403(b) and 457(b) Voluntary Plans

Tax-deferred annuities authorized by Section 403(b) and 457(b) of the Internal Revenue Code are retirement savings programs that allows employees to set aside a portion of their pre-tax income. A tax-deferred annuity is a professional approach to financial planning offering several advantages:

- Tax benefits.
- Savings through payroll deduction.
- Flexible retirement options that offer a lifetime income.
- You may start or stop contributions to the annuity at anytime during the year.

**Maximum Contributions** - The Economic Growth and Tax Relief Reconciliation Act of 2001 has substantially simplified 403(b) and 457(b) compliance. Participants may sign a salary reduction agreement to carry over from year to year, eliminating the need to complete a new agreement each calendar year. Under the new law, 403(b) and 457(b) participants are able to contribute 100 percent of compensation up to the annual deferral limit of $16,500 for 2011.

An employee may take advantage of both accounts, so that the 2011 calendar combined maximum, for example, would be $33,000. Two opportunities to contribute in addition to the deferral limit are available to participants:

- Catch-up contributions for employees reaching age 50 or older are allowed. The catch up amount for 2011 is $5,500.
- Special exclusion allowance for employees with 15 years of service or more at OU up to $3,000 annually may be possible. Please call the benefits office to request a special exclusion allowance to determine your eligibility.

**Participation** - To establish a tax-deferred annuity or a custodial account, you must complete a Salary Reduction Agreement and the appropriate annuity application.

You must establish an account at each investment company and provide the university with a copy of the annuity application. Your paycheck will be reduced by the amount you designate and the company you choose will invest your contribution.

**Changes** - You are permitted to execute more than one agreement with the same employer during a tax year. The agreement may be terminated at any time during the year with respect to income not yet earned. A new Salary Reduction Agreement must be completed to change vendors or to change amounts.

**Termination of Employment** - If your employment terminates, you may take a lump sum distribution. However, the distribution would be calculated as income for that year, taxed as income and in the case of a 403(b) account, a 10 percent penalty for early withdrawal applies. You may continue contributing, if your new employer participates. You may leave your present contract in place (some restrictions may apply). You may transfer your present contract to a new company.

**Retirement Benefits** - There are a number of payout options to choose from at retirement. You may also choose a lump sum distribution. The IRS requires that participants begin receiving retirement benefits from a tax-deferred annuity no later than April 1st following the year in which the participant reaches age 70 1/2. You can begin receiving benefits as early as age 59 1/2 without any penalties. A 403(b) or 457(b) tax deferred annuity allows you to supplement other retirement plan benefits.

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