

**Business and Noninstructional Operations**

AR 4155.1(a)

**TAX-SHELTERED ANNUITIES**

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**Purpose and Scope**

To define administrative procedures governing purchase of tax-sheltered annuities by district employees.

**Definition**

A tax sheltered annuity is an investment program that defers federal and state income taxes on the invested part of an employee’s current salary until the annuity is returned to the individual either by retirement by withdrawal.

**Internal Revenue Code Section 403(b) and 457(b)**

As provided by Internal Revenue Code Section 403(b) and 457(b), all employees (except Board of Education members, district students who are temporarily hired by the district, or persons employed by independent contractors of the district) may purchase tax-sheltered annuities through authorized companies.

**Limitations**

1. Employee’s salary reduction must exceed \$200 per year.
2. Investment consulting cannot be provided by the district.

**Companies Offering Tax-Sheltered Annuities**

A list of companies authorized by the Board of Education to offer tax-sheltered annuities to district employees is available on the district’s web site and from the Fiscal Control Department.

**Responsibilities**

1. Applying/Participating Company
  - a. Obtain a minimum of five employee participants.
  - b. Comply with Internal Revenue Service (IRS) and district information sharing agreement requirements.
  - c. Secure authorization from the Board of Education to offer a tax-sheltered annuity program to district employees.
  - d. Complete and submit a signed copy of the district’s plan service agreement “Hold Harmless Agreement” when applying for Board of Education approval.

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- e. Maintain an office in San Diego County and/or a toll-free telephone number for use by district employees.
  - f. Make the tax-sheltered annuity program available to all employees (excluding those specified in the Internal Revenue Code Section 403(b) and 457(b) section above, without regard to race, color, religion, sex, national origin, political affiliation, age, handicap, sexual orientation, or prior political affiliation.
  - g. Provide investment counseling for the employee while respecting the educational process taking place at the work site:
    - (1) Report presence at work site and obtain permission from principal/manager to distribute commercial material to employees.
    - (2) Set appointments to speak with interested individuals only during non-work hours.
    - (3) Do not request or expect to be given speaking opportunities during staff meetings.
    - (4) Be respectful of all staff and not disturb disinterested individuals.
  - h. Ensure a tax-sheltered annuity application to the authorized company is submitted prior to commencement of a payroll deduction.
  - i. Ensure that “Salary Reduction Agreement” is submitted online using district third party administrator.
  - j. Comply with district policies and procedures outlined herein, including future revisions of this regulation. Failure to comply with district policies and procedures may result in loss of authorization to offer a tax-sheltered annuity program to district employees.
2. Employee
- a. Submits tax sheltered annuity application to the authorized company prior to commencement of a payroll deduction.
  - b. Submits electronic “Salary Reduction Agreement” using district’s third party administrator’s (TPA) website.
  - c. Makes changes to Salary Reduction Agreements only by using TPA website. Changes must be submitted by 15th of the month to affect payroll at the end of the month.
3. District’s role and responsibility are limited to the following:

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- a. Board of Education authorizes individual company to offer a tax-sheltered annuity to district employees.
- b. Upon authorization from employee (via online Salary Reduction Agreement) withhold specified amount of employee's salary and forward amount to designated company.
- c. Electronically submits deductions to TPA who will forward contributions to individual providers.
- d. Maintain current list of authorized companies.

**Implementation**

1. Participating company
  - a. Requests approval in writing to offer a tax-sheltered annuity to district employees. Contacts TPA to test data sharing capabilities. Attaches a copy of the district's Provider Service Agreement and "Hold Harmless Agreement" that has been signed by an officer or legal counsel of the company.
  - b. Sends monthly information sharing file to TPA.
  - c. Obtains employee's signature on all contracts, applications, and other related forms. Assists employee in completing online Salary Reduction Agreement.
2. Employee
  - a. Establishes account with authorized provider.
  - b. Completes online "Salary Reduction Agreement" in cooperation with company representative.
3. Fiscal Control Department
  - a. Uploads monthly demographic file information to TPA electronically.
  - b. Processes monthly change to deductions via online TPA.
  - c. Remits of contributions to TPA.

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- d. Signs participating company applications, rollover and distribution forms, as appropriate.
- e. Signs district's "Standard Hold Harmless Agreement."
- f. Prepares W-2 form reflecting reduced gross salary for income tax purposes and unreduced gross salary for social security purposes; indicates the employee's total tax-sheltered annuity contributions for that year.
- g. Receives and processes refund checks for companies.

*Legal Reference*

EDUCATION CODE

22101 *et seq.* State Teachers' Retirement System

22154 Definition; pay period

22810 Defined Benefit Program

GOVERNMENT CODE

20022 Definition; contracting agency

REVENUE AND TAXATION CODE

17506 Taxation of employee annuities

Regulation  
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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
San Diego, California