

# DEFERRED COMPENSATION PLAN



# Definition

- **Voluntary supplemental retirement plan**
- **Section 457 of the Internal Revenue Code**
- **Investing Pre-tax dollars**
- **Taxed at the time of distribution**

# Eligibility

- **Employed by a participating employer**
- **At least 18 years of age**
- **Regularly funded position**
- **Works a minimum of 20 hours per week, 20 or more weeks a year**

# Enrollment

- Voluntary enrollment at any time – SFN 3803
- Defer a portion of your wages
- Lowers your taxable income
- Invest with Plan Provider you select



# **Saving Made Easy**

- **Elect to participate through Expedited Enrollment form SFN 54362**
- **Minimum contribution of \$25.00 per month**
- **Investing in NDPERS Companion Plan funds selected by PERS Board**
- **Administered by TIAA-CREF**
- **PEP enrollment is automatic with either form**

# Waive Participation

- By opting not to participate in deferred compensation
- Waive or forfeit the right to vested employer contributions (PEP)
- May elect to participate in deferred compensation plan at a later date
- PEP is automatic upon contribution to a deferred compensation plan.

# Investing



- 9 eligible providers
- Can participate with multiple providers
- Can change providers at any time
- You select how your money is invested

# Investing (cont.)

- Can do partial or full account transfers to another deferred compensation provider within the 457 plan provider group
- May change account allocations at any time



# Annual Deferral Limits

## Minimum

- \$25 per month
- Minimum required PEP contribution

## Maximum

- The lesser of:  
Annual Maximum per calendar year or  
100% of Taxable Compensation

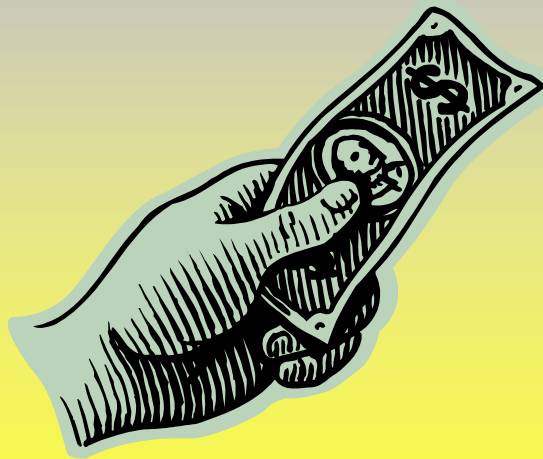
# Annual Deferral Limits (cont.)

**2015 = \$18,000**



# Includible Compensation

- **Reduced by employer retirement contributions under a IRC 414(h) arrangement**



# Catch-up Provisions

## Two Options:

- Age 50+ Annual Catch-up
- Regular 3-year Catch-up

# Age 50+ Annual Catch-up

**2015 - \$6,000**



# Regular 3-Year Catch-Up

- **Applicable dollar limits per year:**

**2015    \$36,000**

- **3 consecutive calendar years**
- **One time only – NDPERS approved**
- **Cannot be used at the same time as the Age 50+ annual catch-up**

# Lump Sum Contributions

## **Compensation Eligible for Deferral:**

- **Accrued annual leave**
- **Unused sick leave**
- **Lump sum payments for back pay**

# Lump Sum Contributions (cont)

- Lump sum payment is subject to FICA before deferral
- Cannot exceed annual IRC limits
- \*\*Severance pay or buyout distributions are not eligible to be deferred



# Distributions

**Funds are available for distribution at specific times:**

- **Separation from employment**
- **An approved unforeseeable financial hardship**
- **Eligibility for de minimus distribution**

# Separation from employment

## Includes:

- Retirement
- Disability
- Resignation
- Discharge
- Death



- **NDPERS will send notice to you and your agent/provider company**
- **You must contact your agent for assistance in selecting a distribution option**

# Distribution Payment Options

- **Lump sum distribution**
  - Subject to mandatory 20% federal income tax
- **Periodic payment**
  - Annual, semi-annual, quarterly, monthly
  - Not subject to 20% income tax
- **Deferred distribution**
  - Minimum distribution required at age 70½ unless employed

# Distribution Payments (cont.)

## Penalties

- Provider penalties on some products
- NO 10% penalty before age 59 ½

## Taxes

Income in the year received

- Reported on 1099R Form

## Social Security

No effect on earnings limit

# **Unforeseeable Financial Hardship**

- **Resulting from sudden and unexpected, unforeseeable circumstances as a result of events beyond the control of the participant**
- **Subject to Board approval**

# **Deminimus Distribution**

- **Lump sum payment of account balance**
- **Account is less than \$5,000**
- **No deferrals for previous 24 months**
- **No previous distributions**

# Rollover Distributions

- Other 457 Plans
- 401(a)
- 401(k) plans
- 403(b) plans
- IRA
- Other tax qualified plans



# Rollover Purchases

- 457 deferred compensation plan funds are eligible for plan to plan transfer for the purchase of service credit in the retirement plan.
- Transfer is not considered a distribution and is not subject to income tax
- May be subject to Provider penalty or fee