the plan over these other alternatives. Additionally, for plans that supplement a defined benefit program (including Social Security), identify the average payout under that option and focus attention on the shortfall and need for supplemental retirement savings.

A major difference between private market products or individual savings are contribution limits and fee structure. With employer based options typically having higher contribution limits and lower fee structure, these combine to benefit participants though increased ability to save and typically higher returns over time.

When examining the competition, it is also beneficial to review its marketing strategies related to the same issue or topic. Moreover, compare the client service approach, and how other plans or products impact employees and participants. Use the strategy of your competition to draw attention to similar positive benefits or major negative differences that will persuade the employee to opt for the plan over other employer-based or outside alternatives.

OUTLINE THE STRATEGY

Marketing has innumerable communication mediums, but a plan must determine which channels to use based on budgetary constraints, and other considerations including procurement rules, internal policy, or state law. Consult with industry resources including NAGDCA and non-competing plans in other states, counties, or municipalities for advice and helpful suggestions.

Some examples of this approach are to send a postcard to all employees, direct email campaigns to employer based emails addresses, temporary or permanent modification of the plan website, television or billboard advertising, event tabling, or specialty break-out sessions at other employer events. One very important consideration is to co-campaign with national campaigns including National Retirement Security Week, America Saves, and National Retirement Planning Week.

Another major consideration when outlining a strategy is to establish deliverables, waypoints, cutoff dates, and lead time so that the initiative is effectuated without major disruption or delay. Proper planning on when events or materials are needed allows for all inputs and arrangements to be available for review and editing to deliver an error free product at the specified time. For larger projects that

may use multiple channels or require significant resources, a strategy document might be created so that involved staff have a firm concept of important dates and considerations, and moreover the goals of the effort. This strategy document is also helpful in the event of staffing changes or other unplanned employee absence.

IMPLEMENT THE INITIATIVE

With the overall scope of the initiative set, fully implement the strategy. Staff of all involved parties -- internal, recordkeeper, third party administrator -- should be aware of the initiative through proper meetings or discussion about the implementation, timeline, dates, materials, etc. Moreover, these parties can also partner or cost share for the marketing initiative. This ensures that staff that encounter participants and enrollees are properly informed and can discuss the details, features, and benefits and create cohesion of the overall direction of the plan and initiative. As retirement plans require trust and recognition of the involved entities, delineation of the involved parties could be necessary. This might be differentiation of the employer and plan from the third-party administrator or record keeper, or identifying the plan as direct benefit of the employer through the marketing/color scheme, logos, other identifiers.

With proper planning through the overall process, implementation should be without major issues, however staff should contingency plan for implementation failures. This includes documenting vendor contact lists, passwords, processes/procedures, proofs, procurement materials, and other inputs about the initiative. With proper contingency planning and documentation, any implementation failures can be addressed immediately to limit public awareness or impact of the failure.

MONITOR THE RESULTS

The best marketing initiatives have documented, or at minimum discussed, goals that can be measured or observed. A plan should utilize resources to capture any data that measures the overall effectiveness and impact of the initiative. For example, if the objective of an initiative was to increase contributions, the plan should create a data list of all contribution increases submitted during the campaign. For email campaigns, it is helpful to obtain any available metrics, including about the number of failed deliveries, number of URL clicks, and number of emails opened. Another measuring option is a post-initiative survey. The usefulness of this survey is determined by its statistical validity, and proper sample sizes should be obtained to ensure quality results. Any survey should be easy to respond to and require minimal effort of the respondent.

Marketing provides a plan identity and leads employees to recognize and understand the plan. Successful marketing and branding of a plan is the most important factor to create awareness and interest and ultimately drive enrollment and participation in the plan. The best marketing strategies are well developed by identifying the audience through use of plan data and technology, determining the benefits and features to promote, and reviewing the successes and failures of the competition and other similar plans. Then after this important background is established, create and implement a quality marketing initiative that is well documented with established goals, deliverables, and dates. Plans can then review the successes – and failures – of the strategy to see where improvements can be made in future initiatives.

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Association of School Business Officials International

Guidelines for Implementing an Employee Retirement Planning Educational Program

Why has the Association of School Business Officials International (ASBO) prepared guidelines for implementing an Employee Educational Program (EEP)? ASBO members have expressed an interest in helping their employees understand sources of retirement income and other retirement savings so they can retire at normal retirement age. In response, ASBO asked its Retirement Plan Council members (a list of those members appears after these guidelines) to develop simple guidelines and a generic PowerPoint presentation members can use in an educational program. Why is that important to ASBO members?

- Our members are familiar with the results of recent surveys that describe participants in retirement plans as needing education about what they can expect from basic pension benefits and Social Security benefits, if any. After these benefits are calculated, there is strong interest in how to “fill the gap” with savings of their own retirement dollars in supplemental 403(b) and/or 457(b) plans. ASBO wants to provide this type of information to our members’ employees.
- Our members understand that their budget outgo may be substantially reduced if employees can afford to retire at normal retirement age which, in turn, will permit them to be replaced with employees at reduced salaries.
- ASBO members want employees to understand the benefits being provided by 403(b) and 457(b) plans, including how they can save their own dollars for tax benefits of their retirement savings accounts.

The following guidelines are intended to help our members implement an EEP for their employees. Additionally, the generic PowerPoint presentation on the ASBO 403(b) Web resource site provides basic material that can be used to develop presentations for employee seminars.

NOTE: It is important to recognize that any EEP offered by the district is intended to supplement, and not replace, materials and education provided by the investment providers offered under the 403(b)/457(b) plans.

I. Plan the implementation of your EEP.

- Reach out to your TPA, consultant, legal counsel, and investment providers to help coordinate the implementation process.
- Appoint someone on your staff to manage and review the EEP.
- Consider presenting the EEP in seminar format, then providing online access to the materials presented. This meets the needs of those employees who are comfortable learning with online resources and those employees who are more comfortable learning in a classroom setting. Online access also will permit employees to share

information with their spouses/partners and allows employees who are unable to attend the seminar to access the information.

- Offer your EEP presentations several times to permit as many of your employees to attend as possible. This might mean presentations at least three times a year, i.e., in the fall, late in the tax year, and again in the spring.

II. Select EEP presenters and request assistance from your partners in determining the materials used in the seminars and posted online.

- Require that whoever is presenting the seminar – a plan sponsor, one or more investment providers, your third-party administrator (TPA), your legal counsel, or a consultant – designate the appropriate qualified individuals to present the seminar materials. Consider requiring that each seminar feature a different set of presenters, thus ensuring that all investment providers have an opportunity to showcase their products. In your communication to the investment providers, specify that the presentation must be generic with no mention of the presenters' particular products. Require that the presentation be submitted to you in advance so you can ensure the company's logo and other company-specific information are not misused. If all investment providers are not presenters, require that all investment providers approved under your 403(b)/457(b) plan be mentioned during the seminar presentation and that the presenters indicate that some of the information provided may vary among the investment providers. Plan to attend the seminars and make opening remarks about the importance of the benefit you are providing for employees.
- Ask your investment providers/TPA/consultant/legal counsel for assistance in assembling the materials each attendee will receive in the seminars. Consider including:
 1. Copies of the ASBO generic PowerPoint presentation, including the link to online information for later review by your employees.
 2. A list of all investment providers approved under your 403(b)/457(b) plan, with contact information, to simplify enrollment and the annual review process.
 3. A fact sheet explaining the enrollment process and a salary reduction agreement (if you use a standard agreement) or information on the fact sheet stating that employees can obtain the salary reduction agreement from the investment providers (if you use the providers' agreements).
 4. A copy of the complete plan document and/or Adoption Agreement, if applicable, to familiarize employees with the features of your plan.

III. Issue the invitations to employees to establish the purpose of the seminars, time, date, and location.

- Communication about your EEP can also serve as the required annual meaningful notice of each employee’s right to participate in the 403(b) plan, as long as the communication is designed to reach all eligible employees. Require that attendees RSVP so you are prepared with an adequate number of handouts.

Require that your investment provider/TPA/consultant, or legal counsel share a sample notice for review by your legal counsel so you can be sure the communication will satisfy the annual meaningful notice rules of the Internal Revenue Service.

- Carefully consider the method of delivery. For example, if paycheck “stuffers” are used, are you certain every eligible employee has received a paycheck at that point in time? If the notice is sent by email, do all eligible employees have access to email? What about substitute teachers, bus drivers, and cafeteria workers? Does the communication need to be directed to their home addresses? Consider using more than one delivery method.

IV. Garner staff support.

- Alert payroll personnel that they may encounter a higher than normal level of activity after each of your EEP presentations, in the form of new participants submitting salary reduction agreements, as well as current participants submitting agreements to increase contributions.
- Ask your payroll staff to periodically report to you the number of employees participating and increasing contributions so you can compare those numbers with the pre-seminar numbers. This helps you evaluate the success of your employee educational seminars.

Following are additional suggestions about materials you and your TPA/consultant/legal counsel/investment providers might consider to meet the goals of your 403(b)/457(b) plan EEP.

In addition to those suggested in the above guidelines, materials provided for your EEP can include, but are not limited to, the following:

A. Plan highlights summary or plan summary description.

A copy of the Adoption Agreement, if applicable, on which you selected the eligible employees and the plan features will generally suffice. If your plan document did not use an Adoption Agreement, your legal counsel can review the terms of your plan document and prepare a summary for your review. This might include an invitation for employees to view the actual plan document if they wish to do so.

B. Information regarding investment product options available under the 403(b)/457(b) plan and how to select investment product option(s).

The investment providers offered under your 403(b)/457(b) plan can provide this information or you can provide contact information for the financial advisors who have this information.

C. Information available from 403(b)/457(b) TPA, if any, for plan participants and contact information for the TPA.

The TPA can provide this information.

- D. Information about how to request plan distributions, including plan loans, hardship withdrawals, and unforeseeable emergency withdrawals.
- If plan distribution requests, such as plan loans, hardship withdrawals, and unforeseeable emergency withdrawals, are coordinated with the TPA or by one or more investment providers, the TPA or investment provider(s) can provide information about the coordination process and how to obtain forms to request a distribution.
 - If plan distribution requests, such as plan loans, hardship withdrawals, and unforeseeable emergency withdrawals are coordinated with the school administrators, the school administrators can provide information about the coordination process and how to obtain any forms the school administrators use.

- E. Retirement savings information.

This should include information about any potential employer contributions.

- F. Financial investment information.

- G. Retirement plan benefits available to employees.

This should include information about how to calculate the expected benefit from the state retirement system and Social Security, if any.

- H. Health and welfare benefits available to employees.

Costs for health care after retirement will be an important element for your employees to assess to determine whether they have saved enough to supplement their other retirement benefits.

This document is provided by ASBO International solely for the use of its members and is not intended, nor should it be used, as a substitute for legal advice. You should consult with your counsel. Further, this document is not intended, nor should it be construed as tax advice. You should consult with your tax advisor. This information is general only and is not intended to provide a comprehensive description of all types of employee retirement savings education available. The School is cautioned to coordinate any employee education program with the investment providers offered under the School's 403(b)/457(b) Plan and its third party plan administrator, if any. Further, the School should consult with legal counsel for any questions related to the materials or information to be presented to employees during a 403(b)/457(b) Plan employee education program.

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Best Practices for increasing participation in 403(b)s!

(Provisions and Items for Employers to Consider)

Complicated Investment Processes: For many employees, the process of investing in their retirement plans feels very complicated. In a survey conducted by AARP, 52% of adults surveyed said they had made an investment with an adverse outcome (e.g., unexpected taxes or an early withdrawal penalty) because they "didn't understand" an investment. Also, 54% of those surveyed said they don't read financial literature because "it's too hard to understand." There is also evidence by many surveys taken that the more investment options there are to choose from the lower the participation rate. Although that statistic can be turned around with an Advisor on the scene!

Larger School Districts in Pennsylvania have also been instrumental in hiring a 3(21) Fiduciary to pick the investments and review them on a 6 month basis, replacing those that are not performing. A 3(21) Fiduciary is not the Advisor but rather a firm that "shares" any fiduciary liability of the selected investments under the Plan. Employers that have engaged such a firm in Pennsylvania have seen increases in participation since the Employer takes an active role.

Auto-enrollment: Nationally automatic enrollment is used to increase participation. However in Pennsylvania that is not an option until or unless the law is amended to allow for this option. As an alternative PenServ offers a voluntary automatic escalation provision that is used by some districts. This requires the Advisor to explain to the participant that they can sign now to have their deferrals increase automatically at a future date, typically in January or in September of the next year.

The Department of Labor has reported that automatic enrollment plans could reduce the non-participation rate by ½ of the current rate in an employer's plan.

Communication and education: A compelling, engaging communication and financial literacy strategy can help the Employer/Advisor inform participants about what's available; you can also use it to motivate action and increase participation. Communications about the 403(b) must be in a way that makes employees want to listen. Here are some techniques that are used in Pennsylvania Schools:

- Provide 24/7 access to Plan Information. BUILD AN EDUCATION PROGRAM!
- Make information easy to digest. Forget about the 40-page guide! Blogs on websites work as well as Chat features or direct access via phone to the Advisor or TPA.
- Customize the communication for individual relevance
- Encourage interaction—today's employees don't want to be "talked at", they want to discuss and engage about a topic either online or in person. In an annual surveys conducted by Deloitte and the Employee Benefit Research Institute (EBRI) and others participation in DC plans is increasing and the main reasons include:
 - (1) auto-enrollment (unfortunately not available in Pennsylvania) but a mini version of voluntary auto escalation is being using in some districts;
 - (2) relaxed eligibility requirements (no exclusions for deferring into the 403(b));

- (3) adding a Roth deferral option to the Plan;
- (4) Investment information – *first choice*: one on one advisor meetings; *second choice*: group meetings; *third choice*: electronic information – less is more! These options should be discussed with each Employer to see what would work in their situation. Adding a 3(21) Fiduciary for the Employer also increases participation.
- (5) Engagement by the TPA brings engagement by the Employer! – antidotal evidence is where the TPA “visits” the school once/twice per year, reviews of the past year and changes are put in place to help the vendors gain access; amend plan provisions; or add services. Now is the perfect time during the restatement of plans to start such a program. Remember this is protecting the Employer and the Employees against paying taxes and penalties early;
- (6) Benefit Fairs put on by the School, where employees can talk to all vendors, those associated with the 403(b)s and others;
- (7) Health Savings Accounts (HSAs) – Where the school offers a choice of an HSA and the same Advisor can talk about HSAs and 403(b)s, statistics are starting to show that participation in the 403(b) increases. This is due to the fact that the Advisor walks the employee through the savings rate needed for the HSA and then walks them through the savings into the 403(b). According to a Plan Sponsor Council of America Survey, 75% of all employers view HSAs as a valuable tool for *retirement savings!*
- (8) Availability of funds if emergency arises – employees are more likely to be convinced to put money away if they can get access to their money in the case of an emergency, such as hardship withdrawals and/or loans; and
- (9) Saver’s Credit!!! This is a must for new employees or lower wage earners. This should always be a part of the education process. The IRS notice shows certain employees that they are *paying you* to put money into an IRA, or 403(b).
- (10) Periodic Advisor meetings – education of advisors is also critical to a well-run plan and affects participation. Newsletters and education programs by the TPA or Advisor’s firm should be employed on a periodic basis. This has been especially helpful in Pennsylvania where information on the new alternative PSERs plans to begin in 2019, has been sent to Advisors in order to assist them in talking to their 403(b) educational clients.

EMPLOYER NAME: Typical TPA Duties for Pennsylvania School Districts

PART A: RESPONSIBILITIES

The following checklist outlines responsibilities associated with the Plan and the entity obligated to each item. If there is an item without an assignment of responsibility, such item becomes the duty of the Employer as the sponsor of the plan.

		TPA	Vendor(s)	Employer	Other (specify)	N/A
I. PLAN FINANCIAL REPORTING						
1.	Review and verify accuracy of Spark File or other Data Sharing Information and notify Vendor of errors. (This includes an annual audit to make sure that all amounts and sourcing did get credited to the proper participant in the Plan.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
II. ENROLLMENT OF PARTICIPANTS						
2.	If applicable, provide Employee census information prior to each entry date to determine eligibility	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>
3.	Evaluate eligibility to determine who enters the plan on each entry date	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
4.	Provide enrollment forms to eligible employee (for deferral elections, investment elections, and beneficiary designations)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
5.	Provide mandatory notices at enrollment for Universal Availability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
6.	Provide other required notices at enrollment, such as "deemed" control group (owning outside business)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
7.	Verify deferral percentage for new participants	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
8.	Analyze eligibility service and vesting service to be credited to rehired employees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
9.	If Plan does not provide for full and immediate vesting, determine forfeitures that must be restored for rehired participants	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
10.	If certain types of compensation is excluded, evaluate compensation types for participant and ensure that deferrals are being removed from all relevant compensation types (check exclusions, e.g., stipends, coaching bonuses, club sponsorships)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
11.	Confirm that proposed deferrals do not exceed plan defined limits or legal maximums	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

ADMINISTRATIVE APPENDIX

**NON-ERISA 403(b)
FOR PUBLIC SCHOOLS**

		TPA	Vendor(s)	Employer	Other (specify)	N/A
12.	Verify entry and commencement of deferrals for new participants	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
13.	Provide completed enrollment forms to Vendor (Agent)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
14.	Maintain copies of deferral and investment elections and all changes made	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
15.	Collect and maintain copies of beneficiary designations and changes to same	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
16.	If Plan does not provide for full and immediate vesting, determine initial vesting computation period	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
III. CONTRIBUTION DETERMINATION						
17.	Identify census parameters	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
18.	Provide census information to determine contribution limits, vesting	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
19.	If Employees are not immediately eligible, determine employees eligible to participate in each type of contribution allocation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
20.	Verify type of contributions made (pre-tax deferral, Roth, employer, rollovers, etc.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
21.	If compensation is excluded, determine includible compensation for participant for each type of contribution, if different	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
22.	Determine amount of each type of employer contribution for each participant	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
23.	If Plan accepts Employer contributions, determine amount of true-up matching contribution at year end (if any)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
24.	If Plan accepts Employer contributions, verify that matching contributions do not exceed plan defined limits	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
25.	If Plan accepts Employer contributions, determine maximum contribution under IRC §415 and verify that contributions do not exceed that limit	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
26.	Determine and maintain records of separate accounting for all types of contributions	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

		TPA	Vendor(s)	Employer	Other (specify)	N/A
IV. VESTING AND FORFEITURES						
27.	Determine and maintain records of vesting service	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
28.	Determine and maintain records of vested percent	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
29.	Determine timing of forfeiture from a participant's account	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
30.	Determine use of forfeiture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
31.	Determine amount to be contributed based on use of forfeitures to reduce employer contribution (if applicable)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
V. OTHER ALLOCATIONS						
32.	Allocate investment gains/losses	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
33.	Allocate contribution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
VI. ANNUAL COMPLIANCE LIMITATIONS						
34.	Prepare annual Universal Availability Notice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
35.	Deliver annual Universal Availability Notice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
36.	Monitor statutory limits – Annual 415 limit, Compensation §401(a)(17), Elective Deferrals §402(g), Age 50 Catch-up §414(v), 15 year Catch-up	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
37.	Determine if additional plans must be aggregated with this Plan for overall limits	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
VII. ELECTIVE DEFERRALS						
38.	Process and verify deferral elections each payroll period to ensure proper deferral by participant, including deferral changes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
39.	Reconcile deferral changes made between payrolls	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
40.	Provide annual mandatory notices (Universal Availability, Automatic Enrollment, Other 415 annual notice) (if applicable)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
41.	If Universal Availability failed, determine amount to be contributed with lost earnings. Amounts are contributed as earmarked as a QNEC (employer contribution). Amend plan to accept QNECs if necessary	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

		TPA	Vendor(s)	Employer	Other (specify)	N/A
42.	Ensure deposits of salary deferrals are made to Vendor within required timeframe	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
VIII. DISTRIBUTIONS OF BENEFITS						
43.	Prepare and maintain distribution notices and elections	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
44.	Provide distribution forms to participant, including 402(f) notice for rollover information	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
45.	Review distribution forms to see if fully completed and signed by appropriate parties	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
46.	Evaluate eligibility to receive a distribution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
47.	Authorize distributions and other transactions	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
48.	Confirm vested interest on termination of employment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
49.	Determine amount to be distributed	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
50.	If Plan permits Roth Deferrals, determine basis in Roth Distributions	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
51.	If Plan permits Roth Deferrals, determine and maintain beginning date for Roth qualification period	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
52.	If Plan permits Roth Deferrals, determine whether Roth distribution is qualified	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
53.	Proper Income tax withholding deposit made and IRS reporting on Form 945	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
54.	Form 1099-R provided to participant and IRS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
55.	Determine cash-out amounts for the year (e.g., accounts for terminated participants with less than \$1,000 value). Only available for Group Annuities or Group Custodial Agreements	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
56.	If elected under the Plan, determine amounts to be moved to an automatic IRA rollover (e.g., amounts for terminated participants with \$1,000 to \$5,000 in value)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
57.	If permitted under the Plan, evaluate eligibility for hardship distribution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
58.	If permitted under the Plan, notify of ceasing deferrals for 6 months, confirm that deferrals have ceased, solicit new deferral form after 6 months	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

ADMINISTRATIVE APPENDIX

**NON-ERISA 403(b)
FOR PUBLIC SCHOOLS**

		TPA	Vendor(s)	Employer	Other (specify)	N/A
59.	Evaluate proposed QDRO to determine if it qualifies as such	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
60.	Communicate to participant/former spouse regarding QDRO receipt (and provide copy of QDRO Policy) and QDRO determination	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
61.	Segregate account and initiate distribution to Alternate Payee	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
62.	Authorize and verify requirements for Exchanges, 403(b) Transfers and Transfers to State DB Plan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

IX. PARTICIPANT LOAN, IF AVAILABLE

63.	Provide copy of loan procedure/policies to participants	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
64.	Prepare and retain loan documents (e.g., promissory note, etc.) for each participant loan	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
65.	Determine maximum amount that may be borrowed	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
66.	Provide Loan Request Forms to participants	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
67.	Confirm proper completion of loan application	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
68.	Approve loan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
69.	Verify that proper loan payment procedures are in place	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
70.	Determine defaulted and offset loans	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
71.	Prepare Form 1099-R on defaulted loan	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

X. MISCELLANEOUS

72.	Identify participants required to take a Required Minimum Distribution (RMD), including terminated employees, beneficiaries	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
73.	Provide timely notice of RMD requirement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
74.	Determine minimum distribution amount	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
75.	Annually review of all Vendor documents including distribution forms, custodial agreements, annuity contracts, withholding notices and elections, etc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

TPA	Vendor(s)	Employer	Other (specify)	N/A
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XI. PLAN QUALIFICATION

76.	Prepare Plan document	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
77.	Prepare Amendments, Required and optional	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
78.	Prepare written procedures/policies, where applicable	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

PART B: PLAN VENDOR SCHEDULE (ALSO COMPLETED BY TPA)

This Schedule may be amended from time to time and must be completed and executed by the Employer. Complete multiple pages if necessary.

Please note the following procedures for Transfer/Exchanges:

- The minimum amount for Transfers/Exchanges shall be \$_____ (the default shall be \$0).
- Exchanges will be permitted between all Approved Vendors in section I and from Deselected Vendors in section II unless otherwise restricted. Please specify any restrictions here: _____.
- Transfers are permitted at any time unless restricted as follows: _____.

I. LIST OF APPROVED VENDORS

These Vendors are authorized to receive ongoing contributions and incoming Transfers and Exchanges (unless restricted above) from Approved Vendors and Deselected Vendors.

Name of Vendor	Address	Contact Person	Phone and Email	Funding Vehicle	
				Custodial Agreement	Annuity Contract
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

II. LIST OF DESELECTED VENDORS

Exchanges will be permitted from section II Vendors to section I Vendors. However, section II Vendors may not receive Exchanges and Transfers and the assets are not available for Participant Loans and Hardship Distributions unless other procedures apply; specify: _____.

Name of Vendor	Address	Contact Person	Phone and Email	Funding Vehicle	
				Custodial Agreement	Annuity Contract
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Employer Name: _____

Effective Date of Plan Vendor Schedule: Immediate; or on _____, 20____.

Note: The Plan Vendor Schedule is no longer a part of the 403(b) Plan document. Employers may therefore change the investment providers without completing a new Adoption Agreement.

Retirement Security in Peril



JOINT ECONOMIC COMMITTEE
DEMOCRATS U.S. Senator Martin Heinrich
Ranking Member

FEBRUARY 2018

Retirement Security in Peril

American workers are facing a crisis: the inability to retire with dignity after a life of hard work. After years of supporting families and contributing to society, American workers are confronting a nearly empty retirement nest egg. Half of all American families near retirement have \$12,000 or less in formal retirement savings.¹ Not only do far too many workers earn too little to adequately save for retirement, but many more also lack access to good retirement saving plans. Many other factors, including the 2007 financial crisis and slow wage growth, have exacerbated the problem.²

Congress must now focus on policies that broaden access to low cost, high-yield retirement savings options, strengthen Social Security, secure pension plans, and restore access to a stable and adequate retirement for an aging population.

Challenges to Securing a Stable Retirement

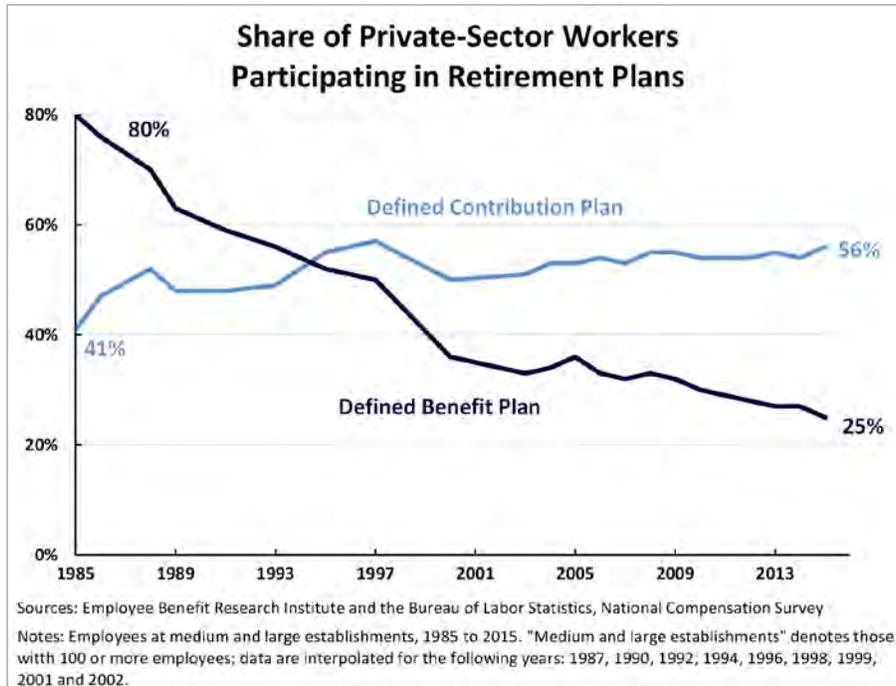
Working Americans face a host of challenges in planning and saving for retirement, including inadequate savings, stagnant wages, limited access to low-cost and high return accounts, among others. These challenges, which all have compounding impacts on later life living standards, are making it more difficult for families and workers to establish a foundation for a secure retirement.

The Shifting and Slimming of Plans

Most employers no longer provide defined benefit plans, such as traditional pension plans that provide a guaranteed source of income into retirement. Instead, they have shifted the responsibility of preparing for retirement onto employees through defined contribution retirement plans, like 401(k)s and IRAs. Only 25 percent of private sector employees in medium and large firms participate in defined benefit plans, a sharp decline from the 1985 high of 80 percent (see next page).³ The drop in availability and participation in these plans comes as employers attempt to reduce the risk and cost of providing benefits.⁴

Teacher Pensions: Defined Benefit Plans in Action

Teacher pension plans are an example of the key role that defined benefit plans play in providing families a stable retirement. Teacher pensions, much like other defined benefit plans, provide a more secure path to retirement, helping many teachers overcome the multitude of obstacles that prevent saving for retirement.⁵ More than 75 percent of teachers participate in defined benefit plan.⁶ These pension plans reward longevity with an employer, creating economic incentives for high-quality teachers to stay in the profession. These plans serve as effective recruitment and retention tools for schools, helping attract and maintain the best teachers to ensure student success. Pension plans also afford teachers a more predictable source of income into retirement, which is particularly important for low- and middle-income teachers.⁷



On the other hand, participation in defined contribution plans has steadily increased from 41 percent in 1985 to 56 percent in 2015 for the same workers.⁹ Defined contribution plans, such as 401(k)s mentioned above, generally depend on the financial contributions made by the employees themselves. These plans do not commonly guarantee a worker income for life like most pension plans and typically have funds invested in more volatile securities and assets in an attempt to reach higher returns. While defined contribution plans can have higher potential long-term gains, particularly when markets are rising, workers assume investment risk that under defined benefit plans would have been borne by their employers. Modern retirement savers assume the risk associated with investing in the stock market, leaving their savings exposed to management fraud, exorbitant management fees, and market fluctuations

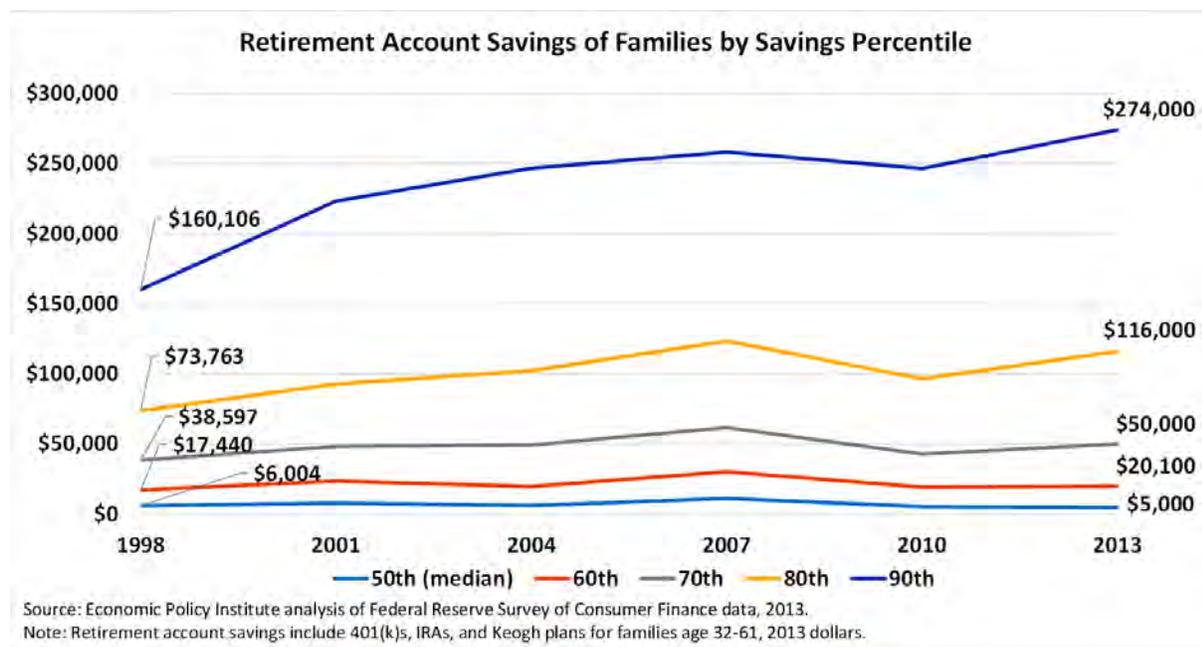
Defined Contribution Plans: What are they?

Defined contribution plans are a type of retirement plan in which the employee, the employer, or both agree to make regular contributions to a retirement account. Contributions are normally invested on the employee's behalf and can return gains or losses. Employer contributions are not always fixed, since they are often contingent on voluntary employee contributions, and do not normally promise a specific amount of benefits in retirement. Some of the most common defined contribution plans are employer sponsored 401(k) and 403(b)s.⁸

exacerbated by Wall Street risk-taking.

Further, while workers who start saving early in their careers have time to withstand market downturns, a financial crisis or economic downturn can profoundly diminish savings for those closer to retirement in defined contribution plans.¹⁰ Older Americans closer to retirement with deflated accounts may have less time to make up financial losses, forcing many to continue working into older age—a stark reality for many Americans following the financial crisis and economic downturn of the last decade. In fact, nearly 19 percent of

Americans 65 years or older continue to work at least part-time, with future generations expecting to work past 65 at a much higher rate.¹¹



While those with defined contribution plans must weather swings in the stock market, defined benefit plans have also faced scrutiny and have seen significant cuts to promised benefits. Since 2009, local and state pension plans, which now represent a majority of defined benefit plans, have seen benefit cuts and other changes.¹² These cuts are in part a response to the sharp decline of state and local pension fund assets following the market crash, and shift the risk and burden onto plan participants.¹³

Many of the changes to defined benefit plans are aimed at both current and new employees. From 2009 to 2014, over 55 percent of local plans and nearly 75 percent of state plans made cuts to benefits affecting both new and current employees.¹⁴ The result is usually an increase in employee-required contributions, a decrease in overall benefits promised, and longer service requirements to be eligible to receive similar benefits.¹⁵ Similar benefit cuts and reforms are affecting other defined benefit plans as well.¹⁶

Multiemployer plans, which are defined benefit plans created through collective bargaining agreements and funded in collaboration with multiple employers typically in the same or related industry, cover about 10 million American workers and are found in many industries.¹⁷ Many of these plans have struggled in recent years due to a number of factors, including asset losses from the financial crisis, declining ratios of active workers to retirees within the plans, and a low interest rate environment which raises the value of their future liabilities relative to current assets.¹⁸ These problems are exacerbated when individual employers leave the plan without contributing enough to cover their pension commitments. This now leaves about a million participants in underfunded plans.

The Gig Economy, Workers, and Access to Retirement Plans

As the importance of the gig economy keeps growing, the work-force relationship grows more complex. The rise of the gig economy—which allows people to work from remote locations to complete short-term projects and contracts—has grown the size of contingent workers.

Independent contractors, better known as contingent workers or freelance workers that have a contracted relationship with a company, now make up about 16 percent of the American labor force, up over 50 percent since 2005.¹⁹ The nonpermanent status of contingent workers creates new complexities that reshape how individuals are compensated, limiting access to employer sponsored retirement plans, among other benefits. Contingent workers were two-thirds less likely to have access to employer provided retirement plans than their traditional employee counterparts.²⁰ Limited access to benefits and the growing prevalence of contingent work present new challenges to ensure adequate retirement plans for a growing share of Americans.

Slow Wage Growth Limits Retirement Savings

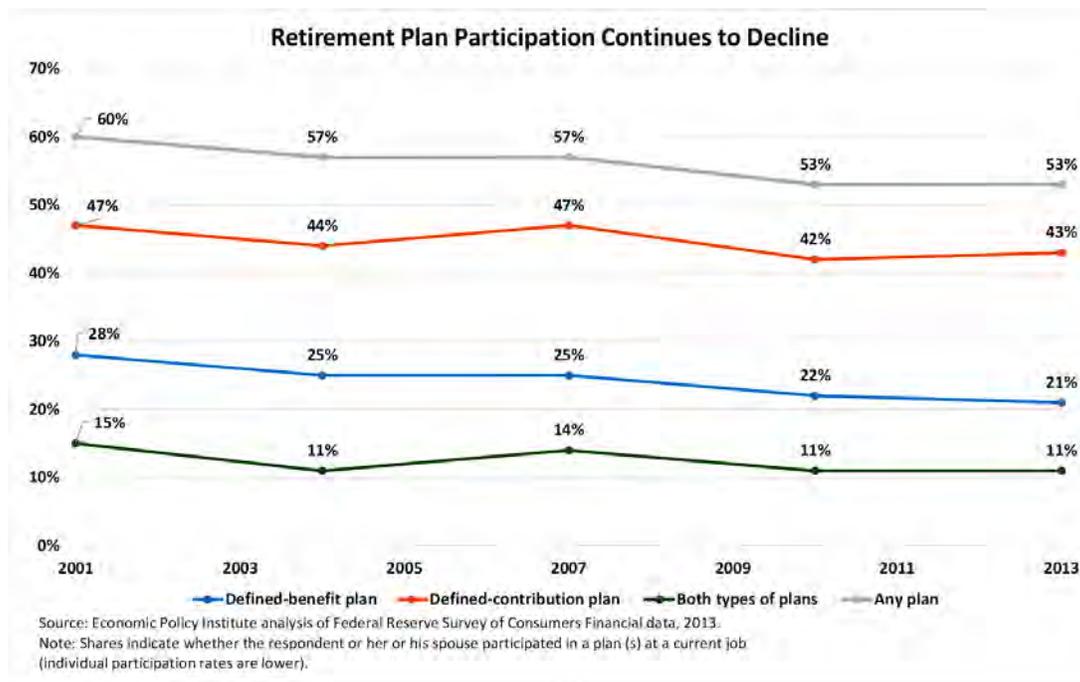
While wage growth has picked up over the last few years, it has not been enough to ensure adequate savings for many families.²¹ When adjusted for inflation, many low-wage workers have actually seen their wages stagnate or fall over the past few decades, leaving little for many working families to put away for retirement.²²

The problem is more pronounced for bottom income quintile families and single parent households. Compared to high-income earners, low-income families have less in retirement savings accounts; in fact, high-income families are eleven times more likely to have a retirement account than families in the bottom income quintile.²³

As the chart on the prior page indicates, retirement account savings for the bottom 50 percent of families remain very small and have actually declined by 17 percent since 1998, while those in the top 90 percent have made substantial gains of more than 70 percent over the same period. Additionally, as of 2013, the median family's retirement account had only \$5,000.²⁴

Insufficient Access to, and Participation in, Workplace Retirement Savings Plans

Access to workplace retirement savings plans is key to establishing workers' future economic security, but many workers are still unable to access low-cost, high-quality plans. This is particularly true for gig economy employees, who have grown as a share of the economy over the last decade (see box above).²⁵ While access and participation rates vary by state, well over 30 percent of full-time private sector workers do not have access to either defined benefit or defined contribution plans through their employer, with part-time workers having even less access.²⁶ If non-participants were given access to affordable retirement savings plans and adequate workplace matching contributions, most say they would be more willing to take advantage of the opportunity to save for later life.²⁷



Education, age, employer size, industry, and income play a significant role in determining access to, and participation in, retirement savings plans.²⁸ Families headed by someone with a college degree or more, for example, have a higher likelihood of a worker participating in a retirement plan.²⁹ This also true when comparing total balances of retirement savings accounts.³⁰ The underlying trend over the last decade, though, is an across-the-board decline in retirement plan participation rates. This is in large part due to the lack of access to low-cost, high-quality savings plans.³¹ The figure below highlights this ongoing declining trend, particularly as workers approach retirement, though older cohorts as a group save more than younger workers.³²

Millennials' Impact on their Parents' Retirement Savings

The rising cost of education has also made retirement readiness more difficult for all aging Americans. Recent data show that the number of older Americans with student loan debt quadrupled from 2005 to 2015.³³

Older Americans now own an estimated \$247 billion in outstanding student loan debt, an amount that has grown substantially since the beginning of the 21st century, even after accounting for inflation.³⁴ These older borrowers are parents who finance their children's education and individuals seeking to further their own education later in life. Unfortunately, those with student debt are more likely to have lower retirement account balances, and, if they default on the loan, often have to surrender about 15 percent of their Social Security benefits to pay their loans.³⁵ To make matters worse, many defined contribution plans often do not allow participants to draw against their savings to supplement a child's tuition without a penalty.

With the additional burden of loans, older borrowers often struggle to repay and become delinquent. In addition, older Americans with outstanding student loans are also more likely to neglect their important health care needs, including dental care and regular doctors' visits.³⁶

The Significant Role of Social Security

As individual earnings and incomes decline with age and more workers are pushed into more volatile defined contribution plans, the role of Social Security grows. Social Security is the largest federal anti-poverty program, providing 62 million beneficiaries—retirees who have worked for 35 years or more, disabled workers and their family members, and family members of deceased workers—monthly financial benefits.³⁷ By ensuring income and economic security into old age, Social Security lifts more than 15 million elderly Americans out of poverty.³⁸ Without it, the poverty rate for individuals age 65 or older would more than triple, leaving four in ten older Americans living in poverty.³⁹ Average monthly benefits at the end of 2015 ranged from \$1,166 to \$1,342 for beneficiaries, but were considerably less for women and those with low incomes during their working lives.⁴⁰

With half of all American households near retirement holding less than \$12,000 in formal retirement savings and more Americans working into older age, Social Security is playing an increasingly important role for retirees, particularly low-income seniors.⁴¹ Currently, nearly nine out of ten of people over the age of 65 receive Social Security benefits.⁴²

Unfortunately, Republican proposals would cut Social Security benefits and the Social Security Administration’s budget to address budgetary shortfalls.⁴³ Administrative cuts squeeze the agency’s ability to provide necessary services to an aging population. These actions can be disastrous to the millions of people who rely on the program, undermining their economic security and stability. Suggested reforms to Social Security, many of which propose deep cuts to benefits and changes to existing requirements, would wreak havoc on family finances and could push many into poverty.

Next Steps for Congress

Without improved access to retirement benefits, Americans will continue to struggle to provide a safe and secure retirement for themselves and their families. There are several steps that policymakers can take to address the retirement crisis and ensure that older Americans can age with dignity.

First, Congress needs to modernize Social Security, which remains the primary and most reliable source of income for retirees. Changes should focus on expanding benefits for hard-working Americans, and ensuring long-term viability and security. Policymakers have discussed raising the current payroll tax cap of \$128,400 so that a larger share of wealthier Americans’ earnings would go into the Social Security trust fund and increasing the payroll tax rate marginally if real wage growth accelerates.⁴⁴

Workers should also have better access to employer-based retirement plans. Given that employers are now more likely to offer defined contribution plans than pensions, employers should be more engaged in assuring retirement readiness. There are several policy proposals that expand access to defined contribution plans, while reducing administrative costs. These proposals include establishing “startup” tax credits for small businesses that offer retirement plans for the first time, allowing businesses to pool their defined contribution plans, opening up

retirement plans to part-time workers, and ensuring that financial advisors protect seniors' hard-earned investment by putting their clients first.⁴⁵

It is also important that policymakers secure the long-term stability of the Pension Benefit Guaranty Corporation (PBGC), a critical backstop for private sector pension plans that ensures timely and uninterrupted payments should a plan become insolvent. With the pension benefits of nearly 40 million Americans insured through the corporation, PBGC's financial future remains uncertain.⁴⁶ This is in part due to the financial risk of the countless underfunded pension plans that PBGC insures and the declining number of private defined benefit plans.⁴⁷ Congress has taken the approach of issuing short-term fixes for the program, and it should work to create a long-term solution to ensure that the PBGC's protections continue to cover workers' retirement benefits.⁴⁸ This includes addressing the multiemployer pension crisis with innovative solutions, like the Joint Select Committee to Solve the Multiemployer Pension Crisis or the Butch Lewis Act of 2017 that strengthen these plans covering millions of Americans.

Finally, there needs to be new ways to entice employers and state and local governments to provide access to high benefit, low cost retirement plans. Proposals like the Preserve Rights of States and Political Subdivisions to Encourage Retirement Savings (PROSPERS) Act that allow for more flexibility and better access to retirement accounts are good options.⁴⁹ These measures all work towards a retirement system that is inclusive, portable, and enhances long-term security for workers from many economic backgrounds.

As we move further into the 21st century, it is imperative that Congress initiates reforms that allow American workers to live fruitful lives into retirement. This includes having access to multiple income streams as seniors ease into retirement.

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- ¹ <http://www.nirsonline.org/index.php?option=content&task=view&id=768>; Note: figures are for 2010.
- ² <http://www.epi.org/publication/retirement-in-america/>; and <https://www.jec.senate.gov/public/cache/files/4bc4e022-4bc8-476c-a91a-268852d8ff0e/pensions-report---fact-checked-12-21-2-.pdf>
- ³ Employee Benefit Research Institute and the Bureau of Labor Statistics, National Compensation Survey; <https://www.jec.senate.gov/public/index.cfm/democrats/press-releases?ID=A6E01566-5EBA-42EB-8BA7-F1BB6D32707A>; <http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2005.pdf>; and <https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table01a.pdf>
- ⁴ <https://bipartisanpolicy.org/blog/defined-benefit-plans-whered-they-go/>
- ⁵ <https://www.nirsonline.org/wp-content/uploads/2017/11/win-win.pdf>
- ⁶ <https://www.bls.gov/ncs/ebs/benefits/2017/ownership/govt/table02a.pdf>
- ⁷ <https://www.nirsonline.org/wp-content/uploads/2017/11/win-win.pdf>
- ⁸ <https://www.dol.gov/general/topic/retirement/typesofplans>
- ⁹ <http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2005.pdf>
- ¹⁰ https://www.ebri.org/pdf/briefspdf/EBRI_IB_2-2009_Crisis-Impct.pdf; and <http://www.epi.org/publication/retirement-in-america/>
- ¹¹ <https://www.bloomberg.com/news/articles/2017-07-10/working-past-70-americans-can-t-seem-to-retire>; Note: Bloomberg analysis based on U.S. Department of Labor data 2017-Q2. Also, this cohort's employment to population ratio is the highest it has been since 1961.
- ¹² http://crr.bc.edu/wp-content/uploads/2016/12/slp_54.pdf
- ¹³ *Ibid.*
- ¹⁴ *Ibid.*
- ¹⁵ <http://www.nasra.org/files/Spotlight/Significant%20Reforms.pdf>
- ¹⁶ https://www.washingtonpost.com/news/get-there/wp/2017/01/27/in-unprecedented-move-pension-plan-approves-benefit-cuts-for-retired-iron-workers/?utm_term=.a7f80dde7a6e; and <https://www.ebri.org/pdf/notespdf/0704notes.pdf>
- ¹⁷ <https://www.pbgc.gov/prac/multiemployer/introduction-to-multiemployer-plans>
- ¹⁸ https://www.uschamber.com/sites/default/files/multiemployer_report_-_chamber_final.pdf; <https://www.actuary.org/content/overview-multiemployer-pension-system-issues>; and <http://www.oecd.org/finance/financial-markets/48537395.pdf>
- ¹⁹ https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf
- ²⁰ <http://www.gao.gov/assets/670/669766.pdf>.
- ²¹ <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1>. Last accessed February 7, 2018.
- ²² http://www.hamiltonproject.org/assets/files/thirteen_facts_wage_growth.pdf; and http://www.pewtrusts.org/~media/assets/2015/01/fsm_balance_sheet_report.pdf
- ²³ <http://www.epi.org/publication/retirement-in-america/> Note: See charts 7 and 9. Families are for individuals age 32-61.
- ²⁴ *Ibid.*
- ²⁵ <https://www.brookings.edu/research/retirement-plans-for-contingent-workers-issues-and-options/>
- ²⁶ <http://www.pewtrusts.org/~media/assets/2016/09/employersponsoredretirementplanaccessuptakeandsavings.pdf>
- ²⁷ <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/12/workers-open-to-retirement-plan-features-intended-to-boost-savings> .
- ²⁸ http://www.pewtrusts.org/~media/assets/2016/01/retirement_savings_report_jan16.pdf
- ²⁹ <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/02/retirement-plan-access-and-participation-across-generations>; and <http://www.epi.org/publication/retirement-in-america/#chart12>
- ³⁰ *Ibid.*
- ³¹ <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/02/retirement-plan-access-and-participation-across-generations>; and EPI analysis of Survey of Consumer Finance data, 2013.

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- ³² <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/02/retirement-plan-access-and-participation-across-generations>
- ³³ http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf
- ³⁴ <https://www.urban.org/urban-wire/complexity-education-debt-among-older-americans>. Note: In estimating outstanding student loan debt, older Americans are defined as over 50 years old.
- ³⁵ <https://www.gao.gov/products/GAO-17-45>; and http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf. Note: Analysis is for Americans between the ages of 50 to 59.
- ³⁶ http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf
- ³⁷ <http://www.crs.gov/Reports/IF10426?source=search&guid=c644d06e1c314880a7afa79af5414099&index=3>
- ³⁸ <https://census.gov/content/dam/Census/newsroom/facts-for-features/2017/cb17-ff08.pdf>
- ³⁹ *Ibid.*
- ⁴⁰ <https://www.ssa.gov/policy/docs/statcomps/supplement/2016/highlights.pdf>
- ⁴¹ <http://www.nirsonline.org/index.php?option=content&task=view&id=768>
- ⁴² <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>
- ⁴³ <https://slate.com/human-interest/2018/01/social-security-faces-death-by-a-thousand-service-cuts.html>
- ⁴⁴ <https://www.cbpp.org/research/social-security/increasing-payroll-taxes-would-strengthen-social-security>; and <https://www.ssa.gov/oact/cola/cbb.html>
- ⁴⁵ <https://obamawhitehouse.archives.gov/the-press-office/2016/01/26/fact-sheet-building-21st-century-retirement-system>
- ⁴⁶ https://www.gao.gov/highrisk/pension_benefit/why_did_study
- ⁴⁷ *Ibid.*
- ⁴⁸ <http://thehill.com/opinion/finance/362274-americas-pension-crisis-demands-action-by-congress>
- ⁴⁹ <https://www.congress.gov/bill/115th-congress/senate-bill/1035>; and <https://myra.gov/about/>