



SECURITY BENEFIT

403(b) Special Pay Plan

A TOOL TO MANAGE DISTRICT
AND EMPLOYEE RETIREMENT COSTS



Special Pay Plan

Many school districts have to contractually pay out unused, accumulated vacation and sick leave to employees when they sever from service. Some school districts have other contractually obligated payouts as well, like an early retirement bonus. A 403(b) Special Pay Plan lets school districts manage these costs, while saving money on payroll taxes.

Plan Features

A 403(b) Special Pay Plan allows school districts to designate money as an employer contribution for deposit to an employee's 403(b) account. The plan is designed for those who are severing from service, like at retirement. The major feature of a 403(b) Special Pay Plan is that the school district creates a plan specific to its needs, including:

- Flexibility to cover all or specified employee groups
- Ability to determine the amount of contributions made for those covered by the plan
- Allows employer contributions to be made for up to five years after the employee severs from service
- Allows discretionary contributions each year

Which Scenario Would You Prefer?

Mrs. Smith has been teaching the second grade for 36 years. She is entitled to a \$35,000 early retirement payment. Her contract also gives her a payout for any unused benefit time she has remaining on her last day of service, which is six months of benefit time that equals approximately \$12,000.

No Special Pay Plan

Both the school district and Mrs. Smith pay \$3,596 in FICA taxes.

-\$47,000	Lump sum paid by the school district	\$47,000	Early retirement benefit paid to Mrs. Smith in the form of a lump sum from the school district
-\$3,596	FICA taxes paid by the school district	-\$3,596	FICA taxes paid by Mrs. Smith
-\$50,596	Total paid by the school district	\$43,404	Total benefit Mrs. Smith receives

Special Pay Plan

Only Mrs. Smith will pay taxes (as income tax), when she chooses to receive income from her 403(b) account.

-\$47,000	A series of contributions into Mrs. Smith's 403(b) retirement savings plan, paid by the school district over five years	\$47,000	Early retirement benefit paid to Mrs. Smith as a contribution into her 403(b) account by the school district
\$0	The school district does not pay taxes on these contributions	\$0	Mrs. Smith doesn't pay taxes until she chooses to receive income from her 403(b) account
-\$47,000	Total paid by the school district	\$47,000	Total Mrs. Smith receives

Note: If the district adopts a 403(b) Special Pay Plan, all benefits for all eligible employees must be paid through the plan. Employees may not receive benefits in cash or other benefits.

Why is it Good For Your Employees?

A Special Pay Plan allows employees to defer taxes on contributions and earnings until they choose to withdraw them. And, tax deferral helps employees maximize the compounding value and increases their ultimate retirement income.

When employees do access the Special Pay Plan account assets upon severance from service, they can elect to do one of the following:

- Leave assets in the account
- Begin systematic withdrawals (monthly, quarterly, etc.)
- Withdraw all or part of the account balance
- Roll their account assets into an IRA or other qualified plan

Distributions from tax qualified accounts are subject to an IRS 10% distribution penalty if taken before age 59½. However, this penalty does not apply if the participant attains age 55, or older, in the year of retirement or severance of service.



Administering a Special Pay Plan

The school district designs the Special Pay Plan around what is right for the district and its employees — including how contributions are allocated and when they are paid out.

Make it Easy with Security Benefit Plans and Tools

Security Benefit is an expert in the education market with more than 50 years of helping school districts and education professionals plan for retirement. We know facilitating 403(b) plan strategies can be overwhelming, so we have designed simple, efficient tools to help you easily administer the plan for your employees. We offer a total solution from a single provider.

- A Special Pay Plan is easy for you to implement. Your financial professional will walk you through the steps to set up and administer a plan.
- We will provide information about the plan to your district employees and plan documents can be tailored for specific employee groups.
- Annual contribution limits can be determined by the provisions of the plan. Additionally, a Special Pay Plan can be structured to help phase out early-retirement incentive plans.

Process

1. The school district amends its current plan document to allow a Special Pay Contribution
2. Notify your employees
3. Eligible employees can enroll in the plan

Key Decisions

1. Which vendors to allow to facilitate the plan
2. Which employees will be allowed to participate
3. The criteria for the plan

Guidelines

1. Once a school district has designed and enacted a 403(b) Special Pay Plan, all employees who meet the requirements must participate in the plan
2. The maximum annual addition to a participant's account is 100% of compensation, subject to annual limits
3. Contributions are not subject to FICA taxes

Your path *To and Through Retirement*[®] begins here.

Talk to your financial professional to see whether a 403(b) Special Pay Plan might be right for your school district or contact us at 800.747.5164, option 3.

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