

CENTRAL MICHIGAN UNIVERSITY 403(b) BASIC RETIREMENT PLAN

CENTRAL MICHIGAN UNIVERSITY 403(b) SUPPLEMENTAL TAX DEFERRAL PLAN

Explanation of Contribution Limits

Introduction

Central Michigan University sponsors two plans under Section 403(b) of the Internal Revenue Code (Code): the Central Michigan University 403(b) Basic Retirement Plan (**Basic Plan**) and the Central Michigan University 403(b) Supplemental Tax Deferral Plan (**Supplemental Plan**). Plans maintained under Code Section 403(b) are referred to as “403(b) plans” or as “tax-sheltered annuity plans.” Although maintained under the same provision of the Code, the **Basic Plan** and the **Supplemental Plan** are entirely separate plans. You may review copies of each of the plans at http://cmich.edu/Documents/HR/Benefits/orp_plan_doc.pdf and http://www.cmich.edu/Documents/HR/Benefits/403b_plan_doc.pdf. The **Basic Plan** permits only University contributions. The **Supplemental Plan** permits only employee contributions.

Contributions to these plans are subject to two annual limits. The first is a limit on Elective Deferrals, which applies to contributions to the **Supplemental Plan**. The second is a Code Section 415 limit, also known as the limit on annual additions. While the two plans are separate and distinct for almost all purposes, they are aggregated and treated as a single plan for purposes of applying the 415 limit. This document provides an explanation of these two limits. As you will see below, there is also a significant exception to these limits for a special type of contribution known as an age 50 Catch-Up contribution.

This explanation consists of two parts. The first applies to the normal situation in which individuals eligible for CMU’s **Basic Plan** and **Supplemental Plan** do not participate in any other plans during the year. If you do not participate in any outside plans, the University will monitor and know the amounts of all contributions made on your behalf for the year.

The second part of this explanation addresses situations in which a University employee may participate in a 403(b) plan of another employer during part of the year, if the participation is sequential, or for part or all of the year, if the participation is dual and simultaneous. It also discusses participation in other types of plans of other employers.

What is a 403(b) Plan?

A 403(b) or tax-sheltered annuity plan is a special type of retirement plan allowed by the Code for employees of public schools, certain tax-exempt organizations

(including churches) and certain ministers. A 403(b) plan is an individual account arrangement in which the accounts may be either annuity contracts which are provided through an insurance or annuity company, or custodial accounts which are invested in mutual funds, or a combination of both.

How Are Contributions Made to My 403(b) Accounts?

As noted above, two different types of contributions can be made to the CMU 403(b) plans. First, the University makes employer contributions, known as “Nonelective Contributions,” to the **Basic Plan**. The University contributions are in accordance with a contribution schedule attached as Appendix A at the end of the plan document. However, except to the extent agreed through collective bargaining, the contribution amounts are discretionary and may be changed by the University at any time.

Employer Nonelective Contributions are invested as you direct either in one or more annuity contracts provided by the designated vendor, TIAA-CREF or in mutual funds offered by one or both vendors TIAA-CREF and Fidelity Investments. The contributions and any attributable earnings are not taxable to you until they are ultimately distributed in response to your withdrawal or payment request.

The other type of contribution is an employee contribution, referred to as an “Elective Deferral,” that you make to the **Supplemental Plan** under a salary reduction agreement with the University. The agreement directs the University to withhold funds from your paychecks to be contributed directly into your 403(b) account in the **Supplemental Plan**. These pre-tax contributions and any attributable earnings are also not taxable until distributed and they are invested in the same manner as described above for the **Basic Plan**.

Part 1

No Outside Plans

This Part 1 applies to situations in which individuals eligible for CMU’s **Basic Plan** and **Supplemental Plan** do not participate in any other plans during the year.

No Outside Plans: What Are the Limits on Elective Deferrals?

If you participate only in CMU’s **Basic Plan** and CMU’s **Supplemental Plan**, the limit on your Elective Deferrals controls the amount of contributions you may make each year to the **Supplemental Plan**. The limit on Elective Deferrals is a dollar amount that is subject to annual adjustment under the Code. For 2009, the Elective Deferral limit is \$16,500. If you exceed the limit in a year, you will be taxed on the excess and a correction of the excess will be required.

Catch-Up Contributions

There is also a separate limit for “Catch-Up” contributions. Catch-Up contributions are special Elective Deferral contributions. You may make Catch-Up contributions for a year if you are age 50 or older or will attain age 50 by the end of the year. However, Catch-Up contributions may be made only if you have made the maximum dollar amount of regular Elective Deferrals permitted to you for the year.

The limit on Catch-Up contributions is a dollar amount adjusted annually as provided in the Code. For 2009, the dollar limit on Catch-Up contributions is \$5,500. Therefore, if you are eligible to make Catch-Up contributions, your total Elective Deferral contributions for 2009, including Catch-Up contributions, can be \$22,000.

Catch-Up contributions are in addition to your personal limit on Elective Deferrals, and they are also in addition to and do not count toward the 415 limit discussed below.

Alternate Limit on Elective Deferrals

There is an alternate limit on Elective Deferrals, including Catch-Up contributions. These contributions cannot exceed your compensation, but that limit ordinarily does not impact the amounts you may contribute. It is normally higher than the dollar limits.

No Outside Plans: Limit on Annual Additions

The other limit addressed in this Part 1 is the 415 limit on annual additions. The 415 limit applies to the aggregate of your “annual additions,” which is defined as the sum of your Elective Deferrals, Nonelective Contributions and any after-tax contributions and re-allocated forfeitures (there are no after-tax contributions or re-allocated forfeitures in the CMU 403(b) plans). As noted above, all of the contributions on your behalf to both CMU’s **Basic Plan** and CMU’s **Supplemental Plan** must be aggregated for purposes of applying this limit. The 415 limit is a dollar amount adjusted annually as provided in the Code. For 2009, the 415 limit is the lesser of \$49,000 or 100% of your includible compensation for your most recent year of service. The term “includible compensation” is a special measurement of compensation that applies to 403(b) plans.

Part 2

Outside Plans

This Part 2 applies to situations in which individuals eligible for CMU’s **Basic Plan** and **Supplemental Plan** also participate in a 403(b) of another employer or certain other retirement plans during part or all of the year.

It is impossible for the University to know about any additional plans and contributions that are not made by or through the University unless those additional contributions are disclosed to the University. For that reason, if you have contributions to outside plans, you must disclose them to the University. It is solely your responsibility to make this disclosure. The University has no responsibility or liability for the consequences of your failure to fully disclose all outside contributions.

Outside Plans: Limit on Elective Deferrals

The important thing for you to know is that the limit on Elective Deferrals is an individual, calendar year limit that applies with respect to all of your personal Elective Deferrals to any and all plans for the year. If you make Elective Deferral contributions during the year to any plan other than CMU's **Supplemental Plan**, those contributions must be taken into account in determining whether you have exceeded the limit for the year. This can only be done by the University if those other contributions are reported to the University. To do that, you must complete the "Outside Contribution Disclosure Form" provided with this explanation. On that form, you must report not only any Elective Deferral contributions that you make to any 403(b) plan in addition to CMU's **Supplemental Plan** but also Elective Deferrals that you make to any 401(k) plan (to the extent excluded from income) 501(c)(18) plan (to the extent excluded from income) any SIMPLE plan, and any simplified employee pension (SEP) plan. Roth Elective Deferrals made to any other plan must also be included in determining your Elective Deferral limit for the year.

Outside Plans: Limit on Annual Additions

The 415 limit (limit on annual additions) applies only to contributions to CMU's **Basic Plan** and CMU's **Supplemental Plan** and, if applicable, those made to all plans of entities that you are deemed to control. The 415 limit does not apply to annual additions to any plan of any employer that is not related to the University and not deemed controlled by you.

If, while participating in CMU's **Basic Plan** and **Supplemental Plan**, you are in the unique situation of participating in one or more plans of a controlled employer and any related employers, then the annual additions to those plans must be aggregated with those to CMU's **Basic** and **Supplemental Plans** for determining compliance with the 415 limit.

You are deemed to be in control of an employer if you own more than 50% of that employer. Deemed ownership also extends to any additional entity that is controlled by an entity that you control.

Example: If a doctor is employed by and participates in a 403(b) plan of a hospital and also maintains a private practice as a shareholder owning more than 50% of a professional corporation, then any qualified defined contribution plan of the

professional corporation must be aggregated with the 403(b) plan of the hospital for purposes of complying the 415 limit.

In a situation involving multiple plans, the plans must meet the 415 limit both separately and on an aggregate basis. In testing the plans on an aggregate basis, compensation from the employer providing the 403(b) plan can be aggregated with compensation from the controlled employer or employers. However, in testing each of the plans separately, compensation may not be aggregated.

Summary

If you participate only in CMU's **Basic Plan** and CMU's **Supplemental Plan** and don't participate in any other plans, application of the limit on Elective Deferrals and the 415 limit is relatively simple and will be monitored for you by the University.

On the other hand, application of these limits in situations in which you participate in plans of other employers, and especially in any situation in which you participate in the plan of an employer you are deemed to control, is more complex and can only be reviewed by the University to the extent you provide full and complete information to the University about all other employers and all other plans on the Outside Contribution Disclosure Form that accompanies this explanation. To the extent that you fail to fully disclose all of the necessary information required on the disclosure form, you are responsible for compliance with the Elective Deferral and 415 limits that apply to you and the University has no responsibility or liability for the consequences of your failure to fully disclose the information required by the form or any failure to comply with either or both of the limits.