



# ADMINISTRATIVE PROCEDURE

SAN DIEGO UNIFIED SCHOOL DISTRICT

NO: 2630

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CATEGORY: **Fiscal Management, Payroll**

EFFECTIVE: **1-05-65**

SUBJECT: **Tax-Sheltered Annuities**

REVISED: **11-24-04**

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## A. PURPOSE AND SCOPE

1. To define administrative procedures governing purchase of tax-sheltered annuities by district employees (excluding employees specified in C.3).

## B. LEGAL AND POLICY BASIS

1. **Reference:** Board Policy I-1020; Education Code Sections 22101 *et seq.*, 22154, 22810; Internal Revenue Code Sections 401(k), 403(b), 501(c)(3); Government Code Section 20022; California Revenue and Taxation Code Section 17506.

## C. GENERAL

1. **Originating Office.** Suggestions or questions concerning this procedure should be directed to the Accounting Operations Department, Financial Operations Division, Office of School Site Support.
2. **Definition. Tax-sheltered annuity:** 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 or by withdrawal.
3. **As provided by Internal Revenue Code Section 403(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.
4. **Limitations.** Employee's salary reduction must exceed \$200 per year.
5. **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 Accounting Operations Department.
6. **Responsibilities**
  - a. **Applying/participating company**
    - (1) Obtain a minimum of five employee participants.
    - (2) Secure authorization from the Board of Education to offer a tax-sheltered annuity program to district employees.

- (3) Complete and submit a signed copy of the district's standard "Hold Harmless Agreement" when applying for Board of Education approval.
- (4) Maintain an office in San Diego County and/or a toll-free telephone number for use by district employees.
- (5) Make the tax-sheltered annuity program available to all employees (excluding those specified in C.3) without regard to race, color, religion, sex, national origin, political affiliation, age, handicap, sexual orientation, or prior organizational affiliation.
- (6) Provide investment counseling for the employee; contact employees only during nonduty hours and off school district premises.
- (7) Ensure that a tax-sheltered annuity application is submitted to the authorized company *prior* to commencement of a payroll deduction.
- (8) Ensure that each employee deduction for the tax-sheltered annuity and incidental life insurance, if any, does not exceed limitations established by law.
- (9) Ensure that "Salary Reduction Agreement" is submitted to the Fiscal Control Unit, Accounting Operations Department, in accordance with time limits specified in D.2.b.
- (10) Comply with district policies and procedures outlined herein, including future revisions of this procedure. Failure to comply with district policies and procedures may result in loss of authorization to offer a tax-sheltered annuity program to district employees.

**b. Employee**

- (1) Ensure accuracy of "Salary Reduction Agreement" including:
  - (a) Social security number.
  - (b) Deduction for the tax-sheltered annuity and incidental life insurance, if any, does not exceed limitations established by law. (This should be verified with employee's company representative.)
- (2) Submit tax-sheltered annuity application to the authorized company *prior* to commencement of a payroll deduction.

- (3) Submit "Salary Reduction Agreement" to the Fiscal Control Unit within time limits specified in D.2.b.
- (4) Terminate payroll deductions by completing and forwarding a "Salary Reduction Agreement" to the Fiscal Control Unit by the first workday of the month in which cancellation is to be effective.

c. **District's role and responsibility** are limited to the following:

- (1) Board of Education authorize individual company to offer a tax-sheltered annuity to district employees.
- (2) District
  - (a) Upon authorization from employee (via submission of a completed and signed "Salary Reduction Agreement") withhold specified amount of employee's salary and forward amount to designated company.
  - (b) Issue warrant and annuity deduction register to designated companies.
  - (c) Maintain current list of authorized companies.

**Note:** Investment counseling cannot be provided by district personnel.

## **D. IMPLEMENTATION**

### **1. Participating Company**

- a. Requests approval in writing to offer a tax-sheltered annuity to district employees. Attaches a copy of the district's standard "Hold Harmless Agreement" that has been signed by an officer or legal counsel of the company.
- b. Not later than December 15 of each year, provides the school district with a list of employees participating in a tax-sheltered annuity plan, and should include plans that have incidental life insurance premiums as a component. This list shall be in the most desirable format agreed to by the district (Accounting Operations Department) and the insurance company and will include, but not be limited to, the following:
  - (1) Employee name and social security number

- (2) Amount of annual term life insurance cost
  - (3) Date of applicable period
  - c. Completes “Salary Reduction Agreement” with employee; forwards the signed agreement to the Fiscal Control Unit.
  - d. Obtains employee’s signature on all contracts, applications, and other related forms.
2. **Employee**
- a. Obtains information from companies authorized by the Board of Education.
  - b. Completes “Salary Reduction Agreement” in cooperation with company representative and ensures that the agreement is delivered to company representative, who forwards agreement to the Fiscal Control Unit. Deadline for submitting agreements to the Fiscal Control Unit is *not earlier* than 30 days prior to the first business day of the month in which salary is to be reduced, *no later* than the first business day of the month in which salary is to be reduced.
3. **Fiscal Control Unit, Accounting Operations Department**
- a. Signs participating company applications, proxy statements, and tax-free rollover forms, as appropriate.
  - b. Signs district’s “Standard Hold Harmless Agreement.”
  - c. On July 1 of each year, requests approval from the Board of Education to delete from list of authorized companies those companies that had no active employee participants during the preceding fiscal year.
  - d. Processes “Salary Reduction Agreement” for tax-sheltered annuity as a regular payroll deduction.
  - e. 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.
  - f. Issues warrant and annuity deduction register to designated company. (Remittance always will be for the preceding month.)

- g. Receives and processes refund checks for companies.

**E. FORMS AND AUXILIARY REFERENCES**

1. Available from the Fiscal Control Unit, Accounting Operations Department, or on district web site: (**Note:** No forms or other documents may be used in lieu of the district forms identified in a. and c. below.)
  - a. Application for approval to offer tax-sheltered annuities
  - b. List of authorized companies
  - c. Salary Reduction Agreement
  - d. Standard Hold Harmless Agreement
2. Available from authorized participating company
  - a. Informative literature
  - b. Salary Reduction Agreement

**F. REPORTS AND RECORDS**

1. From Accounting Operations Department to authorized companies: A monthly warrant and annuity deduction register.
2. From companies to Accounting Operations Department: If a tax-sheltered annuity plan includes incidental life insurance, a yearly report showing employee names and term life insurance costs. (D.1.b.)

**G. APPROVED BY**

*Kerry B. Flanagan*

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For the Superintendent of Public Education