



State of Iowa
Retirement Investors' Club (RIC)
Looking forward to retirement!



Special Pay Plans

Using your 403b plan to help manage retirements

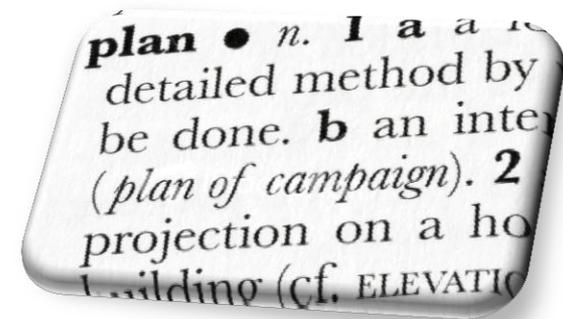
Special Pay Plans (SPP)

- Definition of SPP
- Advantages of SPP
- SPP design
- SPP administration



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Definition

A Special Pay Plan (SPP) is a plan designed to help employers deliver employee benefit payments.



Payments are designated as post retirement 403b contributions and must be:

- Non-elective
- Employer

Typical benefit purpose

Employers may offer cash incentives to encourage all or designated groups of employees to take certain actions such as

- Early retirement
- Normal retirement
- Utilization of fewer sick/vacation days



Typical benefit packages

The employer decides how the benefit pay will be calculated and who is eligible to receive it. Typically, benefit packages are based on:

- Accrued leave (all or a portion of)
- A set dollar amount for all eligible employees
- A bonus payment based on years of service
- Continuation of existing employer 403b contributions for up to 5 years post-retirement

Example of accrued leave

ABC School System pays a \$50/day benefit to retirees with up to 200 unused leave and sick days. A retiree with maximum benefit eligibility would receive \$10,000.

ABC may choose to include the benefit amount on the employees' final paycheck or pay it through the SPP.

ABC chooses to make the benefit payments through a SPP over a 2 year period. Payments deposit into the employees' 403b account after separation from service.

Retirement Year	Benefit Payment
1	\$ 5,000
2	\$ 5,000

Example of set dollar amount

XYZ School System makes a one-time irrevocable offer of \$450,000 to all teachers that are eligible to retire with full benefits.

XYZ chooses to make the payments through the SPP over a 5-year period. Payments deposit to eligible employee 403b accounts after separation from service.

Retirement Year	Benefit Payment
1	\$ 10,000
2	\$ 10,000
3	\$ 10,000
4	\$ 10,000
5	\$ 10,000

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Advantages-Employer

Payments made through SPP

- Are not subject to FICA tax
- Can be stretched out over 5 years
- May be a useful tool in collective bargaining to offset other benefits requested by unions

Advantages-Employee

Payments received through SPP are:

- Not subject to FICA tax
- Liquid for distribution at anytime without restrictions or penalties
- Allowed to tax-defer until age 70 ½ (compounding advantage)
- Reported as ordinary income in the year distributed (employee may be in a lower tax bracket at time of distribution)

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IRS 403b plan rules

Benefit payments must be:

- Post separation, non-elective
- Paid within 5 years of termination date
- Deposited to a 403b account
- Within annual IRC 403b contribution limits
- Stopped when the participant dies



Note: Employees may not elect to receive cash directly from the employer

Plan considerations

Your SPP plan design will be unique based on a variety of factors such as:

- Union Negotiations (collectively bargained)
- Eligibility (administrators, teachers, non-classified, etc.)
- Timing
 - One-time offer
(motivate a certain group to retire in a stated year)
 - Ongoing offer
(offered to all retiring employees each year)
- Return-to-work conditions or restrictions



SPP development

A well-developed plan includes the explanation of the benefit in detail, including:

- Eligibility
- Payment Formula
- Payment Schedule
- Enrollment Steps
- Death of participant
- Ability to return to employment



Plan details should be stated in all agreements (teacher/administrator contracts, employee handbook, etc).

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SPP options

You may choose to:

- Develop and maintain SPP with outside 403b vendor- would require additional employee education
- Use RIC - Seamless for participating employers

RIC Advantage

RIC SPP services:

- Developed and available now
- Compliant with federal and state requirements
- 403b plan education for the employees
- Competitively bid investment products and services; annual review of fund offerings
- No additional cost



Legal advice

RIC does not provide legal advice regarding the construction of special pay plan documents.

We strongly urge that each employer work with legal counsel to ensure the plan is compliant.



More information

Learn more about RIC SPP

- Email: john.williams5@iowa.gov
- Phone: 515-725-2135

Additional resources:

- IRS 403b site: <http://www.irs.gov/retirement/article/0,,id=172430,00.html>
- Sample plan: http://www.irs.gov/irb/2007-51_IRB/ar09.html
- Nondiscrimination: <http://www.tiaa-cref.org/plansponsors/resources/compliance/403b/details/nondiscrimination-requirements/index.html>

