WHAT IS A TAXED SHELTERED ANNUITY & DEFERRED COMPENSATION?

The Internal Revenue Code has permitted certain employers, such as William and Mary, to purchase tax sheltered annuities (TSA) 403(b) and deferred compensation (DCP) 457(b) for their employees. The tax sheltered annuity and deferred compensation program arrangement permits an employee to contribute tax-free dollars to an annuity program. By contributing to a TSA or DCP retirement account employee's gross income is reduced and state and federal income taxes are reduced. Interest earned on this investment is also exempt from taxes until the money is withdrawn.

WHAT IS THE CASH MATCH PROGRAM?

The Commonwealth of Virginia provides a Cash Match program for qualified state employee tax sheltered annuity (TSA) and deferred compensation (DCP) participants. Eligible employees are those who are full-time salaried or part-time salaried who are contributing at least $20 per paycheck to a tax sheltered annuity (403b) or deferred compensation plan (457b). Employee contributions will be matched at 50% up to a maximum of $20 per pay period to a 401(a) account. Employees enrolled in the VRS Hybrid plan are not eligible to receive the cash match unless they are contributing the full 9% to the plan.

WHY IS A TSA & DCP WORTH CONSIDERING?

The TSA and the DCP serve as a supplemental retirement annuity, in addition to Social Security and a retirement annuity from your employer. The TSA and DCP can provide a much higher income replacement ratio in retirement than Social Security and a retirement annuity. Although the TSA and DCP are intended to supplement retirement income, they may be used for emergencies (financial hardship; TIAA-CREF only) and can provide a source of income to a survivor in the event of death or as income in the event of disability. When money is withdrawn from a TSA or DCP, it is reported as income for tax purposes. The tax impact is generally not as great on withdrawal, especially at age 65 and retirement when annual income is lower.

HOW MUCH MAY BE CONTRIBUTED TO A TSA and DCP?

The annual minimum contribution is normally $480.00. The maximum contributions for 2015 are $18,000 and for individuals who are age 50 or older, $24,000. Investments in the TSA and DCP plans are governed by Internal Revenue Code. The IRS provides additional catch-up provisions; please speak with your provider representative for eligibility and complete details.

CAN I PARTICIPATE IN BOTH THE TSA & DCP PLANS?

As an employee of a College, you now have the opportunity to contribute up to the maximum in BOTH a TSA and the DCP at the same time. However, you are only eligible to receive the cash
match with one plan. Employees who join both plans will default their cash match plan to the 457(b) unless they specify otherwise.

**HOW AND WHEN MAY I MAKE WITHDRAWALS FROM A TSA and DCP ACCOUNT?**

The Tax Reform Act of 1986 placed restrictions on withdrawal of contributions to a TSA and DCP. Contributions may be withdrawn due to:

1. Financial Hardship** (TIAA-CREF only)
2. Termination of Employment
3. Death or Disability
4. Retirement
5. Age 59 ½

**The internal Revenue Service has not defined “financial hardship.” It is believed that the hardship definition related to 401(k) plans will also apply to 403(b) and 457(b) plans. This definition is “immediate and heavy financial needs of the employee that cannot reasonably be met through other resources.” Distribution based on financial hardship will be salary contributions only and will not include any earned interest. With any early distribution there is a 10% penalty in addition to state and federal taxes.

The Tax Reform Act also requires mandatory distribution of your TSA or DCP benefits no later than April 1 of the calendar year following the year in which you become age 70 ½ - regardless of your actual retirement date. If you do not begin distribution by this time, you will be subject to an additional tax equal to 50% of the minimum required distribution.

**HOW MANY CHANGES CAN I MAKE?**

In accordance with Internal Revenue Service, TSA and DCP participants can legally make unlimited changes in a calendar year. However, you may not exceed the maximum contribution amount for the calendar year. A TSA Deduction Authorization Form must be completed with each change and submitted to Human Resources. **NOTE:** The DCP allows changes only once a month. Any changes made will be effective with the first check of the following month. Changes must be made directly with the Deferred Compensation Plan via website or telephone.

**HOW DO I ENROLL?**

**DEFERRED COMPENSATION 457(b)**

Employees wishing to enroll in the Deferred Compensation 457(b) program may do so by contacting the Deferred Compensation Plan directly by phone at (877) 327-5261, or on their website at http://www.varetirement.org/dcp.html.

**ROTH IRA**

Roth contributions are after-tax contributions to your 457(b) plan. When you withdraw the Roth contributions and any associated earning, they are tax-free, as long as you are at least age 59-1/2,
permanently disabled, or the assets are being paid to your beneficiaries following your death and it has been five years since January 1 of the year you made your first Roth contribution.

What are the advantages of making Roth 457 contributions?

- Higher after-tax contribution limits than Roth IRAs: The Commonwealth of Virginia 457 Plan allows for greater tax savings, up to the annual 457 contribution limits.
- Eligibility at all income levels: Unlike Roth IRAs, everyone with earned income is eligible to make Roth contributions to the 457 plan.
- Tax planning: Having both pre-tax assets and Roth after-tax assets available in retirement allows you to choose the source of funds most advantageous to your tax situation at the time of the distribution.

You may set up Roth 457 contributions by calling Investor Services at (877) 327-5261.

The Roth option is not available for the Hybrid 457 Deferred Compensation Plan.

**TAX SHELTER SAVINGS**

You may obtain literature and enrollment forms from Human Resources for TIAA-CREF and Fidelity. In addition to the vendor application, you will need to complete a TSA Deduction Authorization Form located at [http://www.wm.edu/offices/hr/documents/forms/tsadeduction.pdf](http://www.wm.edu/offices/hr/documents/forms/tsadeduction.pdf). The effective date of enrollment and contributions in a tax sheltered annuity must be the first day of the pay period, either the 10th or 25th.

**HOW DO I CONTACT THE PARTICIPATING VENDORS?**

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<tr>
<th>403(b) Tax Sheltered Annuities</th>
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<tr>
<td>TIAA/CREF 1-800-842-2776</td>
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<th>457(b) Deferred Compensation</th>
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If you have any questions, please contact askHR@wm.edu

For detailed information, the **IRS Publication 571** is available at [http://www.irs.gov/publications/p571/](http://www.irs.gov/publications/p571/).

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