CCS Administrative Procedure
2.20.01-E Tax Sheltered Annuity Deferred Compensation Plan

Implementing Board Policy [2.20.01]
Contact: Employee Compensation

1.0 Tax Sheltered Annuity and Deferred Compensation Objective and Responsibilities (summary of Board of Trustees Policy 2.20.01)

In addition to mandatory retirement plans such as PERS, WSTRS, and TIAA-CREF, Community Colleges of Spokane will provide and administer a program for eligible employees to participate in optional salary reductions through tax sheltered annuities (TSA) and deferred compensation plans (DCP).

2.0 Definitions

The following definitions are specific to the terms of this procedure and do not modify or revise similar terms as used in related procedures or collective bargaining agreements.

2.0 Tax Sheltered Annuity (TSA): Also commonly referred to as a "403(b) plan" or "tax deferred annuity," is a deferred compensation retirement arrangement that may be purchased only on behalf of employees of public educational systems, employees or other specific tax-exempt organizations (generally hospitals and nonprofit groups).

2.1 Deferred Compensation Plan (DCP): Participation in a deferred compensation plan (IRS Code § 457) is restricted to employees who perform services for the state or tax-exempt organization. A limited portion of the participant's compensation may be deferred and excluded from taxable income until the tax year the amount is actually withdrawn.

2.2 Eligible employees include all classified exempt, and faculty who are employed half-time or more at CCS.

2.3 Participation in TSA or DCP programs is only available through salary reductions.

3.0 Tax Deferral Options for TSA and/or DCP

3.1 Investment Options: Employees may select TIAA-CREF and/or Washington State Deferred Compensation Plan.

3.2 Contribution Limits: Contributions to 403(b) retirement annuity plans and/or tax deferred annuity plans are limited by the Internal Revenue Code. Salary reduction contributions must not exceed IRS limits. The employee compensation department will notify employees of the contribution limits each year. A "maximum exclusion calculation" is required for each employee participating in a TSA or CDP.

3.3 Enrollment: Employees are required to complete an *Enrollment* form and a *Voluntary Reduction Agreement*.

3.4 Cash Withdrawals: Cash withdrawals are subject to Internal Revenue Code restrictions which state that contributions and earnings are available only after the participant has met one of the following conditions:
- 3.4.1 Disability, as defined by the IRS
- 3.4.2 Financial hardship
- 3.4.3 Attainment of age 59½
- 3.4.4 Termination of employment (after 180 days)
- 3.4.5 Death

3.5 Taxation: All contributions are made "before-tax"; therefore, taxable income is reduced by the amount of the contribution in the year in which it is made, and is fully taxable in the year in which the participant makes withdrawals. Cash withdrawals are generally subject to 20 percent federal income tax withholding. In addition, distributions before the age of 58½ are subject to an additional 10 percent tax penalty for early withdrawal unless one of the following conditions is met:

3.5.1 The participant begins lifetime annuity income.
3.5.2 The participant leaves employment at age 55 or older.
3.5.3 The participant has un-reimbursed medical expenses to the extent that those expenses are greater than 7.5 percent of his or her adjusted gross income.
3.5.4 The participant is disabled.
3.5.5 The participant dies.
3.5.6 The payment is made to someone besides the participant under a Qualified Domestic Relations Order (divorce settlement).

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