

Pawtucket School Department

Instructions for starting a new 403(b) Salary Reduction Agreement

Please follow these instructions carefully. Salary Reduction Agreements that are submitted and not compliant with these instructions will be returned to you until the non-compliant items are properly completed.

1) Section 1, Employee Information

- a) Fill in your name address, social security number

2) Section 2, Contribution Information

- a) Fill in the Effective Pay Period Date you want the annuity or change to start on
b) Fill in the Number of Pay Periods/Year
c) Enter the name of your Service Provider.
d) Then in the contribution area of this section, check off all boxes that apply and fill in the applicable fields under the boxes that you checked off.

3) Section 3, 4 & 5

- a) Please read these sections carefully

4) Section 6, MAC calculation & 15 Year Rule Catchup Provision

- a) Part I, II & III must all be completed. Your insurance agent or Service Provider should complete this section. (Note: Should you chose Fidelity Investments as your Service Provider, then **you** must complete Section 6, instructions may be obtained from our web site or the Business Office)

5) Section 7, Catchup Provision

- a) If you turn 50 years old by 12/31 of the current calendar year, you may exercise the Catchup Provision. Should you decide to exercise this option, it must be indicated in Section 2 and Section 7 must be completed.

6) Section 8, MAC calculations

- a) Please indicate who performed the MAC, please remember that this is the person that will be held responsible should there be an IRS violation.

7) Section 9, Acknowledgment and Representation of Sales Agent/Representative

- a) This section must be completed by your Service Provider / Insurance Agent, this is our only proof that your Service Provider has created an account for your annuity or made the requested changes to your account.
b) If you are using Fidelity Investments you must send it to one of the following addresses for it to be signed:

Fidelity Tax-Exempt Retirement Services
P.O. Box 770002
Cincinnati, OH 45277-0090

OR

Fidelity Investments Tax-Exempt Services
P.O. Box 31401
Salt Lake City, UT 84131

8) Section 10- Employee Signature

- a) This section must be completed by you the employee

9) Section 11 - Employer Signature

- a) Once you have properly completed all the required sections above, forward the Salary Reduction Agreement to the Assistant Business Administrator of the school department. The document will be reviewed and if it is compliant with the instructions above, will be signed by the Assistant Business Administrator, and the annuity or changes will be forwarded to the proper payroll clerk to being your Salary Reductions.

Pawtucket School Department

Important Notice

All Pawtucket School Department Salary Reduction Agreements that begin on 1/1/06 or any changes to existing Pawtucket School Department Salary Reduction Agreements that are effective on/or after 1/1/06, the following new documents must be provided with the Pawtucket School Department's Salary Reduction Agreement.

- 1) **Service Providers 403(b) Salary Reduction Agreement** – you must now include a copy of the 403(b) Salary Reduction agreement that your Service Provider requires you to sign and submit to them (we will not sign them, but we require a copy of their document with your signature on it).
- 2) **403(b)(1) Annuity Contract** – if applicable you must submit a copy of the Service Providers Annuity Contract that you receive from the service provider that spells out the terms and conditions of how your money will be invested
- 3) **403(b)(7) Custodial Account Agreement** - if applicable you must submit a copy of the Service Providers Custodial Account Agreement that you receive from the service provider that spells out the terms and conditions of how your money will be invested.

Important Note:

- You must always submit #1 above.
- You must submit either #2 or #3 above, or both depending on how you plan to invest your funds.
- If all of your funds are being invested in an Annuity Account then you only need to submit #1 and #2 above.
- If all of your funds are being invested in a Custodial Account then you only need to submit #1 and #3 above.
- If your funds are mixed between an Annuity Account and a Custodial Account then you must submit #1, #2 and #3 above.

Definition of Account Types

403(b)(1) Annuity Contract

1. ***Issuer:*** An insurance company qualified to do business in the state of Rhode Island
2. ***Investments:*** Investment in fixed and/or separate account investment offerings under the annuity contract.

403(b)(7) Custodial Account Agreement

1. ***Issuer:*** A state or federal bank, trust company, insured credit union, entity under the supervision of the Rhode Island state banking commissioner, or other person who has made satisfactory demonstration to the Commissioner of the Internal Revenue Service.
2. ***Investments:*** Investment in fixed and/or separate account investment offerings under the annuity contract.

Pawtucket School Department

Instructions for Switching 403(b) Service Providers

1. **You must provide a SEPARATE Salary Reduction Agreement to discontinue service with your previous Service Provider, the following Salary Reduction Agreement sections must be completed.**
 - a) Complete Section 1
 - b) In Section 2
 - i. Effective Pay Period Date – enter this date
 - ii. Check off the “Discontinue Salary Reduction Agreement” box
 - iii. Underneath the check box, enter the name of the Service Provider you are discontinuing service with.
 - c) Section 9 – must be completed by your PREVIOUS Service Provider Agent.
 - d) Section 10 – must be completed by you.

 2. **You must then provide a SEPARATE Salary Reduction Agreement to begin service with your new Service Provider, the following Salary Reduction Agreement sections must be completed.**
 - a) Complete Section 1
 - b) In Section 2
 - i. Effective Pay Period Date – enter this date
 - ii. Nbr Pay Periods/Yr – enter the number of Pay Periods
 - iii. Check off the “Change Service Provider” box
 - iv. Enter the “From:” Service Provider and previous deduction amounts.
 - v. Enter the “To:” Service Provider and new deduction amounts
 - c) Section 6, 7, 8, and 9 – must be completed by your NEW Service Provider Agent.
 - d) Section 10 – must be completed by you.
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Instructions for Discontinuing a 403(b) with a Service Provider

1. **You must provide a separate Salary Reduction Agreement to discontinue service with your Service Provider, the following Salary Reduction Agreement sections must be completed.**
 - a) Complete Section 1
 - b) In Section 2
 - i. Effective Pay Period Date – enter this date
 - ii. Check off the “Discontinue Salary Reduction Agreement” box
 - iii. Underneath the check box, enter the name of the Service Provider you are discontinuing service with.
 - c) Section 9 – must be completed by the Service Provider/Agent that you are discontinuing the 403(b) with. (We can not discontinue a Salary Reduction agreement until this section is signed by your Service Provider, it is our proof your account has been closed with the Service Provider)
 - d) Section 10 – must be completed by you.

Pawtucket School Department

403(b) Annuity Program Guidelines

- 1) You are only allowed to contribute to Service Providers (annuity companies) that are on the Approved Service Provider company list. (Please ask for a copy of the list.).
- 2) There is a minimum annual contribution of \$200.00 that must be made in order to start a 403(b) Annuity.
- 3) There are only two dates for Open Enrollment or to make changes to your Plan, these dates are August 15th and December 15th each year. A Salary Reduction Agreement must be submitted by August 15th in order for it to begin on the first payroll in September, or be submitted by December 15th in order for it to begin on the first payroll in January. **No other enrollments or changes will be allowed during the calendar year.**
- 4) Personnel may withdraw from the annuity program any time during the calendar (taxable) year, by completing a new Salary Reduction Agreement and checking off the "Discontinue Salary Reduction Agreement" box on the form, and having your Service Provider / Insurance Agent complete Section 9 before being submitted to the Business Office.
- 5) New employees transferring into the school department who have equity in an annuity plan at their previous place of employment. In this instance, they may start a new annuity with a company from the Approved Service Provider List, as long as the prior deductions in that specific calendar (taxable) year, plus future deductions with this school department in the same calendar (taxable) year, do not exceed the IRS maximum deduction allowances.
- 6) Employee deductions will be made weekly / biweekly as applicable. **Payments to individual insurance companies or service providers will be made once a month.**
- 7) Employees are permitted to contribute to a maximum of two different Service Providers.
- 8) Part Time employees, Substitute Teachers, Substitute Clerks, and Substitute Teacher Assistant employee deductions must be set up as a fixed percentage of payroll, due to the fact these employees do not work every day and/or every week.
- 9) All matters of rates, returns, brokerage fees and maintenance of individual plans must be between the representatives of the various Insurance Agent / Broker and the individual employee. Investment selections are solely the responsibility of the employee. Employees will not be allowed to seek recovery against the school district for any losses, investments or otherwise, that they may sustain. The Pawtucket School Department does not make recommendations on Service Providers, investments, investment types, or provide Service Provider or agents telephone numbers.
- 10) In determining the years of service with the Pawtucket School Department there shall be included:
 - a. One year for each full year during which the employee was a full time employee, and
 - b. A fraction of a year for each full year during which such employee was a part-time employee, and
 - c. A fraction of a year for each part of a year during which such employee was a full-time or part-time employee.
 - d. In no case shall the years of service be less than one.
 - e. The years of service will be verified with the Superintendents office.
- 11) Employees that have completed fifteen (15) years of service with the City of Pawtucket only, may qualify for the IRS "15Year Rule", which allows them to increase the maximum calendar (taxable) year deduction as adjusted by the IRS. Please consult your Agent for further details.

- 12) If you are exercising this "15 Year Rule", a new MAC must be submitted by December 15th, of each year. The MAC must include the cumulative contributions towards the "15 Year Rule" through December 31st. Please remember if you do not submit a new (MAC) each year by December 15th, your annuity will terminate the last payroll of December.
- 13) If you should reach age 50 by December 31st of the calendar (taxable) year you may qualify for the IRS Catch Up Provision, which allows you to increase the maximum calendar (taxable) year as adjusted by the IRS. Please consult your Agent for further details.
- 14) Loans: Prior to making any loan against a TSA plan, the employee must, in writing, notify the Pawtucket School Department and provide the following:
- Copies of the specimen loan application.
 - Amount borrowed.
 - Account balance in the 403(b) account at the time the loan is being initiated.
 - Explanation of how the payments are to be made (i.e. payroll withholding, direct payment by participant to TSA Service Provider, etc.)
 - Provide annually, a detailed payment history on the loan.
 - Should you default on the loan, you must immediately notify the Pawtucket School Department.
- 15) Hardship Distributions: Before hardship distributions are made from a TSA plan, the employee must provide Pawtucket School Department with:
- Copies of all documents relating to the distribution,
 - The amount of the Hardship Distribution, and
 - The type of hardship distribution, and
 - In writing, the reason for the hardship.
- 16) Types of Hardship Distributions
- Deemed Hardships – if an employee takes a deemed hardship distribution, they are foreclosed from making any further deferrals to the TSA plan for a period of one year from the date of the distribution.
 - Certified Hardships – if an employee takes a certified hardship distribution, the employee must provide the Pawtucket School Department with information as to the reason for the hardship distribution, along with a statement that the employee does not have funds from any other source to satisfy the severe, financial hardship. This means the employee has looked to savings accounts, equity in a home and liquidation of investments before looking to the retirement plan to satisfy the financial obligation. The Employee may continue making contributions to the TSA.

New IRS Guidelines (Effective 11/16/04)

- 1) **Life Insurance** – Life Insurance and similar incidental benefits will no longer be permitted in 403(b) plans. This applies to contracts issued up to 90 days from the regulation publication date of November 16, 2004. Contracts issued prior to this date will be grandfathered.

**PAWTUCKET SCHOOL DEPARTMENT
SALARY REDUCTION AGREEMENT FOR
403(b)(1) AND 403(b)(7) RETIREMENT PROGRAMS (NON-ERISA)**

Section 1. Employee Information:

Name: _____ Social Security #: _____

Address: _____

City / State / Zip: _____

IMPORTANT NOTICE

BEFORE YOU SIGN: Read the important information on the following pages of this form. Each Employee who initiates or changes contributions to a 403(b) program, or changes Service Providers, shall, at such time, provide the Employer with a copy of his/her Maximum Amount Contributable (MAC) as calculated by the Employee's chosen annuity or custodial account provider. For each Employee contributing more than \$15,500, by utilizing the "15 Year Rule provision" or any special elections allowed by the Internal Revenue Code, an MAC calculation shall be required annually upon request of the employer. A copy of such MAC shall be provided to the Employer by December 15th of each calendar year in which the "15 Year Rule provision" or "special elections" are utilized.

Section 2. Contribution Information: (Select all that apply)

Effective Pay Period Date: _____ Nbr Pay Periods/Yr _____

Service Provider (Insurance Co.) _____

Initiate new salary reduction agreement

Please deduct annual amt. of \$ _____ and Pay period amt. of \$ _____

**Utilizing the 15 Year Rule Provision (up to \$3,000 if attained 15 or more years of service)
And / Or**

Utilizing the Catch-Up Provision (up to \$5,000 if attained age 50 by 12/31/2006)

Change Salary Reduction amount

This is notification to change the amount of my salary reduction

From \$ _____ Annually and \$ _____ per pay period.

To \$ _____ Annually and \$ _____ per pay period.

Change Service Provider (Insurance Company)

This is notification to change my Service Provider,

From: _____ Annual Amt: \$ _____ P.P. Amt: \$ _____

To: _____ Annual Amt: \$ _____ P.P. Amt: \$ _____

Discontinue Salary Reduction Agreement: Please discontinue my 403(b) Salary Reduction Agreement with the following Service Provider.

Section 3 - Agreement:

The above named Employee agrees to establish/modify his/her salary reduction agreement as indicated above. Employer agrees to contribute this amount on Employee's behalf into the annuity or custodial accounts selected by Employee. It is intended that the requirements of all applicable state or federal income tax rules and regulations (Applicable Law) will be met. The Employee understands and agrees to the following:

- 1) this Salary Reduction Agreement is legally binding and irrevocable with respect to amounts paid or available while this agreement is in effect;
- 2) this Salary Reduction Agreement may be terminated at any time for amounts not yet paid or available, and that a termination request is permanent and remains in effect until a new Salary Reduction Agreement is submitted;
- 3) this Salary Reduction Agreement may be changed with respect to amounts not yet paid or available in accordance with the Employers' administrative procedures.

Employee is responsible for determining that the salary reduction amount does not exceed the limits as set forth in Applicable Law. Furthermore, the Service Provider and Employee agree to indemnify and hold Employer harmless against any and all actions, claims and demands whatsoever that may arise from the purchase of annuities or custodial accounts for Employees in amounts in excess of contribution limits as defined under Applicable Law except where an MAC was calculated by the Service Provider based on accurate information provided by the Employee.

Employee acknowledges that Employer has made no representation to Employee regarding the advisability, appropriateness or tax consequences of the purchase of the annuity and/or custodial account described herein. Employee agrees Employer shall have no liability whatsoever for any and all losses suffered by Employee with regard to his/her selection of the annuity and/or custodial account; its terms; the selection of the insurance company or regulated investment company; the financial condition, operation of or benefits provided by said insurance company or regulated investment company; or his/her selection and purchase of shares of regulated investment companies. Nothing herein shall affect the terms of employment between Employer and Employee. This Agreement supersedes all prior salary reduction agreements and shall automatically terminate if Employee's employment is terminated.

Section 4 - Important Information:

- 1) Employer does not choose the annuity contract or custodial account in which your contributions are invested.
- 2) Employees are responsible for setting up and signing the legal documents to establish your annuity contract or custodial account. A copy of the annuity contract or custodial account must be provided to the employer.
- 3) In order to receive the expected tax results, Employees are responsible for investing in annuity contracts or custodial accounts that meet the requirements of Section 403(b) of the Internal Revenue Code.
- 4) Employees are responsible for naming a death beneficiary under annuity contracts or custodial accounts. This is normally done at the time the contract or account is established. Beneficiary designations should be reviewed periodically.
- 5) Employees are responsible for all distributions and any other transactions with Service Provider, with the single exception of distributions that are required by the Internal Revenue Service (IRS) as a condition of an IRS audit that results in a negotiated closing agreement, or the Employer's utilization of any IRS Correction Program. All rights under contracts or accounts are enforceable solely by Employee, Employee beneficiary or Employee's authorized representative. Employee must deal directly with Service Provider to make loans, transfer to different contracts or custodial accounts, begin distributions, or any other transactions.
- 6) Employees are responsible for determining that salary reductions do not exceed the allowable contribution limits under Applicable Law. You must have a Maximum Allowable Contribution (MAC) calculation performed in Section 6 of this agreement, by the chosen Service Provider or by the employee before executing this agreement.

Section 5 - Maximum Amount Contributable (MAC) and Catch-Up Provision calculation

- 1) The MAC in Part 6 and 7 of this document must include each of the following:
 - the Limit of Annual Additions calculation, (lesser of 100% of compensation or \$42,000) and,
 - the Limit on Elective Deferrals calculation (\$15,500 limit) and,
 - if applicable, the 15 Year Rule provision calculation for up to an additional \$3000 (must have 15 or more years of service with employer) and,
 - and if applicable, the Catchup Provision calculation for an additional \$5,000 (must attain age 50 by 12/31/2006)

Section 6 - Employee Maximum Amount Contributable (MAC) Calculation

Part I. Limit on Annual Additions

- 1) Enter the includible compensation for the employees most recent year of service. \$ _____
- 2) Maximum \$ 42,000
- 3) Lesser of line 1 or line 2. This is the employee's limit on annual additions \$ _____

Part II. Limit on Elective Deferrals

- 4) Maximum contribution \$ 15,500

15 Year Rule: If the employee has at least 15 years of service with the Pawtucket School Dept., complete lines 5 through 15. If not, enter \$0 on line 14 and go to line 15.

- 5) Amount per years of service \$ 5,000
- 6) Enter employee's years of service _____ Yrs
- 7) Multiply line 5 by line 6 \$ _____
- 8) Enter the total of all elective deferrals for prior years made for the employee by the qualifying organization. \$ _____
- 9) Subtract line 8 from line 7. If zero or less, enter \$0 \$ _____
- 10) Maximum increase in limit for long service \$ 15,000
- 11) Enter all prior year increases in the limit for long service \$ _____
- 12) Subtract line 11 from line 10 \$ _____
- 13) Maximum additional Contributions \$ 3,000
- 14) Enter the least of lines 9, 12, or 13. This is your increase in the limit for long service \$ _____
- 15) Add lines 4 and 14. This is your limit on elective deferrals \$ _____

Part III. Maximum Amount Contributable

- 16) Enter the lesser of lines 3 or 15. This is your MAC. \$ _____

Section 7 - Catchup Contribution Calculation - Note: If the employee is age 50 or older, use this worksheet to figure the catch-up contribution allowable.

- 1) Maximum Catch-Up Contributions \$ 5,000
- 2) Enter your includible compensation for your most recent year of service \$ _____
- 3) Enter your elective deferrals \$ _____
- 4) Subtract line 3 from line 2 \$ _____
- 5) Enter the lesser of line 1 or line 4. This is your catch-up contribution \$ _____

Section 8 –MAC calculations

The calculations in Section 6 and 7 were performed by. Please Check One:

_____ Service Provider

_____ Employee

Section 9 - Acknowledgment and Representation of Sales Agent/Representative

- 1) If the Employee has indicated on Page 1 to discontinue their Salary Reduction Agreement with you (the Service Provider), then I certify that the Employee’s account with the Service Provider indicated on Page 1 has been closed and agree future Salary Reduction contributions will end. (MAC calculation not needed and #2-8 below do not apply)
- 2) Otherwise, I agree to comply with all pertinent written directives regarding the solicitation of Employees. I have provided the Maximum Amount Contributable (MAC) calculation, above in Section 6 and 7 of this agreement. This will be provided each time the Employee initiates or changes contributions, or changes Service Providers.
- 3) I will provide the Catch-up Contribution Calculation, above in Section 7 of this agreement, for each Employee who initiates a Catch-up Contribution.
- 4) Upon request, an MAC calculation (Section 6) will also be provided annually, for an Employee contributing more than \$15,000 and/or by utilizing the "15 Year Rule provision", or any special elections.
- 5) I agree to notify the Employer prior to any hardship distributions by forwarding; copies of all documents relating to the distribution, the amount of the Hardship Distribution, the type of hardship distribution, and in writing, the reason for the hardship.
- 6) I agree to provide the Employer with copies of any loan applications made by the Employee. The notification must provide the amount borrowed, the account balance in the 403(b) account at the time the loan is initiated, and an explanation of how the payments are to be made. Annually you must provide the Employer with a detailed payment history on the loan. Should the Employee default on the loan, the Employer must be notified in writing.
- 7) I certify that Employee contributions 90 days after 11/16/04 will not be invested in incidental life insurance contracts.
- 8) Furthermore, I agree to indemnify and hold harmless the Employer, any individual member of the governing board and the Employee, participating in the 403(b) Program against any claims based on an error in the MAC provided, except where the error is based upon erroneous information provided by Employee.

Sales Agent / Representative Name (Please print)

Phone Number

Sales Agent / Representative Signature

Date

Section 10- Employee Signature

I certify that I have read this complete agreement and that my salary reductions do not exceed contribution limits as determined by Applicable Law. I understand my responsibilities as an Employee who has voluntarily elected to participate in the Employer’s 403(b) program. I request the Employer take the action specified in this agreement. I understand that all rights under the annuity or custodial account established by me under the Program are enforceable solely by my beneficiary, my authorized representative or me.

Furthermore, I agree to indemnify and hold harmless the Employer, and any individual member of the governing board, against any claims based on an error in the MAC provided.

Employee Signature

Date

Section 11 - Employer Signature

Employer hereby agrees to this Salary Reduction Agreement.

Employer Signature

Date