



## 403(b) Contribution Report for Oscar Sample

For the tax year ending December 2004  
Report produced October 30, 2003

The standard 403(b) limit is the only contribution option available to this participant for this contribution year. It enables a contribution of \$23,850.00, as indicated below.

**Standard 403(b) Limit                      \$5,450.00 by Empl'r, \$18,400.00 by Participant**

The 403(b) contribution rules permit total contributions of \$23,850.00; \$5,450.00 is contributed by the employer and \$18,400.00 is contributed by the participant via salary reduction. This allocation of contributions conforms to the basic formula whereby the employer pays 50.00% of the participant's contribution up to a maximum participant contribution of 20.00% of gross compensation of \$54,500.00.

The limit on Elective Deferrals for the tax year being calculated is \$13,000 (reduced by \$600 in deferrals under other qualified plans, for a net of \$12,400). A special increase in the Elective Deferral limit is permitted for employees of certain organizations, who have 15 or more years of service, as in this case. The extra allowance for this participant is \$3,000.00, for a net Elective Deferral limit of \$15,400.00. The Elective Deferral limit is increased by \$3,000 to \$18,400.00, since the participant is at least 50 years old. The contributions for employer and participant combined are then \$23,850.00.

403(b) plans also fall under the contribution limits set for qualified plans in Section 415, sometimes called the "Defined Contribution Limit" for these plans. The maximum contribution for this 403(b) plan under the Section 415 limit is \$41,000.00. The Defined Contribution limit is increased by \$3,000 to \$44,000.00, since the participant is at least 50 years old (assuming that the maximum available elective deferrals are taken). However, this Section 415 limit is higher than the previously calculated 403(b) contribution of \$23,850.00, so the previous amount stands as the standard contribution limit.

"Elective Deferrals" are voluntary employee contributions made to 403(b), 401(k), SEP and other such plans via a salary deferral agreement (but excluding Section 457 plans). Limits on Elective Deferrals are imposed in Internal Revenue Code section 402(g). For purposes of this 403(b) plan, the limit is effectively reduced to \$12,400 because of \$600 in elective deferrals being made by the participant under other plans. The special requirements and calculations for employees with 15 or more years of service are detailed in Internal Revenue Code section 402(g)(8). \$3,000 is the maximum extra Elective Deferral per year, as provided in Code paragraph 402(g)(8)(A)(i). If this full Elective Deferral amount is used under

this 403(b) and/or any other plans, the remaining lifetime amount of the long-term employee extra allowance will be reduced to \$12,000.00. For the tax year 2004, an increase of \$3,000 on top of any other elective deferral allowance is permitted for participants age 50 and up; rules for this catchup allowance are defined in IRS regulation 1.414(v)-1. This limit applies to participant salary reductions only; it does not, therefore, have any direct impact on employer contributions. But it can have an indirect effect, based on the contribution matching formula.

Internal Revenue Code section 415 sets limits for both benefits and contributions for qualified plans, although the benefit limits come into play for 403(b) plans only in unusual circumstances. There are two Defined Contribution limits. The first is a fixed amount. The maximum Defined Contribution limit allowed by Internal Revenue Code section 415 is \$41,000. The second limit is 100% of compensation. For 403(b) plans, IRC Section 415(c)(3) defines compensation as provided for in IRC Section 403(b)(3), which includes compensation for the most recent period equivalent to one full year of service. Therefore we use the amount input, \$54,500.00, adjusted for participant contributions to a defined benefit retirement plan (minus \$2,725.00); this results in compensation for purposes of the Section 415 formula of \$51,775.00. But since the \$41,000.00 limit is lower, that is the one that takes precedence. For the tax year 2004, an increase of \$3,000 on top of the regular Defined Contribution limit is permitted for participants age 50 and up; rules for this catchup allowance are defined in IRS regulation 1.414(v)-1.

## **Notes:**

It is important not to over-contribute to a 403(b) plan. Such contributions will be considered to be taxable income, subject to interest and penalties if not so reported. In some cases, the entire year's contribution, not just the excess amount, may be deemed taxable. Additional penalties may arise under Internal Revenue Code section 4979 (a 10% excise tax on employer contributions made on behalf of highly compensated individuals) and/or under IRC section 4973 (a 6% excise tax on employer contributions or elective deferrals made to a 403(b) plan investing in mutual fund shares). If a correction is not made quickly after the close of the participant's tax year, any later withdrawal of the excess contributions may be subject to the 10% penalty for premature distributions, if made before age 59-1/2. At any age, withdrawal of excess contributions will probably be subject to income taxes again, even though they were taxed already when contributed.

With all these potential penalties in mind, great care is recommended in following the IRS regulations. We have made reasonable checks of the 403(b) Contribution Planner® to confirm that its assumptions comply with applicable federal income tax regulations currently known to us, but interpretations of these regulations vary. It is always possible for errors to occur in the collection and transmission of information, in the interpretation or application of tax rules, or in the determination and explanation of the results. In addition, calculation of future contributions is necessarily based at least in part on assumptions concerning income and other data that is likely to be somewhat conjectural. If the participant intends to contribute at or near the limits calculated here, we strongly recommend that a tax specialist be consulted to confirm these results. We disclaim responsibility for any adverse financial or legal consequences that might arise from the use of this analysis.

The preceding notes refer to provisions of the Internal Revenue Code and other regulations and rulings. A number of additional sources have also been used. You may wish to refer to some of them if you are pursuing these matters further:

IRS Publication 571, "Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations", 1999, U.S. Government Printing Office. This item is free; order it using the IRS toll-free forms ordering number or download it from [www.irs.gov](http://www.irs.gov)

Donald R. Levy, Barbara N. Seymon-Hirsch, and Janet M. Anderson, eds., "403(b) Answer Book", 6th ed., 2002, New York: Panel Publ. (Aspen)

Eleanor A. Lowder and Kristi Cook, "The 403(b) & 457 Primer Plus", 2001, Bakersfield, CA: NTSAA Educational Institute

Stephen J. Krass, "The Pension Answer Book", 2002 Edition, New York: Aspen Publishers, Inc.

Deborah A. Miner, ed., "Tax Facts 1", 2002 ed., Cincinnati: The National Underwriter Co.

Gary H. Snouffer, "The Sales & Marketing Guide to 403(b) Tax Sheltered Annuities", 2000, Cincinnati, OH: National Underwriter Co.

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The analysis being generated by the Still River 403(b) Contribution Planner® is based on Still River's understanding of applicable federal income tax law and regulations at the time the program was prepared. Because of the complexity of these laws and regulations, as well as the possibility of differing interpretations and ongoing changes in tax laws and regulations, you should obtain competent professional advice in implementing your plan. This program does not take into account any applicable provisions of state tax law, or of other laws not specifically cited in these notes.

WARNING: These calculations have been done using a simplified format and assume that the following conditions are true: that the participant does not control the employer offering this plan nor control any other employer; that the participant does not have income from an employer related to this one; that there are no contributions to other 403(b) plans; that participation in this 403(b) plan is not mandatory or subject to a one-time election; that there are no after-tax contributions for this participant; that life insurance is not being used to fund the plan; that the participant is not a foreign missionary, and was not permanently disabled at the start of this tax year. If any of these assumptions are incorrect, then a different calculation may need to be performed. (Sample Version 8.06Sample 2003 )

Contribution to be made: \$\_\_\_\_\_

\_\_\_\_ Standard

The information that I have provided for this report is correct and truthful as stated, to the best of my knowledge.

\_\_\_\_\_ (date)\_\_\_\_\_

(Participant's signature)