Number 13.6 - DEFERRED COMPENSATION

Effective Date: March 1, 1996

Applicable To: All classified employees, as well as exempt and appointed, with the Executive Branch of the State of Vermont.

Issued By: Department of Personnel

GENERAL INFORMATION

State employees are allowed, under tax law, to participate in a Deferred Compensation Plan maintained by State government. Many states, counties, and municipalities have adopted this valuable method for employees to enhance their current tax status helping them save for retirement. The State of Vermont's group annuity contract is issued by Aetna Life Insurance and Annuity Company.

Employees can postpone receipt of a portion of their current income through the Deferred Compensation Plan available through the State of Vermont. Employees select accounts from the plan in which their deferred compensation contributions are invested. Their total investment grows, federal and state income tax free, until they reach age 59 1/2 or retire and start drawing from the account. When the employee starts drawing on the account, the money will become taxable as ordinary income. Both the employer and the employee pay Social Security taxes on the money as it goes into the deferred compensation plan.

Payment of taxes is deferred on both the amounts contributed and the earnings from those contributions. Therefore, it is possible for employees to accumulate a larger sum as if they had invested after-tax dollars. When employees do receive the value of their deferred compensation (probably after retirement), it is possible that they will be in a lower tax bracket.

ENROLLMENT

In order to participate in the State's Deferred Compensation Plan, employees must agree in writing to set aside a certain amount from each paycheck. Employees should contact the managers of the State's Deferred Compensation Plan, Systematized Benefits Administrators, Inc. (SBA) at 1-800-642-3800. A representative will set up individual appointments with employees and describe the plan to them. Employees will receive a copy of the Deferred Compensation Agreement, which describes how their benefits are determined, when they will receive payments, and the manner in which payments will be made to them.

To enroll in the plan, employees must complete a *Payroll Deduction* form, and a *Participation Agreement* which state the dollar amount to be deducted each pay period. These forms must be submitted to the Payroll Department for processing. Employees will become participants in the plan in the month following submission of their forms. A new *Payroll Deduction* form must be completed any time employees want to change the amount of or stop their deductions.

ACCUMULATION AND DISTRIBUTION PERIODS

Two periods of time are important under any annuity contract. During the accumulation period, contributions are made, deposited, and invested in options selected by employees to provide future retirement income. The accumulation period ends when employees have a change in status that results in a benefit payment (for reasons of retirement, for example). At this point, the amounts accumulated for employees can be used to provide income payments. During this annuity period, employees receive periodic retirement benefit payments. Employees can choose from several different payment options.

MAKING CHANGES

At any time, employees may increase or decrease their contributions to the plan in while dollar amounts, within the legal limits. They may also stop, or restart their deferrals. Changes must be made on the *Payroll Deduction* form which can be obtained from the agency/department personnel officer.

RECEIVING BENEFITS

Benefit distributions are made when one of the following events occurs:

- an employee retires (normal, early or late)
- an employee dies (payment is made to the beneficiary)
- employment with the State of Vermont ends
- an employee experiences an unforeseeable emergency
- an employee is required to take an IRS minimum distribution (by April 1 of the year following the calendar year in which the employee turns 70 or retires, whichever is later)

If employees terminate employment before they are eligible to retire, the value of their deferred compensation account may be paid to them as specified in their *Participant Agreement*. Income taxes will become due for the tax year in which they receive the money.

If employees do not want their account distributed to them when employment ends, they may irrevocably elect to have it retained by the State of Vermont until a future date (not later than their normal retirement age). Retained funds will continue to participate in investment performance on a tax-favored basis.

WITHDRAWING FUNDS

The Internal Revenue Service does not allow employees to withdraw funds from their deferred compensation account. The single exception to this rule is the case of an unforeseeable emergency or hardship.

An unforeseeable emergency is defined as "a severe financial hardship resulting from a sudden and unexpected illness or accident to the participant or of a dependent, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the participant's control." The definition of hardship does not include expenses that could have been predicted, such as related to the purchase of a home or educational programs (tuition, etc.).

If employees suffer an unforeseeable emergency, they must request an application from the State Retirement Office, 133 State Street, Montpelier, VT 05633, for approval of a withdrawal from their account. Proper documentation of the emergency must be submitted with their application.

For more information on the State's Deferred Compensation Plan, contact the State of Vermont Retirement Office at 802-828-2305, or the Systematized Benefits Administrators, Inc. representative at 1-800-642-3800.