



HUMAN RESOURCES  
**BENEFITS OFFICE**  
UNIVERSITY OF MICHIGAN

## **GUIDE TO IRC CONTRIBUTION LIMITS 2020**

### **UNIVERSITY OF MICHIGAN BASIC RETIREMENT PLAN AND 403(B) SUPPLEMENTAL RETIREMENT ACCOUNT**

*For new hires, voluntary participants in the Basic Retirement Plan and compulsory participants in the Basic Retirement Plan who are not highly compensated*

**Overview of Limits • How to Calculate and Reach Your Limit**

**Your Limit as a New Employee • Your Limit When You Retire or Terminate**

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## PLAN SPONSOR

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July 2020

## **DISCLAIMER & LIMITATIONS**

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### **DISCLAIMER**

The following is an overview of federal limits on retirement plan contributions and how these limits apply to the University of Michigan Basic Retirement Plan and 403(b) Supplemental Retirement Account. This information is based on the university's current understanding of highly complex Internal Revenue Code (IRC) and U.S. Treasury Department regulations. It is provided for general informational purposes only. The University of Michigan does not provide tax advice. It is the responsibility of the employee as a plan participant to comply with federal tax limits. Questions or concerns regarding these limits, including aggregation of contributions with other retirement plans, should be addressed to a qualified tax adviser.

Every effort has been made to ensure the accuracy of information in this booklet. However, if statements in this booklet differ from applicable contracts, certificates or riders, then the terms and conditions of those documents, as interpreted by the Benefits Office, prevail. Possession of this booklet does not constitute eligibility for the U-M Basic Retirement Plan or any plan benefits. Internal Revenue Code regulations, as well as University of Michigan and investment company policies, are subject to change and/or correction without notice.

The sample calculations of IRC contribution limits depicted in this booklet when referring to the U-M Basic Retirement Plan assume an individual contributes 5% of eligible salary and is eligible for the 10% university contribution unless otherwise noted.

The university introduced the option for eligible employees to designate elective deferrals to the 403(b) supplemental retirement account (SRA) as Roth after-tax contributions. Roth after-tax designated contributions are subject to same IRC limits that apply to tax-deferred contributions. Therefore, references to IRC contribution limits apply to those made as tax-deferred and to those made as after-tax Roth.

### **LIMITATIONS**

The University of Michigan in its sole discretion may modify, amend, or terminate the retirement savings programs described in this booklet. Nothing in these materials gives any individuals the right to continued plan benefits beyond those accrued at the time the university modifies, amends, or terminates the plan. Anyone seeking or accepting any of the benefits provided will be deemed to have accepted the terms of the plan and the university's right to modify, amend, or terminate the plan.

### **Michigan Medicine Temporary Suspension of U-M Contribution to the Basic Retirement Plan**

U-M will temporarily suspend the university contribution to the Basic Retirement Plan from July 1, 2020 through June 30, 2021 for all faculty and staff of Michigan Medicine, which includes the U-M Medical School. Faculty and staff who have an appointment at both Michigan Medicine and campus will have the university contribution suspended if the Michigan Medicine fraction is 51% or greater of the total appointment effort. Bargained for staff should refer to their collective bargaining agreement.

## INTENDED AUDIENCE

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This reference guide on IRC contribution limits and how they relate to the University of Michigan Basic Retirement Plan and 403(b) Supplemental Retirement Account is intended for:

- New hire faculty and staff members.
- Voluntary participants in the Basic Retirement Plan, even if highly compensated.
- Compulsory participants in the Basic Retirement Plan who **are not** highly compensated.

Certain IRC limits are applied differently under the U-M Basic Retirement Plan if you meet **both** of the following:

### 1. YOU ARE HIGHLY COMPENSATED

*You are highly compensated with respect to the University of Michigan Basic Retirement Plan if your compensation from the university eligible for the Basic Retirement Plan for the calendar is more than the Social Security taxable wage base (\$137,700 for 2020). The wage base is adjusted annually by the federal government for inflation.*

**AND**

### 2. YOU ARE A COMPULSORY PARTICIPANT

*You are a compulsory participant in the University of Michigan Basic Retirement Plan if you meet all three of the following criteria:*

- a. *You are age 35 or older, **and***
- b. *You are working at a 100% appointment, **and***
- c. *You have completed two years of service as a regular faculty or staff member.*

If you meet **all** of the above criteria, **do not** use this booklet because the contribution limits are applied differently for you due to the structure of the U-M Basic Retirement Plan. Use the booklet, **“Guide to IRC Contribution Limits: For Highly Compensated Individuals Who Are Compulsory Participants in the U-M Basic Retirement Plan.”**

## INTRODUCTION

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Saving for retirement is one of the most important financial decisions you can make. Many incentives are available through employer-sponsored plans to encourage employees to save for retirement. These advantages include matching contributions from your employer, potential for long-term growth through compounding of interest and earnings, and the deferral of income tax on contributions and earnings until distribution.

However, there are limits to the amount you may contribute, established by Congressional act and detailed in the Internal Revenue Code (IRC) and U.S. Treasury Department regulations. The following information is provided as a general guide to the many limits and how they are applied.

Application of the contribution limits can be confusing since there are many ways an employer may design its retirement plan. The result is that plans offered by employers in the same industry can contain major differences, including the tax coding of employee and/or employer contributions. These differences make it important for you to carefully monitor your total contributions.

If you participate with another employer's retirement plan in addition to the U-M Basic Retirement Plan and/or 403(b) SRA, you will need to make sure that your combined contributions and elective deferrals do not exceed applicable federal limits. This is important whether you are new to the University of Michigan Basic Retirement Plan or have been participating for many years.

The Internal Revenue Service (IRS) strictly enforces these limits and it is your responsibility to ensure you are in compliance. The information in this book should only be considered a general reference to federal limits on defined contribution retirement plans. It is not meant to be a fully comprehensive guide to cover all plan types, contributions, and arrangements. Consult with a qualified tax adviser if you have questions.

## IRC LIMITS & THE U-M RETIREMENT PLANS

IRC SECTION	WHAT IT LIMITS	UNDER THE U-M PLANS
401(a)(17)	Caps eligible earnings at \$285,000 for the purpose of providing contributions as a percent of salary regardless of the plan type: private or public employer, 401(k) or 403(b).	You contribute 5% to the Basic Plan and the university provides a 10% matching contribution on earnings up to \$285,000.
402(g)	<p>Eligible employees may make elective deferrals of up to \$19,500 to a 403(b) plan for 2020. The limit applies to your 5% contribution to the Basic Retirement Plan and any extra or SRA contributions you make. Two catch-ups are also available which may raise the limit if you qualify:</p> <p><b>AGE 50 CATCH-UP:</b> The limit for employees age 50 and older is increased by \$6,500 for 2020.</p> <p><b>15-YEAR CATCH-UP:</b> Employees with 15 or more cumulative years of service at U-M may be eligible for an increase of up to \$3,000 per year, with a lifetime cap of up to \$15,000.</p> <ul style="list-style-type: none"> <li>➔ <b>It is not automatic</b> – Your elective deferrals to the U-M Basic Retirement Plan and SRA in prior years <b>must average less than \$5,000 per year</b> in order to be eligible.</li> <li>➔ <b>You may lose this catch-up</b> - Because this average is recalculated every year, your continued elective deferrals may cause your average to exceed the \$5,000 threshold, in which case you will no longer qualify to contribute the full \$15,000 extra available under this catch-up.</li> </ul>	<p>Caps the amount you may contribute to an SRA after taking into account your 5% contribution to the Basic Plan.</p> <p>This limit also affects you if you contribute to another retirement plan in addition to the U-M plan. See “<i>Aggregation Under 402(g)</i>” on page 26 for details.</p>
415(c)	<p>Caps total contributions to a 403(b) defined contribution retirement plan to the lesser of 100% of an employee’s compensation or \$57,000.</p> <p>This limit applies to employer contributions, any forfeiture that the employer reallocates to employee accounts, and all employee after-tax and pre-tax contributions. Any contributions made under the Age-50 catch-up are not included when calculating this limit.</p>	<p>This limit may affect you if you participate in another retirement plan in addition to the U-M plan. See “<i>Aggregation Under 415(c)</i>” on page 28 for details.</p>

## THE U-M BASIC RETIREMENT PLAN

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The University of Michigan Basic Retirement Plan is classified under Sections 403(b) and 401(a) of the Internal Revenue Code. Contributions and earnings are invested with TIAA and/or Fidelity on a tax-deferred basis. This is the only retirement plan for university faculty and staff; there is no pension plan. If you do not participate in the 403(b) and 401(a) plan, you will receive no income benefits once you retire or terminate employment from the university.

### BASIC RETIREMENT PLAN

**Overview:** This is the university's retirement program for faculty and staff; it provides a matching contribution.

**Eligibility:**

- All regular faculty and staff members and LEO II, III, IV with at least a 1% appointment, with university funding for a minimum of four continuous months.
- LEO Lecturers I and Supplemental Instructional Staff (Adjunct, Visiting I/II, Clinical I titles) with a 50% appointment or greater, with university funding for four continuous months or longer.
- House Officers, Research Fellows, Professional Specialists, temporary hourly staff, Graduate Student (Staff Assistant, Research Assistant, Instructor) and emeritus titles are not eligible for this plan.

**Contributions:**

- **You:** 5% of your earned, pre-tax U-M salary.
- **U-M:** 10% contribution of your earned, pre-tax U-M salary. Individuals must complete a waiting period of 12 consecutive months of eligible service in order to become eligible to receive the 10% university contribution to the Basic Retirement Plan.

### 403(b) SUPPLEMENTAL RETIREMENT ACCOUNT OR SRA

**Overview:** The 403(b) SRA is a separate account that allows you to make additional contributions. The university does not provide matching on SRA contributions.

**Eligibility:** With a 1% appointment or greater, with university funding for 4 continuous months or longer: regular faculty and staff, LEO, supplemental instructional staff, House Officers, Research Fellows, Graduate Students (Staff Assistant, Research Assistant, Instructor) and Professional Specialists. Temporary hourly staff and emeritus titles are also eligible to contribute to an SRA.

**Contribution:** You specify a whole dollar amount to contribute per paycheck.

***Visit the Benefits Office website for information on eligibility, enrollment instructions, enrollment forms and deadlines, TIAA and Fidelity Investments, income options at retirement, rollovers, cash withdrawals, and other plan features at***

***[hr.umich.edu/retirement-savings-plans](http://hr.umich.edu/retirement-savings-plans)***

## ELIGIBLE COMPENSATION

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Compensation must meet certain federal requirements in order to be contributed into an employer's retirement plan. It must be reported as earned compensation paid to you as a University of Michigan employee, subject to federal income tax withholding through the university, and reported on a W-2 issued by the university.

Certain forms of compensation may be subject to federal income tax but cannot have withholding taken by the university. In these cases, you may not make a contribution because the university cannot provide a tax-deferred benefit on compensation that is not subject to tax withholding. A fellowship is an example of compensation not subject to U-M tax withholding.

### Basic Retirement Plan

Employee and university contributions for the Basic Retirement Plan are provided on base salary; most additional forms of compensation are not eligible for contributions. Individuals subject to a collective bargaining agreement should refer to the terms of the agreement to determine compensation that is eligible for contributions.

Examples of Eligible Compensation:

- Base salary and wages
- Incentive payments (Risk Pay) under the Medical Service Plan
- Summer salary for university-year appointees

Examples of Ineligible Compensation:

- Overtime
- Shift differential
- Administrative differential
- Payout of unused vacation time at retirement or termination
- Annual sell back of Paid Time Off
- Severance pay
- Fellowship, scholarship, and stipends
- After-tax payments
- Allowances for housing, uniforms, and travel
- Royalty payments
- Long-term disability plan benefit payments
- Worker's Compensation

View the Earnings and Time Report Codes spreadsheet on the Payroll Office website for a complete list of the types of compensation that may or may not be contributed at:

[http://www.finance.umich.edu/system/files/Earnings\\_and\\_Time\\_Reporting\\_Codes.xls](http://www.finance.umich.edu/system/files/Earnings_and_Time_Reporting_Codes.xls)

Refer to these columns in the spreadsheet to determine if compensation is eligible or ineligible for the Basic Retirement Plan:

A - Earnings Code, and

N - Retirement Eligible - Union, if you are covered under a collective bargaining agreement, or

O - Retirement Eligible - Non-Union

## **403(b) Supplemental Retirement Account**

The following are examples of compensation may be contributed to the 403(b) SRA:

- Base salary and wages
- Incentive payments (Risk Pay) under the Medical Service Plan
- Summer salary for university-year appointees
- Overtime
- Shift differential
- Administrative differential
- Temporary hourly earnings

The following are examples of compensation not eligible to be contributed to the 403(b) SRA:

- Fellowship, scholarship, and stipends
- After-tax payments
- Long-term disability plan benefit payments
- Worker's Compensation
- Severance pay

## THE U-M PLANS: 403(b) vs. 401(a)

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Limits are enforced according to the tax-classification of the contribution under the IRC. The U-M contribution does not count against the amount you may defer to the SRA under the U-M plan.

Type of Contribution	Tax Classification	Reduces Your SRA Limit?
University 10%	401(a)	No
Your 5% Basic Plan	403(b)	Yes
Your SRA	403(b)	Yes

### ***What do the numbers 403(b) and 401(a) mean?***

These numbers refer to Internal Revenue Code sections that designate different types of retirement plans. For example, 401(k) plans are available to for-profit employers, which prevent the university from offering such a program.

### ***What is 403(b)?***

Your 5% employee contribution under the Basic Plan and any extra or SRA deferrals you make are set up as a 403(b) contribution. Section 403(b) is a retirement plan for employees of tax-exempt organizations including public universities, research organizations, hospitals, churches, and charitable organizations.

### ***What is 401(a)?***

The university matching contribution is classified under 401(a). Section 401(a) is a qualified retirement plan that both for-profit and non-profit employers may offer.

### ***Is there a difference?***

Yes. Section 401(a) plans cannot accept voluntary, tax-deferred employee contributions. The university uses 401(a) for its contribution since tax-deferred employer contributions are permitted under this plan type.

### ***Why use both tax codes and not just one?***

Using both sections of the tax code for the plan, instead of just one, increases the total amount that you and the university may contribute each year.

## LIMIT ON 403(b) ELECTIVE DEFERRALS

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### Overview

The annual limit on employee 403(b) elective deferrals is covered by IRC Section 402(g) and is made up of three components: a general limit and two catch-ups that can increase the overall limit for those who qualify. You may be eligible for both catch-ups, just one, or neither depending on your circumstances. The Section 402(g) limit applies to both your 5% contribution under the Basic Retirement Plan and any additional amounts you contribute to the 403(b) SRA.

### What is a 403(b) Elective Deferral?

An elective deferral under a 403(b) retirement plan is a contribution you authorize through a salary reduction agreement (called a *Salary or Annuity Option Plan Agreement* at U-M). The contribution is “elective” or voluntary in nature, meaning it is not mandatory and it may be changed or canceled at any time.

Your 5% contribution to the Basic Plan and any 403(b) SRA contributions you make are considered 403(b) elective deferrals because they are not mandatory and you may modify or cancel them anytime. Both your 5% Basic Plan contribution and any 403(b) SRA contributions are subject to the 402(g) limit listed below.

### General Limit of \$19,500

Your limit for making 403(b) deferrals is automatically \$19,500 for 2020.

**Question:** *What if my salary is less than \$19,500?*

**Answer:** *If your salary is less than \$19,500, your limit is your salary. However, if you earn less than \$19,500 you cannot contribute your entire salary because you must still pay the 7.65% FICA (Social Security and Medicare) tax. You must also pay for pre-tax deductions for other benefit plans and deductions such as parking, union dues, and United Way.*

### Age 50 or Older Catch-Up

*This catch-up is automatically available to you if you are age 50 or older and raises the limit by \$6,500 (making it \$26,000 instead of \$19,500 for 2020).*

## **15-Year Catch-Up**

You may qualify for an increase of up to \$3,000 in your limit under this catch-up. **You are not automatically eligible**; you must meet two criteria in order to qualify:

1. You must have 15 or more cumulative years of service at the university. A year of service is defined as a 12-month period at 100% effort and not merely a calendar year. For example, two years at a 50% appointment equals only one year of service.

**AND**

2. Your 403(b) elective deferrals to the U-M Basic Retirement Plan and 403(b) SRA in prior years **must average less than \$5,000 per year of service**.

## **Using the 15-Year Catch-up**

An eligible employee may use this catch-up to increase his or her limit by up to \$3,000 a year, with a lifetime cap of \$15,000. A person who contributes the extra \$3,000 annually to the 403(b) SRA would reach the lifetime cap in five years. A person may contribute less than the full \$3,000 per year and reach the lifetime cap over more than five years as long as his or her prior elective deferrals continue to average less than \$5,000 per year.

This catch-up was designed for employees who had not made substantial contributions to their employer's 403(b) plan during their early years of employment. Faculty and staff who have contributed a lot to the U-M Basic Retirement Plan and 403(b) SRA will not qualify for this catch-up because they have already taken advantage of the opportunity to contribute to the plan.

Not every employer that sponsors a 403(b) plan may offer this catch-up. It is available only to employees of non-profit educational institutions, hospitals, home health service agencies, certain churches, and health and welfare organizations.

## EXAMPLES

John has 15 years of service and has contributed \$90,000 to the U-M Basic Retirement Plan and SRA.

- \$90,000 divided by 15 = \$6,000
- John **is not eligible** for the 15-year catch-up because his prior elective deferrals average **more than** \$5,000 per year.

Dorothy has 15 years of service and has contributed \$30,000 to the U-M Basic Retirement Plan and SRA.

- \$30,000 divided by 15 = \$2,000
- Dorothy **is eligible** because her prior elective deferrals average **less than** \$5,000 per year.

Suzanne has worked at U-M for 20 years, always at a 50% appointment.

- She has only 10 cumulative years of service:  $20 \times .5 = 10$
- She **is not eligible** for the catch-up because she does not have 15 cumulative years of service.

Tim has 20 years of service at U-M, always at a 75% appointment.

- He has 15 cumulative years of service:  $20 \times .75 = 15$
- He has put \$60,000 into the U-M Basic Retirement Plan and 403(b) SRA.
- The \$60,000 will be divided by his 15 cumulative years of service, not 20 calendar years.
- \$60,000 divided by 15 = \$4,000. Tim **is eligible** for the catch-up.

## Why You May Lose the 15-Year Catch-up

Your average is recalculated every year to determine your eligibility for this catch-up based on the cumulative total of your elective deferrals. You may qualify one year but lose it the next because your continued contributions may cause you to exceed the \$5,000 per year average.

### **EXAMPLE**

#### **Year 15 (2016)**

- Mark has contributed \$66,000 in 403(b) elective deferrals at to the U-M Basic Retirement Plan and SRA.
- \$66,000 divided by 15 years of service = \$4,400 average.
- Mark is eligible because he is **under** the \$5,000 per year average.
- He contributes \$21,000 in 2016 (\$18,000 plus the \$3,000 catch-up).

#### **Year 16 (2017)**

At the end of 2016, Mark's contributions now total \$87,000. This is based on the \$66,000 contributed through the previous year plus the \$21,000 he contributed in 2016.

- \$87,000 divided by 16 years of service = \$5,437.
- Mark is **no longer eligible** for the \$3,000 catch-up in 2017 because he has exceeded the \$5,000 per year average as a result of his contributions made in 2016.

## HOW TO REACH YOUR SRA LIMIT

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### **Reaching Your Limit Is Easy!**

1. Once you elect an SRA contribution, it will continue until you change or cancel it by submitting a new *Salary or Annuity Option Plan Agreement* (in Wolverine Access using Self Service).
2. The payroll system monitors your year-to-date contributions and will automatically suspend your contributions for the balance of the calendar year if you reach the IRC limit.
3. This process only monitors your deferrals at U-M. If you participate with another retirement plan outside of the university plan, you will need to carefully monitor your combined deferrals so they do not exceed the applicable IRC limits. See pages 26 and 28.

### **Your Per Pay SRA Limit**

1. After you determine your annual limit, subtract the 5% you contribute to the Basic Plan.
2. If you have made any elective deferrals during the year to another employer's retirement plan, you must also subtract that amount from your annual limit.
3. Divide the remaining amount by the number of pay periods left in the year to determine your per paycheck SRA contribution. Check the deadlines for each paycheck online to determine if you can make a change for the current paycheck or the following one.

### **Making Your Elections**

You may enroll in an SRA or change your deferral amount at any time using Wolverine Access Self Service. You may only submit one election per pay period. For more detail, visit:

**Instructions: [hr.umich.edu/benefits-wellness/financial/retirement-savings-plans/enrolling-or-making-changes-throughout-year](http://hr.umich.edu/benefits-wellness/financial/retirement-savings-plans/enrolling-or-making-changes-throughout-year)**

**Deadlines: [hr.umich.edu/retirement-savings-plan-enroll-deadlines](http://hr.umich.edu/retirement-savings-plan-enroll-deadlines)**

## WORKSHEET & SAMPLE CALCULATIONS

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You can use this worksheet to calculate your own limit. You may wish to do so if you anticipate a change in salary or you plan to retire, terminate employment, take a leave of absence, or are placed on a layoff (RIF). The following three pages illustrate how limits are calculated and impacted by varying salary levels and applicable catch-ups.

### YOUR 403(b) LIMIT FOR 2020

1. General limit .....	1. <u>\$19,500</u>
2. Age 50 catch-up. (Enter \$6,500 if you will be age 50 or older during 2020)....	2. <u>\$</u>
3. 15-Year catch-up. (Enter \$3,000 if you qualify).....	3. <u>\$</u>
4. <b>TOTAL.</b> (Add line 1 + line 2 + line 3).....	4. <u>\$</u>

### YOUR BASIC PLAN CONTRIBUTIONS FOR 2020

5. Your 2020 U-M salary. Pro-rate your salary if you will work only part of the year. Your eligible salary is capped at \$285,000 .....	5. <u>\$</u>
6. Your 5% contribution. (Multiply line 5 X .05).....	6. <u>\$</u>

### NON-SRA CONTRIBUTIONS

7. Your 5% Basic Plan contribution. (Enter amount from line 6).....	7. <u>\$</u>
8. Your 2020 elective deferrals to other retirement plans.....	8. <u>\$</u>
9. <b>TOTAL.</b> (Add line 8 + line 9).....	9. <u>\$</u>

### AMOUNT LEFT FOR AN SRA

10. Your 403(b) limit for 2020. (Enter amount from line 4) .....	10. <u>\$</u>
11. Your non-SRA contributions 2020 (Enter amount from line 9).....	11. <u>\$</u>
12. <b>AMOUNT LEFT FOR AN SRA.</b> (Line 10 minus line 11).....	12. <u>\$</u>

### YOUR SRA PER PAYCHECK

13. Amount left for an SRA. (Enter amount from line 12).....	13. <u>\$</u>
14. Estimated number of paychecks you'll receive for remainder of 2020 .....	14. <u></u>
15. <b>SRA PER PAYCHECK.</b> (Line 13 divided by line 14).....	15. <u>\$</u>

## SAMPLE CALCULATION #1

- Annual salary: \$30,000
- General limit: \$19,500
- Eligible for Age 50 catch-up of \$6,500
- Not eligible for 15 Years of Service catch-up
- Total 403(b) limit: \$26,000
- Pay frequency: bi-weekly

<b><u>Basic Retirement Plan</u></b>		<b>Amount</b>
1.	Your 5% Contribution	\$1,500
2.	U-M 10% Contribution (if you are eligible)	\$3,000

<b><u>SRA Limit</u></b>		
3.	Annual Limit on 403(b) Contributions	
a.	General limit	\$19,500
b.	Age 50 catch-up	+ \$6,500
c.	15-Years of Service catch-up	+ \$0
d.	Total (3a + 3b + 3c)	<u>\$26,000</u>
4.	Annual SRA Limit	
a.	Total 403(b) limit (amount from step 3d)	\$26,000
b.	5% Basic Plan contribution (step 1)	- \$1,500
c.	Amount left for SRA (4a – 4b)	<u>\$24,500</u>
5.	Per Pay SRA Limit	
a.	Annual SRA limit (step 4c)	\$24,500
b.	Number of pay periods	÷ 26
c.	Per pay SRA (5a divided by 5b)	<u>\$942</u>

## SAMPLE CALCULATION #2

- Annual salary: \$120,000
- General limit: \$19,500
- Eligible for Age 50 catch-up of \$6,500
- Eligible for 15 Years of Service catch-up of \$3,000
- Total 403(b) limit: \$19,500 + \$6,500 + \$3,000 = \$29,000
- Pay frequency: monthly

<b><u>Basic Retirement Plan</u></b>	
	<b>Amount</b>
1. Your 5% Contribution	\$6,000
2. U-M 10% Contribution	\$12,000

<b><u>SRA Limit</u></b>	
3. Annual Limit on 403(b) Contributions	
a. General limit	\$19,500
b. Age 50 catch-up	+ \$6,500
c. 15-Years of Service catch-up	+ \$3,000
d. Total (3a + 3b + 3c)	<hr/> \$29,000
4. Annual SRA Limit	
a. Total 403(b) limit (amount from step 3d)	\$29,000
b. 5% Basic Plan contribution (step 1)	- \$6,000
c. Amount left for SRA (4a – 4b)	<hr/> \$23,000
5. Per Pay SRA Limit	
a. Annual SRA limit (step 4c)	\$23,000
b. Number of pay periods	÷ 12
c. Per pay SRA (5a divided by 5b)	<hr/> \$1,917

### SAMPLE CALCULATION #3

- Annual salary: \$300,000  
(Salary eligible for retirement contributions is capped at \$285,000. See footnote.)
- General limit: \$19,500
- Not eligible for either catch-up
- Total 403(b) limit: \$19,500
- Pay frequency: monthly

<u>Basic Retirement Plan</u>	<b>Amount</b>
1. Your 5% Contribution	\$14,250
2. U-M 10% Contribution (if you are eligible)	\$28,500

<u>SRA Limit</u>	
3. Annual Limit on 403(b) Contributions	
a. General limit	\$19,500
b. Age 50 catch-up	+ \$0
c. 15-Years of Service catch-up	+ \$0
d. Total (3a + 3b + 3c)	<u>\$19,500</u>
4. Annual SRA Limit	
a. Total 403(b) limit (amount from step 3d)	\$19,500
b. 5% Basic Plan contribution (step 1)	- \$14,250
c. Amount left for SRA (4a - 4b)	<u>\$5,250</u>
5. Per Pay SRA Limit	
a. Annual SRA limit (step 4c)	\$5,250
b. Number of pay periods	÷ 12
c. Per pay SRA (5a divided by 5b)	<u>\$438</u>

**FOOTNOTE:** Code Section 401(a)(17) caps eligible earnings at \$285,000 for the purpose of providing contributions as a percent of salary. If you earn more than this amount, your 5% contribution is capped at \$14,250 (5% X \$285,000) and the U-M 10% contribution is capped at \$28,500 (10% X \$285,000). See "The 401(a)(17) Limit" on page 25.

## YOUR LIMIT AS A NEW EMPLOYEE IN 2020

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If you are a faculty or staff member hired in 2020, you can find out your IRC limit for contributing to an SRA by calling the SSC Contact Center at: **(734) 615-2000**

### Two Important Reminders:

#### **Your 2020 Salary**

Your contribution limit is the same whether you work the entire year or just a few months. It's your **salary** that is different in your first year of employment and this will affect the amount you may tax-defer to reach the IRC limit.

- As a new employee at the university, you will likely work only a portion of the year. This means you will not earn a full year of salary for 2020.
- As a result, your 5% contribution to the Basic Plan will be less, which will increase the amount you may contribute to an SRA.
- Your SRA limit per paycheck for 2021 will most likely be **smaller** for two reasons:
  1. Your 5% contribution will be larger since it will be based on a full year of earnings, leaving less available for the SRA.
  2. The amount available for the SRA will be divided over more paychecks in 2021, allowing you to make a smaller contribution per paycheck and still reach your annual limit.

#### **Elective Deferrals You Made in 2020 to Other Plans**

Elective deferrals you have made during 2020 to certain other types of retirement plans will reduce the amount you may put into the U-M 403(b) SRA. You may not be able to contribute to the Basic Plan, let alone the 403(b) SRA, if you have made substantial contributions to another plan in 2020.

Elective deferrals to other retirement plans that will reduce your U-M 403(b) limit include the following:

- 403(b)
- 401(k)
- VA Healthcare System Thrift Savings Plan (TSP)
- 408(k)(6) Salary Reduction Simplified Employee Pension Plans
- SIMPLEs (Savings Incentive Match Plans for Employees)

Consult with a tax adviser if you have questions about the need to aggregate your combined elective deferrals so you do not exceed IRC limits.

**EXAMPLE: NEW HIRE EMPLOYEE**

- Date of hire: September 1, 2020
- Annual salary: \$60,000
- Actual earned compensation for 2020: \$20,000 (see footnote)
- General limit: \$19,500
- Eligible for Age 50 catch-up of \$6,500
- Elective deferrals to other retirement plans in 2020: none
- Pay frequency: monthly

<u>Basic Retirement Plan</u>	<b>Amount</b>
1. Your 5% Contribution	\$1,000
2. U-M 10% Contribution (this field is blank in this example since a new hire will not have completed the waiting period and would not be eligible for the U-M contribution)	\$0

<u>SRA Limit</u>	
3. Annual Limit on 403(b) Contributions	
a. General limit	\$19,500
b. Age 50 catch-up	+ \$6,500
c. Total (3a + 3b)	<u>\$26,000</u>
4. Annual SRA Limit	
a. Total limit (step 3c)	\$26,000
b. 5% Basic Plan contribution (step 1)	- \$1,000
c. Elective deferrals to other retirement plans	- \$0
d. Amount left for SRA (4a – 4b-4c)	<u>\$25,000</u>
5. Per Pay SRA Limit	
a. Annual SRA limit (step 4d)	\$25,000
b. Number of pay periods before retirement	÷ 4
c. Per paycheck SRA (5a divided by 5b)	<u>\$6,250</u>

**FOOTNOTE:** Since only part of the year is worked, the salary has to be pro-rated to reflect the amount that is actually earned as a new employee. Instead of basing the 5% employee and 10% U-M contribution on the annual base salary of \$60,000, it is based on \$20,000, the actual U-M salary earned in the last four months of 2020. The per paycheck SRA limit for the following year will be smaller since the amount that may be contributed to an SRA will be divided over 12 paychecks, instead of the 4 paychecks in this example.

## **YOUR LIMIT IF YOU RETIRE OR TERMINATE**

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### **Impact on Your Limit**

Your annual limit does not change based on retirement, termination of employment, taking a leave of absence, or being placed on layoff (RIF). You may reach your limit simply by increasing your SRA in the months preceding the event.

#### **Basic Retirement Plan**

- Your earned compensation will be reduced if you work less than your normally scheduled appointment due to a mid-year retirement, termination, leave of absence, or layoff.
- This reduces your 5% contribution and the university 10% match.

#### **SRA**

- Your 403(b) elective deferral limit remains the same for the year.
- Since your 5% Basic Plan contribution decreases, this will allow a larger amount to be contributed to your SRA.

### **If You Leave U-M and Go Work Somewhere Else**

You have one annual limit under Section 402(g) no matter how many employers or retirement plans you have. If you have reached the IRC limit when you leave U-M and go to work for another employer, you may not be able to contribute to their retirement plan until the following calendar year. You will need to carefully coordinate your elective deferrals if you plan to work for another employer and want to contribute to their retirement plan. See the sections on “aggregation” on pages 26 and 28.

### **No Basic Retirement Plan or 403(b) SRA Taken From Vacation Payoff**

Vacation accrual that is not used by the time of your retirement or termination is paid to you. This payment is not eligible for the Basic Retirement Plan (see Eligible Compensation on page 8). In addition, SRA contributions are only taken from the 12 monthly and 26 bi-weekly paychecks and not from special checks such as vacation payoff. Simply increase your SRA ***in the months before*** your retirement or termination to reach your annual limit.

**EXAMPLE: RETIRING OR TERMINATING JUNE 30, 2020**

- Annual salary: \$88,000
- Actual earned compensation for 2020: \$44,000
- Total compensation eligible for Basic Plan Contributions: \$44,000 (see footnote)
- General limit: \$19,500
- Eligible for Age 50 catch-up of \$6,500
- Eligible for 15 Years of Service catch-up of \$3,000

<u>Basic Retirement Plan</u>	<b>Amount</b>
1. Your 5% Contribution	\$2,200
2. U-M 10% Contribution	\$4,400

<u>SRA Limit</u>	
3. Annual Limit on 403(b) Contributions	
a. General limit	\$19,500
b. Age 50 catch-up	+ \$6,500
c. 15 Years of Service catch-up	+ \$3,000
d. Total (3a + 3b + 3c)	<u>\$29,000</u>
4. Annual SRA Limit	
a. Total limit (step 3d)	\$29,000
b. 5% Basic Plan contribution (step 1)	- \$2,200
c. Amount left for SRA (4a – 4b)	<u>\$26,800</u>
5. Per Pay SRA Limit	
a. Annual SRA limit (step 4c)	\$26,800
b. Number of pay periods before retirement	÷ 6
c. Per paycheck SRA limit (5a divided by 5b)	<u>\$4,467</u>

**FOOTNOTE:** The salary has to be pro-rated since only part of the year is worked. Instead of basing the 5% employee and 10% U-M contributions on the annual salary of \$88,000, it is based on \$44,000 due to working only one-half of the year.

## **LARGE 403(B) SRA AMOUNTS**

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### **Choosing a Large SRA Amount**

If you choose to contribute a large SRA amount per pay period, rather than defer your annual limit in equal installments over the course of the year, you should keep the following in mind:

- Contributing over the course of the entire year allows you to invest gradually so that large swings in the financial markets have less effect on the average price at which you purchase shares. This is referred to as **dollar-cost averaging**.
- If you make large SRA contributions early in the year, you may reach the annual limit before you have made the 5% contribution on your entire salary under the Basic Plan. As a result, your 5% contribution to the Basic Plan will be suspended, but the 10% university contribution (if you are eligible) will continue.

### **Reaching Your Limit Before Year-End**

If you reach the limit before the calendar year has ended, your contributions will be suspended for the rest of that year. **They will automatically resume the following January if you have a continuous appointment.** You do not need to submit a new election to renew the SRA.

#### **EXAMPLE**

- You sign up for an \$800 SRA in January 2020 and reach the limit by November 2020.
- Your 5% contribution and your SRA are suspended during December 2020 because you have reached the IRS annual limit; the 10% U-M contribution (if you are eligible) will continue.
- Both your 5% contribution and SRA will resume automatically the following January 2021.

### **Large SRA Contributions at Year-End**

*If you sign up for a large SRA contribution during the final months of the year **it will carry over to the next year.** You will need to make a new election in Wolverine Access to change or cancel the SRA.*

#### **EXAMPLE**

- You sign up for a \$3,000 SRA late in October 2020.
- The \$3,000 SRA will continue to be deducted through 2020 unless you make another election through Wolverine Access to change or cancel it.
- The \$3,000 SRA will eventually be suspended later in 2020 once you have reached the IRC limit. However, the contribution will resume January 2021 as a new tax year begins.

# SALARY CHANGES

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## Impact on Your Contributions

- Your 5% contribution and the U-M 10% contribution (when you are eligible) for the Basic Plan are provided on base salary as well as other types of eligible compensation (ex. summary salary, incentive payments under the Medical Service Plan, etc.) at the time they are paid.
- The Basic Plan contributions will change as your earned compensation changes, such as due to a salary increase or decrease:
  - If you receive a raise or additional compensation such as faculty summer salary, the 5% Basic Plan contribution will be deducted. Since your limit does not change, this reduces the allowable amount that you can contribute to an SRA.
  - If you experience a reduction in earned eligible compensation, your 5% Basic Plan contribution will decrease. Since your limit does not change, the amount you may contribute to an SRA increases because you are making fewer contributions to the Basic Retirement Plan.

## If You Receive a Salary Increase

### → It Does Not Raise Your Limit

The \$19,500 contribution limit and two catch-ups are not based on your salary so your limit does not go up if your salary increases. You may choose to increase your SRA deferral at any time if you are not contributing the maximum allowable.

### → You Do Not Need to Lower Your SRA

If you have an SRA, you do not need to lower it due to a salary increase to stay within the IRC limit. The payroll system will monitor your year-to-date contributions and suspend them for the balance of the year if you reach the IRC limit. If your SRA and 5% Basic Plan contributions are suspended to keep you within the limit, the 10% university contribution (if you are eligible) will continue. Both your 5% contribution and the SRA will resume the following January.

**NOTE:** This process only tracks your elective deferrals at U-M, not those you make to a retirement plan outside of the university. Consult with a tax adviser for questions on aggregation of multiple retirement plans. See pages 26 and 28 for details.

## THE 401(a)(17) LIMIT

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### What It Is

IRC Section 401(a)(17) limits the amount of an employee's compensation that may be recognized for providing retirement contributions based on a percentage of salary. This amount is \$285,000 for 2020 and is indexed periodically in \$5,000 increments by the IRS.

### How It Works

You contribute 5% to the Basic Plan and the university provides a 10% contribution on earnings up to \$285,000. Since you cannot reach the \$19,500 limit just by contributing your 5% to the Basic Plan, you need to make extra contributions to an SRA if you want to defer the maximum amount allowable.

<b>Who Contributes</b>	<b>How Much</b>	<b>Earnings Limit</b>	<b>Maximum Contribution</b>
You	5%	\$285,000	\$14,250
University of Michigan <sup>1</sup>	10%	\$285,000	\$28,500

<sup>1</sup> Individuals hired or newly eligible to enroll in the U-M Basic Retirement Plan must complete a waiting period of twelve consecutive months of eligible service in order to become eligible to receive the 10% university contribution to the retirement plan.

### If You Earn More Than \$285,000

The Internal Revenue Code does not permit an employer's retirement plan to provide retirement contributions based on a percent of compensation earned over \$285,000. Both your 5% contribution and the university 10% match are suspended once your annual eligible compensation exceeds this cap. Contributions resume the following tax year if you are still enrolled and have a continuous appointment.

## AGGREGATION UNDER 402(g)

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### What It Is

The IRC Section 402(g) limit on elective deferrals applies to several types of retirement plans. You have one limit per year regardless of the number of retirement plans and employers you have. This limit only applies to employee contributions; employer contributions do not count against this limit.

Elective deferrals you make to certain other types of retirement plans count against the amount you may contribute to the U-M plan. Elective deferrals you have made to the plan types listed below will reduce the amount you may contribute to the U-M Basic Retirement Plan and 403(b) SRA.

- 403(b)
- 401(k)
- VA Healthcare System Thrift Savings Plan (TSP)
- 408(k)(6) Salary Reduction Simplified Employee Pension Plans (SARSEPs)
- SIMPLEs (Savings Incentive Match Plans for Employees)

If you have already contributed up to the IRC 402(g) limit or close to it through another plan, you may not be able to contribute to the SRA, and it is possible you may not be able to contribute to the Basic Retirement Plan until the following calendar year. Consult with a tax adviser if you have questions about the need to aggregate your combined elective deferrals so you do not exceed IRC limits.

#### **EXAMPLE #1**

- Mary is a new employee at the university in 2020.
- She is under age 50 so her limit is \$19,500.
- She has already contributed \$11,000 to her previous employer's 401(k) for the current year.
- She may only contribute \$8,500 to the U-M plan for 2020. This includes both her 5% Basic Plan contribution and any extra contributions she makes to an SRA.

#### **EXAMPLE #2**

- John works at the University of Michigan Medical Center and is under age 50.
- He also works for the Veteran's Administration hospital.
- He makes elective deferrals to the retirement plans of both employers.
- His total limit is \$19,500 and it applies to his combined elective deferrals to both plans.
- He must aggregate the amounts he contributes to both plans to ensure the combined total does not exceed the \$19,500 limit for 2020.

## **Nonelective Contributions**

Some 403(b) contributions may be nonelective in nature, such as under a retirement plan with mandatory contributions or made as a one-time irrevocable election. Nonelective contributions cannot be changed or canceled and they are generally not subject to the limit on 403(b) elective deferrals covered under Section 402(g).

## **How to Find Out If You Are Affected**

1. If you have made contributions to another retirement plan, contact the employer that sponsors the other plan to determine the amount and tax classification of the contributions. You will need to find out whether they were elective deferrals or nonelective contributions.

***NOTE:** Plan designs vary from one employer to the next, even within the same industry using the same type of plan. It may not be clear whether contributions you made through another employer must be taken into account when determining how much you can contribute to the U-M plans.*

2. Consult with a qualified tax adviser to determine if you must aggregate your contributions.
3. Contact the Benefits Office immediately if you conclude you must adjust your contributions to the U-M plans to ensure you do not go over the limit.

## **If You Go Over the 402(g) Limit**

If you exceed the IRC limit after the end of the calendar year, the excess can be refunded as long as it is done by the April 15<sup>th</sup> federal income tax filing deadline. The excess that is refunded is taxable for the year it was contributed, not in the year it is refunded. Earnings on the excess deferral also are taxable. Contact your other employer to discuss how to obtain a refund of any excess deferrals.

**Tip**



### ***Consider the U-M 457(b)***

Worried about exceeding the 402(g) limit on elective deferrals because you contribute to two or more plans? Contributions you make to U-M 457(b) do not reduce your 402(g) elective deferral limit to the plans listed on page 26.

For example, if you contribute to the U-M Basic Retirement Plan and 403(b) SRA and you also contribute to VA Healthcare System Thrift Savings Plan, you must be careful not to exceed the 402(g) limit between all plans.

You may contribute up to \$19,500 to the U-M 457(b) Plan for 2020 (\$26,000 if you are age 50 or older) without affecting your contribution limit to the U-M Basic Retirement Plan, 403(b) SRA, and the VA Thrift Savings Plan.

## **AGGREGATION UNDER 415(c)**

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### **What It Is**

The IRC Section 415(c) limit places a ceiling on total contributions made to a defined contribution retirement plan by capping them at the **lesser** of 100% of an employee's compensation or \$57,000 for 2020. This value will be periodically indexed for inflation by the IRS. Under a 403(b) plan, it applies to **employer** contributions (whether vested or not), forfeitures reallocated to employee accounts, and all after-tax and pre-tax employee contributions. Employee contributions made under the Age 50 catch-up are not included when calculating this limit.

### **How It Works in the U-M Plan**

*The Section 415(c) limit has no impact **within** the U-M Basic Retirement Plan and the 403(b) SRA. An employer that sponsors both a 403(b) plan and a 401(a) qualified plan (like U-M) has a distinct advantage. It may apply one \$57,000 limit to 403(b) contributions, and a second \$57,000 limit to 401(a) contributions.*

*This is the primary reason for building the U-M Basic Retirement Plan using two sections of the tax code: it greatly increases the total amount you and U-M may contribute. Your contributions to the Basic Retirement Plan and SRA and the U-M contribution combined could exceed the \$57,000 limit if only one Section 415(c) limit was applied, severely limiting how much could be contributed into the plans.*

### **When the 415(c) Limit May Affect You**

This limit affects you if you make 403(b) elective deferrals (see page 11) to the U-M Basic Retirement Plan and/or 403(b) SRA and any of the following applies to you:

1. Contributions are made for you to a SEP-IRA, 401(a) plan (including a 401(k) plan), or 403(a) plan sponsored by a corporation, partnership, or sole proprietorship in which you have more than a 50% ownership interest.
2. You contribute to a 401(a) or 403(a) Keogh plan with respect to self-employment income from a trade or business in which you have a more than 50% ownership interest. (This would include a Keogh plan established with respect to fees for a non-employee member of a board of directors, because the director is considered a self-employed individual with respect to the directorship.)
3. You participate with another 403(b) plan outside of the U-M 403(b) plans.
  - ➔ *NOTE: Section 415(c) requires that contributions to all 403(b) plans through which you participate must be taken into consideration when calculating the limit. This includes employer contributions (whether vested or not), forfeitures reallocated to employee accounts, and after-tax and pre-tax employee contributions. Also, 403(b) nonelective contributions and 403(b) contributions made pursuant to a one-time irrevocable election are subject to the 415(c) limit.*

Example #1: Physician with Private Practice

Lisa is a physician who works for the University of Michigan and contributes to the U-M Basic Retirement Plan. Lisa also is the sole owner of a private practice. If she is making contributions to a qualified retirement plan through her private practice, she needs to report information on those contributions to the U-M Benefits Office. The Benefits Office will then calculate the contributions being made through both plans to ensure the Section 415(c) limit is not exceeded.

Example #2: New Hire Employee

Marie begins working for U-M in September 2020. From January through August of 2020, she worked at a college that provided \$30,000 in employer 403(b) contributions. She also made \$10,000 in 403(b) contributions to that plan. Marie must aggregate the \$40,000 in total 403(b) contributions made through her previous employer with her 403(b) contributions made to the U-M Basic Retirement Plan and 403(b) SRA. Marie needs to report the information on those contributions to the U-M Benefits Office in order to ensure the Section 415(c) limit is not exceeded between both employers.

***Your Responsibility Under 415(c)***

*Under IRS regulations, employees must report to their employer data on contributions they make to a SEP-IRA or qualified retirement plan they are deemed to control. If you meet the criteria listed on page 28, contact the Benefits Office immediately.*

## FINAL TIPS & REMINDERS

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- Consult with a qualified tax adviser to ensure that you do not exceed IRC limits, particularly if you contribute to another retirement plan in addition to the U-M plans. There are adverse tax consequences if you go over the limit and it is your responsibility to make sure your contributions and elective deferrals are within the allowable IRC caps.
- You will need to aggregate or take into account your retirement contributions to all plan types to ensure you do not go over IRC limit in the following common cases:
  - As new hire employee.
  - When you leave or retire from the university.
  - If you contribute to another retirement plan while working for U-M.
- You can increase, decrease, or cancel your SRA contribution at any time during the year. This allows you flexibility to manage your contribution amounts and to take advantage of any changes in your retirement savings goals for the year.
- Faculty and staff who need further assistance calculating contribution limits may contact the SSC Contact Center at **(734) 615-2000**.
- Visit the Benefits Office web site for more information on retirement plan features, options, and news at: **[hr.umich.edu/retirement-savings-plans](http://hr.umich.edu/retirement-savings-plans)**