

## **ADMINISTRATIVE PRACTICE LETTER**

### **SUBJECT: UNIVERSITY OF MAINE SYSTEM TAX-SHELTERED ANNUITY GUIDELINES**

The University of Maine System permits employees to reduce their salaries for tax-sheltered annuity purposes up to the maximum permitted by the appropriate statutes (Section 403(b) and 415 of the Internal Revenue Code.) Overall, the law provides that the lesser of the limitation under 403(b) or under 415 will apply. The maximum amount which any individual may tax-shelter under a salary reduction agreement will vary from employee to employee and is subject to limitations imposed by the Tax Reform Act, which was effective January 1, 1987.

Briefly, Section 403(b) of the Internal Revenue Code establishes an “exclusion allowance” within which contributions by tax-exempt educational institutions (such as the University) to individually owned annuity contracts are not taxed currently to the employee, but are taxed later during the retirement years. Each employee has his or her own “maximum exclusion allowance” which takes into account an individual’s current salary, years of service with the University of Maine System and retirement contributions excluded from tax in prior years (including the University’s contribution under the TIAA-CREF retirement plan). Recent changes under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) have greatly simplified tax sheltering limits.

Internal Revenue Code Section 415, established under the Employee Retirement Income Security Act of 1974 (ERISA), also limits an employer’s tax-sheltered contribution on behalf of an employee in any one year.

Each eligible employee may shelter either a fixed dollar amount per pay period or a percentage of salary. Ordinarily the percentage of salary reduction will be stated as a percentage of base salary, but arrangements may be made to use a percentage of gross salary if the employee prefers.

#### **PROCEDURE – EMPLOYEE**

1. An employee who elects to tax-shelter contributions to his/her TIAA-CREF contracts should contact the University Human Resources/Benefits Office for details and forms.
2. An employee who elects to tax shelter into other than TIAA-CREF contracts, should contact an agent of the insurance company selected. The insurance agent should obtain an application from the System Office of Human Resources or appropriate University Human Resources/Benefits Office, complete it and return it to the University Benefits Office. The university then processes the application to begin the reduction.
3. An employee wishing to withdraw from the program, or change the amount of salary reduction must notify the University Human Resources/Benefits Office, and if enrolled with a company other than TIAA-CREF, must notify the company directly.

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4. The Agreement for Salary Reduction is generally for a period of at least one year. The employee may terminate an existing Agreement at any time with respect to amounts not yet earned, and may not make more than four agreements during a taxable (calendar) year.
5. Under these guidelines, the allowable percentage options of gross or base earnings must be in whole percentages.
6. Due to the implications of the Tax Reform Act, EGTRRA, and tax-sheltering in general, employees should receive professional assistance in interpreting the Internal Revenue Service Code.
7. Any questions concerning the University's tax-sheltered annuity program may be directed to the University Human Resources/Benefits Office or the System Office of Human Resources.

**APPROVED**

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**Chief Financial Officer and Treasurer**