

## Tax Deferred Annuities

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<b>Processes</b>	Retirement Manager
	PDAEDN
	NA
	NA
	NA

**Description:**

This white paper is only geared as a high level overview of TSA guidelines. It is the employee's responsibility to work with their financial advisor on Tax Sheltered Annuities. It is the benefit and payroll representatives' role to validate IRS rules when completing anything outside of Retirement Manager.

It is only the Board of Regents BOR HR staff that can complete a transaction requested by an employee related to withdrawal, retirement, transfers, etc. The SDBOR Plan is located on the BOR HR website and listed below under Links.

**Contributions**

Benefits provided under TDAs are derived from contributions made to employees' individual accounts, plus investment earnings on those contributions. Accordingly, TDAs are considered to be defined contribution plans rather than defined benefit plans. Most TDAs permit an annual employer contribution on behalf of each eligible employee in a specified amount, usually a percentage of the employee's annual compensation. In some plans, the employer retains the discretion to contribute whatever amount it chooses on a yearly basis.

The principal tax advantage of a TDA is that contributions and earnings on those contributions are not subject to federal income tax until they are distributed. However, the contributions are subject to the following limits:

- total annual contributions on behalf of an employee cannot exceed the lesser of 100 percent of the employee's compensation or \$46,000 in 2008 (\$45,000 in 2007), and
- **an employee's contributions under a salary reduction agreement generally cannot exceed \$15,500 in 2007 and 2008 ([I.R.C. §§ 403\(b\)\(1\), 415\(c\)\(1\)](#)).**

**Catch Up Provisions**

Two separate sections of the Internal Revenue Code allow catch-up contributions under 403(b) plans, and each section sets its own eligibility requirements. One focuses only on the age of the plan participant. The other focuses on the plan participant's years of service and the amount of money already contributed to the tax deferred annuity.

*Age-based catch-up contributions.* A broad type of catch-up contribution applicable to many retirement plans allows employees age 50 and older to set aside extra money for retirement on a pretax basis. Individuals who meet the age requirement can make contributions exceeding the normal tax code limit on elective deferrals, as well as any plan limits that might apply—for example, if the plan caps contributions at a certain percentage of compensation. The extra contributions also do not have to be taken into account when applying retirement plan nondiscrimination tests.

*Service-based catch-up contributions.* A separate provision of the tax code allows certain 403(b) plan participants to make service-based catch-up contributions. Eligibility is restricted to employees with at least 15 years of service, and the employer sponsoring the plan must be an educational organization, hospital, home health service agency, health and welfare service agency, or church. In addition, an employee's past contributions to the plan must average less than \$5,000 per year. In other words, a long-service employee would not be eligible to make catch-up contributions under this provision if the amount of total contributions divided by the employee's years of service equals \$5,000 or more. Unlike age-based catch-up contributions,

these service-based catch-up contributions are subject to the general limit on employer and employee contributions.

For both types of catch-up contributions to qualify for tax-favored treatment, total annual plan contributions—including the catch-up contributions—made on behalf of an employee cannot exceed that individual's annual compensation.

**Reference Information:**

NA

**Related Documents:**

PZRRMDM, PZRRMBN, PZRRMCR, Retirement Manager Guide, Tax Sheltered Annuity and Retirement Manager – all can be found on the training site.

**Links:**

IRS Government –

<http://www.irs.gov/publications/p571/index.html>;

<http://www.irs.gov/retirement/article/0,,id=172430,00.html>

SDBOR Taxed Sheltered Annuity <http://www.sdbor.edu/services/hr/Retirement.htm>