

# **WILLIAM AND MARY 403(b) TAX DEFERRED SAVINGS, 457 DEFERRED COMPENSATION, AND CASH MATCH PROGRAMS**

## **WHAT IS A TAXED DEFERRED SAVINGS & DEFERRED COMPENSATION?**

The Internal Revenue Code has permitted certain employers, such as William and Mary, to purchase tax sheltered annuities (TSP) 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. By contributing to a TSP 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 Interest earned on this investment is also exempt from taxes until the money is withdrawn.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 University provides a Cash Match program for qualified state employee tax sheltered savings plan (TSP) and deferred compensation (DCP) participants. Eligible employees are those who are full-time salaried or part-time salaried who are contributing at least \$10.00 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 TSP & DCP WORTH CONSIDERING?**

The TSP and the DCP serve as a supplemental retirement annuity, in addition to Social Security and a retirement annuity from your employer. The TSP and DCP can provide a much higher income replacement ratio in retirement than Social Security and a retirement annuity. Although the TSP and DCP are intended to supplement retirement income, they may be used for emergencies (financial hardship) 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 When money is withdrawn from a TSP or DCP, it is reported as income for tax purposes.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 TSP and DCP?**

Investments in the TSP 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. Maximum contributions are based on the individual's age. Individuals 50 or older can contribute \$24,500 and individuals under 50 can contribute \$18,500.

## **CAN I PARTICIPATE IN BOTH THE TSP & DCP PLANS?**

As an employee of a College, you now have the opportunity to contribute up to the maximum in *BOTH* a TSP 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 TSP and DCP ACCOUNT?**

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 Contributions may be withdrawn due to:

1. Financial Hardship\*\*
2. Termination of Employment
3. Death or Disability
4. Retirement
5. Age 59 ½
6. Loans for participants are limited to 2 loans effective January 2018

\*\*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 TSP 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, TSP 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 TSP 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**

Effective January 30, 2018, you may enroll online by using the Retirement@Work web link found on the Human Resources web page.

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

#### **403(b) Tax Sheltered Savings Plans**

TIAA            1-800-410-6497            <http://www.tiaa.org/>

#### **457(b) Deferred Compensation**

ICMA-RC            1-877-327-5261            <http://www.varetirement.org/dep.html>

If you have any questions, please contact [askHR@wm.edu](mailto:askHR@wm.edu)

For detailed information, the **IRS Publication 571** is available at <http://www.irs.gov/publications/p571/>.