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***55 ELM STREET***

***HARTFORD, CONNECTICUT***

***06106-1775***

***Telephone (860) 702-3480***

***Facsimile (860) 702-3556***

***HEALTH CARE COST***

***CONTAINMENT COMMITTEE***

**STATE OF CONNECTICUT**

**HEALTHCARE POLICY & BENEFIT SERVICES DIVISION**

**OFFICE OF THE STATE COMPTROLLER**

#### DIVISION MEMORANDUM 2014-08October 30, 2014

|  |  |
| --- | --- |
| **ATTENTION:**  | **Human Resource, Benefit and Payroll Officers** |
|  | **Participants in the 457 and 403(b) Plans** |
| **SUBJECT:**  | **Deferral of Vacation and Sick Leave Payouts from** **Final Paychecks to 403(b) or 457 Plans**  |

**I. INTRODUCTION**

Employees who are retiring or leaving State service can contribute final payouts for unused vacation or sick leave to the 457 Deferred Compensation Plan, which is open to most active employees, or the 403(b) Plan, limited to employees of eligible educational institutions and hospital facilities.[[1]](#footnote-1) By making a pre-tax deferral of some or all of the vacation/sick leave payout into the 457 or 403(b) Plan, employees can reduce taxes withheld from the final paycheck and boost their retirement savings. The process for contributing final payouts to the 403(b) or 457 Plan requires advance planning because IRS regulations require deferral arrangements to be in place the month before the final payment is made. This memorandum outlines the steps for taking advantage of this benefit.

**II. PROCEDURE**

**A**. **Determining Deferral Amount.**

Employees should ask their Payroll/Human Resources office for an estimate of the gross vacation/sick leave payout, the date when it will be paid, and their year-to-date contributions to the 457 or 403(b) Plan. When setting the deferral amount, an employee should factor in any contributions that will have taken place by the date of the final paycheck. The maximum for 2014 is $17,500 (plus an additional $5,500 for age 50 and over). For 2015, the maximum contribution will be $18,000 (plus another $6,000 for those aged 50 and over). Someone who is eligible for both Plans can contribute the maximum amount to each.

**B. Using Age 50 Catch-up.**

Employees who are over age 50 or will be age 50 by the end of the year can defer additional amounts noted above by checking off the “age 50 catch-up” option on the 403(b) Salary Reduction Agreement or the 457 Plan Participation Agreement Form. 457 Plan members using this option for the first time must fill in their “Normal Retirement Age” [[2]](#footnote-2)in order to use this additional savings option.

**C. Changing Deferral Amount--Current Participants**

1. Existing 457 Plan members should use a written Participation Agreement Form to enter the desired deferral amount and the date of the final paycheck. While online contribution changes are now available for this plan, they are not recommended for final paycheck deferrals because there is no ability to enter a specific date for an online contribution change to take effect.
2. Current 403(b) Plan members should use the Salary Reduction Agreement Form to indicate the final contribution amount, effective paycheck date, and the Employee Record Number. Employees who work (or have worked) at more than one state agency may have multiple Employee Record Numbers and should ask Payroll/Human Resource personnel which Employee Record Number will be used to pay unused vacation/sick leave. If an incorrect Employee Record Number is entered on the Salary Reduction Agreement, the deduction will not take place.

**D. Employees not Previously Enrolled.**

Employees who have not previously participated in the 457 or 403(b) Plan will need to complete an enrollment form for each plan into which they will be deferring vacation/sick leave payouts. (An employee who is eligible for and wants to contribute to both the 403(b) and 457 Plans for the first time will need an enrollment form for each, plus the appropriate contribution election form.) To obtain forms and instructions go to [www.CTDCP.com](http://www.CTDCP.com). Select the Deferred Compensation 457 Plan or the 403(b) Plan, go to the “Plan Information” tab, and follow instructions under “How to Enroll”.

1. For the 457 Plan you need to complete both the Enrollment and Participation Agreement Forms. For the reasons indicated above, online enrollment is not recommended for deferrals on your final payout. If are over age 50 and want to defer more than the calendar year maximum, ($17,500 for 2014 or $18,000 for 2015) make sure to select the “age 50 catch-up option” and enter your “Normal Retirement Age”.
2. For the 403(b) plan complete both the Enrollment and the 403(b) Salary Reduction Agreement Forms. The Salary Reduction Agreement must identify the Employee Record Number from which the vacation/sick leave deferral should be taken. Employees who have (or have had) more than one state job should ask Payroll/Human Resources personnel to confirm the Employee Record Number to be used for payment of unused vacation/sick leave. If unused vacation or sick leave will be paid on more than one Employee Record Number, you will need to complete a separate 403(b) Salary Reduction Agreement for each Employee Record Number on which you wish to defer income. No deduction will take place if the wrong Employee Record Number is used.

**E**. **Deadline for Submitting Forms.**

The necessary forms with original signatures must be received by Voya, the third-party administrator, **before** the Cut-Off Date for the employee’s final paycheck, as set forth in the attached Payroll Cut-Off schedule. All forms should be mailed to:

Voya Financial™

P.O. Box 990069

Hartford, CT 06199-0069

Once the final payout check has been issued, agency personnel should not reverse or reprocess paychecks to allow employees to make untimely deferrals of vacation and sick leave payouts.

**F. Common Problems to Avoid.**

Advance planning will prevent common mistakes that can derail deferrals of vacation and sick leave payouts.

* Do not wait until the last minute. When the enrollment or deferral forms are submitted too close to the cut-off date, there will be insufficient time for the plan administrator to obtain corrections, original signatures, or missing information.
* Ensure that the selected deferral amount (together with all year-to-date contributions) does not exceed the IRS maximum limit; otherwise, no deduction will be taken.
* Make sure the requested deferral does not exceed the final check amount. If it does, no deduction will occur.
* 403(b) Plan participants must verify the Employee Record Number on which the vacation/sick leave payout will be made and use that number on the Salary Reduction Agreement.
* A 457 Plan participant using the age 50 catch-up option for the first time must fill in the “Normal Retirement Age” section on the Participation Agreement Form.

**III. CONCLUSION**

Payroll and Human Resources Personnel are encouraged to provide information to terminating or retiring employees so they are aware of the deferral option and provide information about year-to-date contributions, Employee Record Numbers, the amount of any anticipated vacation/sick leave payouts, and the date when they will be paid.

Employees who want help with calculating sick or vacation leave deferrals to the 403(b) or 457 Plan should call **Voya at 1-800-784-6386 option #4** or log onto [**www.CTDCP.com**](http://www.CTDCP.com) for more information. You may also contact the Employee Benefits Unit for assistance at 860-702-3543 or at osc.ebu@ct.gov.

Very truly yours,



THOMAS C. WOODRUFF, Ph.D.

Director

**State of Connecticut**

**Deferred Compensation 457 Plan and 403(b) Plan**

**Payroll Cut-off Date Schedule: 4th Quarter 2014 and 2015 Plan Year**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Cut-Off Date\***(by noon EST) | **Bi-Weekly (26)** | **Semi-Monthly (24)** | **Monthly (12)** |
| 24 | 10/29/2014 | 11/28/2014 | 11/28/2014 | 12/05/2014 |
| 25 | 11/05/2014 | 12/12/2014 | 12/15/2014 |  |
| 26 | 11/19/2014 | 12/26/2014 | 12/31/2014 | 01/02/2015paid on 2014 26th cycle  |
| 1 | 12/10/2014 | 01/09/2015 | 01/15/2015 |  |
| 2 | 12/22/2014 | 01/23/2015 | 01/30/2015 | 02/06/2015 |
| 3 | 01/07/2015 | 02/06/2015 | 02/13/2015 |  |
| 4 | 01/21/2015 | 02/20/2015 | 02/27/2015 | 03/06/2015 |
| 5 | 02/04/2015 | 03/06/2015 | 03/13/2015 |  |
| 6 | 02/18/2015 | 03/20/2015 | 03/31/2015 | 04/02/2015 |
| 7 | 03/04/2015 | 04/02/2015 | 04/15/15 |  |
| 8 | 03/18/2015 | 04/17/2015 | 04/30/2015 | 05/01/2015 |
| 9 | 04/01/2015 | 05/01/2015 |  |  |
| 10 | 04/15/2015 | 05/15/2015 | 05/15/2015 |  |
| 11 | 04/29/2015 | 05/29/2015 | 05/29/2015 | 06/05/2015 |
| 12 | 05/13/2015 | 06/12/2015 | 06/15/2015 |  |
| 13 | 05/27/2015 | 06/26/2015 | 06/30/2015 | 07/02/2015 |
| 14 | 06/10/2015 | 07/10/2015 | 07/15/2015 |  |
| 15 | 06/24/2015 | 07/24/2015 | 07/31/2015 | 08/07/2015 |
| 16 | 07/08/2015 | 08/07/2015 | 08/14/2015 |  |
| 17 | 07/22/2015 | 08/21/2015 | 08/31/2015 | 09/04/2015 |
| 18 | 08/05/2015 | 09/04/2015 | 09/15/2015 |  |
| 19 | 08/19/2015 | 09/18/2015 | 09/30/2015 | 10/02/2015 |
| 20 | 09/02/2015 | 10/02/2015 |  |  |
| 21 | 09/16/2015 | 10/16/2015 | 10/15/2015 |  |
| 22 | 09/30/2015 | 10/30/2015 | 10/30/2015 | 11/06/2015 |
| 23 | 10/14/2015 | 11/13/2015 | 11/13/2015 |  |
| 24 | 10/28/2015 | 11/27/2015 | 11/30/2015 | 12/04/2015 |
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1. Detailed eligibility guidelines can be viewed on the Plans’ dedicated web site – [www.CTDCP.com](http://www.CTDCP.com) . [↑](#footnote-ref-1)
2. For a retiring employee, “Normal Retirement Age” should be your current age. A terminating employee should enter age 65 or older and the year in which that age will be attained. Entry of this information will not affect your right to retire earlier (or later) than the stated date if you decide to do so. [↑](#footnote-ref-2)
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4. For a retiring employee, “Normal Retirement Age” should be your current age. A terminating employee should enter age 65 or older and the year in which that age will be attained. Entry of this information will not affect your right to retire earlier (or later) than the stated date if you decide to do so. [↑](#footnote-ref-4)