

UNIVERSITY OF HOUSTON SYSTEM  
ADMINISTRATIVE MEMORANDUM

**SECTION: Human Resources**

**NUMBER: 02.C.02**

**AREA: Fringe Benefits**

**SUBJECT: Supplemental Retirement Programs**

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1. PURPOSE

- 1.1. The purpose of this administrative memorandum is to document the University of Houston System's policies and procedures for complying with the Internal Revenue Code requirements for contributions to Supplemental Retirement Programs.
- 1.2. The System sponsors ~~four~~three different voluntary Supplemental Retirement Programs: Tax Deferred Annuities (TDA) 403 (b), Deferred Compensation 457 (b) ~~and~~ Roth IRA 403 (b) and Roth 457(b).
- 1.3. All employees of the System are eligible to participate in these voluntary Supplemental Retirement Programs by setting aside part of their current salary within defined limits.
- 1.4. Each employee should recognize that: (a) participation in the Supplemental Retirement Programs represents a firm, long-term commitment; (b) withdrawal of benefits is contingent upon retirement, unemployment, serious financial hardship, or death; and (c) comparison of cost and benefits between plans offered by two or more companies or associations is the responsibility of the employee.
- 1.5. The System assumes no liability or responsibility for income tax issues related to the Supplemental Retirement Programs or the terms and provisions of any contract issued there-under. Employees of the System are specifically prohibited from counseling employees in the various aspects of financial and/or retirement planning.
- 1.6. A new participant may enroll in a Supplemental Retirement Program by executing an agreement with the third party administrator prior to the first day of the month in which enrollment is to be effective. Such execution must be done online, by telephone, or through the completion of an enrollment form. Participants may increase or decrease the amount of their contribution by executing an agreement prior to the first day of the month in which the change is to be effective with the third party administrator.
- 1.7. The minimum monthly contribution to Supplemental Retirement Program is \$25.00.

- 1.8. The maximum amount of salary which will qualify each tax year for tax deferment must be determined annually by the employee and the third party administrator in accordance with current IRS regulations regarding maximum amount contributable. The third party administrator will notify the System when the maximum amount contributable has changed. An additional amount may be allowed under an approved catch-up provision. The employee should discuss the catch-up options with the third party administrator.
- 1.9. A participant may receive a distribution from his/her account as early as 51 days after retirement/separation, or as late as April 1 after the year in which the participant reaches the age of 70½. Once the participant has retired/terminated and reached age 70½, he/she must begin distribution.
- 1.10. Participants should contact their third party administrator prior to separating employment with the System to explore the distribution options available.
- 1.11. The ~~component~~ university human resources department is responsible for administering the policies and guidelines of the Supplemental Retirement Programs at the System, and serving as liaison with the third party administrator. Questions regarding Supplemental Retirement Programs should be directed to the ~~component~~ university human resources department.

## 2. TAX DEFERRED ANNUITY

- 2.1. A tax deferred annuity (TDA) or tax sheltered annuity (TSA) under [Internal Revenue Code, Section 403\(b\)](#) is a deferred compensation retirement arrangement for employees of certain tax exempt organizations, including public educational systems, such as institutions of higher education.
- 2.2. TDAs are funded primarily through salary reduction agreements, whereby employees reduce their annual gross salary by contributing a fixed amount monthly to his/her individual TDA account. The employee's annual contribution to their individual annuity account is subtracted from his/her annual gross salary, and the employee's income taxes are calculated based upon this reduced annual gross income figure.
- 2.3. Contributions to TDAs and interest earned become taxable income to the employee at the time he/she receives a distribution from the annuity account.
- 2.4. Questions regarding Tax Deferred Annuity, including obtaining information on the approved TDA Vendors, should be directed to the ~~component~~ university human resources department.

### 3. DEFERRED COMPENSATION PROGRAM

- 3.1. The Deferred Compensation Program is a voluntary supplemental retirement program administered by the Employees Retirement System (ERS) under Internal Revenue Code Section 457. While therefore, not subject to this administrative memorandum, contributions to all tax-deferred programs must be considered in exclusion calculations. Employees should consult with their ~~component~~ university human resources benefits department to ensure compliance with the combined limitations.
- 3.2. Under the Deferred Compensation Program, an employee may enter into an agreement with the state to reduce current earnings up to specified limits and to apply the proceeds of such reduction to the purchase of a tax deferred retirement savings account through an approved carrier.
- 3.3. Contributions to Deferred Compensation Programs and interest earned become taxable income to the employee at the time he/she receives a distribution from the annuity account.
- 3.4. Questions regarding Deferred Compensation Programs should be directed to the ~~component~~ university human resources department.

### 4. ROTH IRA

- 4.1. The Roth 403(b) allows faculty and staff to defer some of their income on an after-tax basis with earnings growing tax free.
- 4.2. The System allows faculty and staff the option to participate in both a traditional 403 b (pre-tax) and Roth 403 b (post-tax). However, if members want to participate in both voluntary saving plans, the aggregate contribution may not exceed the maximum annual deferral limit.
- 4.3. Questions about the Roth 403(b) should be directed to the ~~component~~ university human resources department.

### 5. CORRECTION OF EXCESS CONTRIBUTIONS

- 5.1. If an employee has contributed an amount which exceeds the annual contribution limit set by the IRS, and if that employee has not elected (or is not eligible) to participate in the “catch-up” option, the employee will be refunded the excess amount contributed and applicable earnings on the excess amount contributed. Unless an exception is available, the refund must be issued by the employee’s TDA carrier by April 15th of the following year. The employee’s TDA carrier is responsible for calculating the applicable earnings and for issuing a 1099R to the employee.

- 5.2. In accordance with the Internal Revenue Code, the excess contribution amount refunded to the employee is includable as income in the “year of contribution.” The earnings on this excess are taxable in the “year of distribution.” Two separate Internal Revenue Code forms 1099R will be issued to the employee by his/her TDA carrier. The “year of contribution” (prior year) tax liability will be reported on 1099R code P. The “year of distribution” (current year) tax liability will be reported on 1099R code 8. If the excess contribution and earnings are not distributed by April 15<sup>th</sup> of the following “year of contribution,” the excess refund will again be taxed as income in the “year of distribution.”
- 5.3. It is the employee’s responsibility not to exceed the annual tax deferred contribution limitations.
- 5.4. An employee who has contributed an amount in excess of the Internal Revenue Code limitations is responsible for the following:
- a. Notifying his/her carrier representative that a new MEA calculation needs to be prepared.
  - b. Requesting a refund of the excess contribution and applicable earnings from his/her carrier representative.
  - c. Ensuring that all required Internal Revenue Service forms are obtained by his/her carrier.

6. REVIEW AND RESPONSIBILITIES

Responsible Party: ~~Senior Associate~~ Vice Chancellor for Administration and Finance

Review: Every five years; on or before March 1

7. APPROVAL

Approved: Carl P. Carlucci  
~~Executive Senior~~ Vice Chancellor for Administration and Finance

Renu Khator  
Chancellor

Date: June 9, 2009

REVISION LOG

<u>Revision Number</u>	<u>Approval Date</u>	<u>Description of Changes</u>
<u>1</u>	<u>04/15/1996</u>	<u>Initial edition (Provisional Approval) Original Title: Refunds of Excess Employee Contributions to 403(b) Tax Sheltered Plans (ORP and TDA Plans)</u>
<u>2</u>	<u>06/09/2009</u>	<u>Applied revised SAM template to meet current documentation standards. Changed title to Supplemental Retirement Programs. Revised content to reflect current operating practices. Changed responsible party from Vice Chancellor for Administration and Finance and Human Resource Directors to Associate Vice Chancellor for Finance. Changed review period from annually on or before December 1<sup>st</sup> to every five years on or before March 1<sup>st</sup>. Removed Section 9, Indexing Terms</u>
<u>3</u>	<u>TBD</u>	<u>Applied revised SAM template and added new Revision Log. Revised links and titles as applicable. Added one voluntary Supplemental Requirement Program (for total of four) of Roth 457(b) to Section 1.2. Removed “component” from text. Removed “benefits” from human resources department in Section 3.1. Changed responsible party from Associate Vice Chancellor for Finance to Senior Vice Chancellor for Administration and Finance</u>