



Tax Sheltered Annuity Plan-403(b) Participating Employee Notification

Section 403(b) Tax Sheltered Annuity Plan Revised Pursuant to Economic Growth & Tax Relief Reconciliation Act (EGTRRA) of 2001

Important: *This Notification is not intended to cover all the provisions of the Internal Revenue Code addressing Section 403(b) Tax Sheltered Annuity Plans, but is merely an informational document covering the basic contribution rules and the District's procedures. The tax and investment consequences of participating in a Section 403(b) Tax Sheltered Annuity Plan are not the District's responsibility. Review carefully, IRS Publication 571, Tax Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations and consult with a personal tax or financial advisor.*

Description: In order to permit employees of Sonoma County Junior College District to avail themselves of the provisions of Public Law 87-370 and United States Internal Revenue Code Section 403(b), the District offers participation in a tax deferred savings plan under the Internal Revenue Code 403(b)-Tax Sheltered Annuity. Contributions by employees to a 403(b) plan are made with pre-tax dollars, and withholding for Federal and State income tax purposes (but not for FICA and other payroll taxes) is based on the reduced salary.

Low/Moderate income employees may qualify for a non-refundable tax credit for contributions to a 403(b) Tax Sheltered Annuity Plan. This credit applies to the first \$2,000 of contributions. Consult a tax accountant or refer to instructions for Form 1040 to determine your eligibility.

Participation: Subject to individually determined legal limits, all Academic, Classified, Management, and STNC employees are eligible to participate in a 403(b) Tax Sheltered Annuity Plan.

Salary Reduction Agreement: To participate, an employee must have a completed Salary Reduction Agreement on file with the District. The Salary Reduction Agreement will specify the payroll date for which election will be effective, the contribution amount, and the funding vehicle in which contributions are invested.

Contribution Limits: The District will notify employees of the calendar year limits set forth by the Internal Revenue Service.

Investment Options: Tax Sheltered Annuity-403(b) Plan contributions by employees may be placed in annuity contracts or custodial accounts (both of which are often referred to as "funding vehicles"). Employees may choose any of the vendors which have executed an Information Sharing Agreement with the District and are registered with 403(b) compare.com. **The fact that the District may have given its permission to a particular vendor to sell its investment options to the District's employees does not indicate that the District has reviewed the merits of either the funding vehicle or the vendor. It means only that the vendor has agreed to meet certain administrative conditions imposed by the District.**

The District cannot advise employees as to investment options, agents, or tax consequences. It is recommended that each employee seek the opinion of a qualified professional pension, tax, or financial advisor such as a pension consultant, CPA, or tax attorney.

The performance of a funding vehicle as an investment, or its suitability for investment by any participant, are not the District's responsibility. Choose Carefully!

Distributions: In most cases, distributions from a 403(b) Tax Sheltered Annuity Plan must begin by April 1st of the year following the year in which age 70 ½ is attained. For each year thereafter, the minimum distribution must be made by the last day of the year. If the minimum distribution is not received, a nondeductible 50% excise tax may be applied. **Refer to IRS Publication 571, 575, and consult a personal pension, tax, or financial advisor for additional information.**

Early Withdrawals: Withdrawals of salary reduction contributions and earnings on such contributions before attaining age 59 ½ is prohibited except in the cases of separation from service, disability, death, or severe hardship. Furthermore, while other amounts may be withdrawn before attaining age 59 ½, any withdrawal made before age 59 ½ will generally be subject to “premature distribution” penalty taxes. The Federal premature distribution penalty tax is 10% of the amount withdrawn, and the State premature distribution penalty tax, where applicable, is 2 ½%. These Federal and State penalty taxes are in addition to regular Federal and State income taxes on the amounts withdrawn. Premature distribution penalty taxes are not imposed in certain circumstances, including distributions to pay certain medical expenses, separation from the District’s service after attainment of age 55, distributions due to disability, (as defined in IRC 72(m)(7), and death.

Hardship Distributions: Funding vehicles may permit withdrawals of accumulated salary reduction contributions in the case of severe financial hardship as determined under IRS regulations and the funding vehicle’s governing documents (but not any accumulated investment earnings on such contributions). In order to be eligible for such a withdrawal, an employee must experience an immediate and heavy financial need as defined in IRS regulations. In addition, other resources available to the employee, including loans from Section 403(b) Tax Sheltered Annuity Plans, and from any other retirement plans in which employee may participate, must first be accessed to the extent available. An employee making a request for a hardship withdrawal must obtain the District’s approval by completing an “SRJC Request for Hardship Distribution Form”. Note that if the employee is younger than age 59 ½ at the time of a hardship withdrawal, the withdrawn amount will be subject to the 10% Federal and, where applicable, 2 ½% State premature distribution penalty taxes discussed above. These taxes may be waived only if the withdrawal independently meets one of the exceptions to the application of these taxes (e.g. a withdrawal to pay qualifying medical expenses). **All hardship distributions must be approved by the District.**

Employee’s contributions to all 403(b) plans will be suspended for six (6) months after taking the hardship withdrawal.

Loan Notification: Some funding vehicles make loans available. In order to receive a loan, an employee must follow the procedures established by the funding vehicle’s sponsor. **The District must approve the loan and its repayment schedule, so the District may correctly account for repayments and future contributions.**

Excess Contributions: Excess contributions must be reported immediately to the District and, if still in the tax year, a termination of the salary reduction election must be made. Contributions in excess of the limit imposed by the IRC Section 415, must be distributed, via the District, by April 15th to be included in employee’s gross income to avoid the early withdrawal penalties which apply in addition to regular income taxes. If the District becomes aware of situations causing excess deferrals, a termination of the salary reduction agreement may occur.

Transfers/Exchanges Between Funding Vehicles: Exchanges are allowed from a vendor to another approved vendor. Upon severance of employment with the District, funds can be transferred to another employer plan or IRA provided both employers allow the transfer in their plan. Check the funding vehicle’s disclosure documents or ask the funding vehicle’s sponsor whether charges or penalties are

applicable. Surviving spouses can also rollover distributions to their own 401(k), 403(b), IRA, or 457(b) plans. 403(b) contributions from the SRJC plan cannot be transferred to the SRJC 457 plan. **All transfers and exchanges must be approved by the District.**

Pension Portability: Pursuant to Economic Growth & Tax Relief Reconciliation Act of 2001, contributions in a 403(b), 401(k), IRA, or a 457(b) plan may be transferred to State Defined Benefit Plans to purchase prior years qualified service credits.

I have read this Employee Notification pertaining to Tax Sheltered Annuity Plan-403(b) and I understand that the District is not responsible for the tracking of maximum contributions, related taxes, investment performance, or any other consequences of my contributions to any Tax Sheltered Annuity Plan-403(b).

Employee Signature

Date

Employee's printed name

Social Security Number