

# DEFERRED COMPENSATION PLAN





# Definition

- **Voluntary supplemental retirement plan**
- **Section 457 of the Internal Revenue Code**
- **Investing Pre-tax dollars**
- **Taxed at the time of distribution**



# Eligibility

- **Employed by a participating employer**
- **At least 18 years of age**
- **Regularly funded position**
- **Works a minimum of 20 hours per week, 20 or more weeks per year.**

# Enrollment

- **Voluntary enrollment at any time – SFN 3803**
- **Defer a portion of your wages**
- **Lowers your taxable income**
- **Invest with Plan Provider you select**





# Saving Made Easy

- Elect to participate through Expedited Enrollment form SFN 54362
- Minimum contribution of \$25.00 per month
- Investing in NDPERS Companion Plan funds selected by PERS Board
- Administered by Fidelity Investments
- PEP enrollment is automatic with either form



# Waive Participation

- **By opting not to participate in deferred compensation**
- **Waive or forfeit the right to vested employer contributions (PEP)**
- **You may elect to participate in deferred compensation plan at a later date**

# Investing

- **11 eligible providers**
- **Can participate with multiple providers**
- **Can change providers at any time**
- **You select how your money is invested**





## Investing (cont.)

- **May change account contribution at any time by completing SFN 3803**
- **Can do partial or full account transfers to another deferred compensation provider within the PERS 457 plan provider group**



# Annual Deferral Limits

## **Minimum**

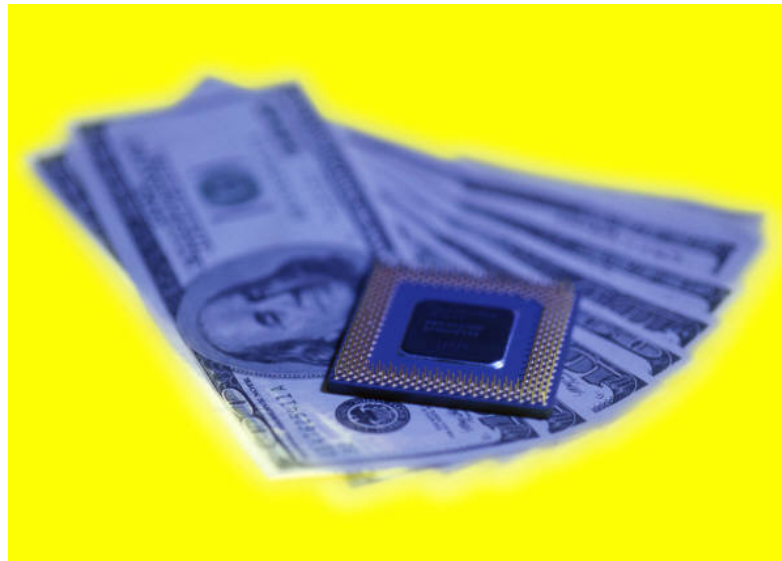
- **\$25 per month**
- **Minimum required PEP contribution**

## **Maximum**

- **The lesser of:  
Annual Maximum per calendar year or 100%  
of Taxable Compensation**

# Annual Deferral Limits (cont.)

**2009 = \$16,500**



# Includible Compensation

- **Reduced by employer retirement contributions under a IRC 414(h) arrangement**





# Catch-up Provisions

Two Options:

- **Age 50+ Annual Catch-up**
- **Regular 3-year Catch-up**

# Age 50+ Annual Catch-up

**2009 - \$5,500**





# Regular 3-Year Catch-Up

- **Applicable dollar limits per year:**

**2009 - \$33,000**

- **3 consecutive calendar years**
- **One time only – NDPERS approved**
- **Cannot be used at the same time as the Age 50+ annual catch-up**

# LUMP SUM CONTRIBUTIONS

Compensation eligible for deferral:

- **Lump sum payment for accrued annual leave**
- **Lump sum payment for unused sick leave**
- **Lump sum payment for back pay**





## Lump sum payments cont.

- **Lump sum payment is subject to FICA before deferral**
- **Cannot exceed annual IRC limits**
- **\*\*Severance pay or buyout distributions are not eligible to be deferred.**



# Distributions

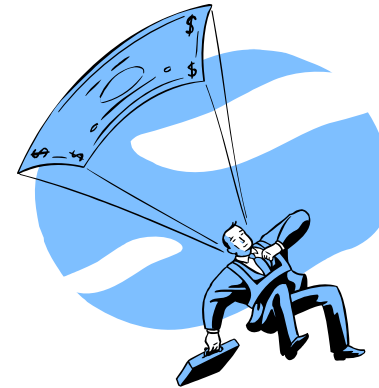
Funds are available for distribution at specific times:

- **Separation from employment**
- **An approved unforeseeable financial hardship**
- **Eligibility for de minimus distribution**

# Distributions (cont.)

Separation from employment includes:

- **Retirement**
- **Disability**
- **Resignation**
- **Discharge**
- **Death**





# Distribution Payment Options

- **Lump sum distribution**
  - **Subject to mandatory 20% federal income tax**
- **Periodic payment**
  - **Annual, semi-annual, quarterly, monthly**
  - **Not subject to 20% income tax**
- **Deferred distribution**
  - **Minimum distribution required at age 70½ unless employed**



## Distributions (cont.)

Unforeseeable Financial Hardship

- **Resulting from sudden and unexpected, unforeseeable circumstances as a result of events beyond the control of the participant.**
- **Subject to Board approval**



## Distributions (cont.)

Lump sum deminimus

- **Account is less than \$5,000**
- **No deferrals for previous 24 months**
- **No previous distributions**

# Distributions (cont.)

## Rollovers

- **To other 457 Plans**
- **401(a), 401(k) plans, 403(b) plans, IRA, or other tax qualified plans**





# Rollover Purchases

- **457 deferred compensation plan funds are eligible for plan to plan transfer for the purchase of service credit in the retirement plan.**
- **Transfer is not considered a distribution and is not subject to income tax**
- **May be subject to Provider penalty or fee**



## Distributions (cont.)

### Penalties

- **Provider penalties on some products**
- **NO 10% penalty before age 59 ½**

### Taxes

#### **Income in the year received**

- **Reported on 1099R Form**

### Social Security

- **No effect on earnings limit**

# Distributions (cont.)

Upon Separation from Service

- **NDPERS will send notice to you and your agent/provider company**
- **You must contact your agent for assistance in selecting a distribution option**

