

# Contributions Under a 403(b) Plan

## Basic Rules

In general, there are two separate limitations on the amount of contributions to a 403(b) plan that may be excluded from a participant's gross income. These two limits are:

- *the annual limit on contributions under Internal Revenue Code ("Code") Section 415(c), and*
- *the annual limit on elective deferrals under Code Section 402(g)(1).*

Under Code Section 415(c), all employer and employee contributions and forfeitures made in a year to a 403(b) participant's account cannot exceed the lesser of:

- \$52,000 (for 2014, as indexed annually for COLAs in \$1,000 increments) or
- 100 percent of the Participant's includible compensation.

In general, Code Section 402(g)(1) imposes a limit on elective deferrals made annually to a 403(b) plan pursuant to a salary reduction agreement (including designated ROTH contributions). This limit for 2014 is \$17,500 (subject to COLA in \$500 increments).

Note that the elective deferral limit must take into account all elective deferrals made by an individual in the same tax year to 403(b) plans, 401(k) plans, salary reduction simplified employee pension ("SARSEP") plans or savings incentive match plans for employees ("SIMPLE") retirement plans.

## Catch-Up Features

*A participant may be able to take advantage of two catch-ups:*

- the 15-year catch-up, and
- the age 50+ catch-up.

## 15-Year Catch-Up

The 15-year special catch-up under Code Section 402(g)(7) is available to certain employees with 15 years of service with their current eligible employer and enables employees to defer up to \$3,000 per year, (up to cumulatively \$15,000 over the lifetime of the 403(b) participant) beyond the general elective deferral limit. To take advantage of this opportunity, an employee must work for an educational institution, hospital, home health service agency, health and welfare organization or specific church organization. For eligible employees, the additional catch-up amount is determined by the lesser of:

- \$3,000,
- \$15,000 reduced by elective deferrals not included in gross income for prior taxable years because of this catch-up, or
- \$5,000 times years of service minus all prior elective deferrals made to Code Section 403(b), 401(k), SARSEP and SIMPLE plans of the employer in prior taxable years.

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The 15-Year Catch-up is an additional contribution above the annual limit on elective deferrals under Code Section 402(g)(1) and taken into consideration for purposes of the 415(c) limit.

## Age 50+ Catch-Up

In addition to the 15-year catch-up, a 403(b) plan may provide that certain employees may make age 50+ catch-up contributions. To take advantage of this opportunity:

- a participant must attain age 50 by the end of the calendar year (regardless of whether or not the participant terminates employment with the plan sponsor or dies during the year); and
- the participant's pre-tax contributions will exceed at least *one* of the following limits:
  - the "statutory" limit under Code Section 402(g)(1) or Code Section 415(c); or
  - an employer-provided limit under the plan.

The annual age 50+ catch-up limit is \$5,500 for 2014 (subject to COLA in \$500 increments).

*As with elective deferrals, the limit on age 50+ catch-up contributions applies to all Code Section 401(k) plans, 403(b) plans, SARSEP and SIMPLE plans to which an individual contributes in the same tax year.*

## Multiple Catch-ups in the Same Plan

The regulations under Code Section 402(g) make it clear that a 403(b) plan participant can utilize both the age 50+ catch-up and the 15-year catch-up in the same year. However, a participant's pre-tax deferral contributions are made each year in the following order:

- First, deferrals up to the annual elective deferral limit under section 402(g)(1) (\$17,500 in 2014);
- Second, deferrals up to the annual 15-year catch-up elective deferral limit under section 402(g)(7) of up to \$3,000, to the extent available;
- Lastly, age 50+ catch-up contributions of \$5,500 in 2014.

We have provided the following examples for demonstration purposes:

### Example #1

Facts:

- Participant contributes \$20,500 of elective deferrals in 2014;
- Participant is also eligible for the 15-year catch-up contribution in the amount of \$3,000;
- Participant is age 50 in 2014

Question: Is any portion of that \$20,500 considered an age 50+ catch-up contribution?

Answer: No, due to the contribution ordering rules. That is, the first \$17,500 is the 402(g) elective deferral limit applicable in 2014. The additional \$3,000 is a contribution made toward the 15-year catch-up (*and which will serve to reduce the \$15,000 lifetime maximum*). The additional \$3,000 is **not** considered an age 50+ catch-up contribution because the total contributions were not in excess of this participant's applicable elective deferral limit (in this case, the sum of 402(g) elective deferral limit and the 402(g)(7) 15-year catch-up limit).

-2-

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## Example #2

Facts:

- Participant contributes \$20,500 of elective deferrals in 2014;
- Participant is **not** eligible for the 15-year catch-up contribution;
- Participant is age 50 in 2014

Question: Is any portion of that \$20,500 considered an age 50+ catch-up contribution?

Answer: Yes, due to the contribution ordering rules. That is, the first \$17,500 is the 402(g)(1) elective deferral limit applicable in 2014. Since the participant is not eligible for the 15-year catch-up, the 402(g)(7) limit of up to \$3,000 is not applicable. Accordingly, the additional \$3,000 **is** considered an age 50+ catch-up contribution because the total contributions were in excess of this participant's applicable elective deferral limit (in this case the 402(g)(1) elective deferral limit of \$17,500). This participant used \$3,000 of the available \$5,500 age 50+ catch-up contribution because the participant will be at least age 50 in 2014.

## Example #3

Facts:

- Participant contributes \$20,500 of elective deferrals in 2014;
- Participant is eligible for the 15-year catch-up contribution in the amount of \$1,000;
- Participant is age 50 in 2014

Question: Is any portion of that \$20,500 considered an age 50+ catch-up contribution?

Answer: Yes, due to the contribution ordering rules. That is, the first \$17,500 is the 402(g)(1) elective deferral limit applicable in 2014. The additional \$1,000 is a contribution made toward the 15-year catch-up (*and which will serve to reduce the \$15,000 lifetime maximum*). Accordingly, the additional \$2,000 **is** considered an age 50+ catch-up contribution because the total contributions were in excess of this participant's applicable limits (in this case the 402(g)(1) elective deferral limit of \$17,500 and the 402(g)(7) 15-year catch-up limit of \$1,000). This participant used \$2,000 of the available \$5,500 age 50+ catch-up contribution because the participant will be at least age 50 in 2014.

As your trusted partner with expertise in 403(b) plan administration, Voya Financial<sup>™</sup> is dedicated to keeping 403(b) plan sponsors updated on current IRS guidance.

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