

# National Benefit Services

## 403(b) EDUCATOR

NBS services are provided to you through:

# FBC

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### IRS Notice 2014-54

The Internal Revenue Service (IRS) recently released Notice 2014-54, giving guidance on the treatment of after-tax money distributed or rolled over from retirement plans. This Notice simplifies tax treatment of these funds and offers new planning opportunities for distributions.

#### What changed?

- All distributions that are scheduled to be made at essentially the same time will be treated as a single distribution for purposes of allocating between pretax and after-tax, even if the distributions go to different destinations.
- If the total amount of direct rollovers exceeds pretax funds distributed, the entire pretax amount will be allocated to the direct rollover. If there is more than one direct rollover, the participant may select how to allocate the amount between them. The participant is required to notify the plan administrator of the allocation prior to the distribution.
- If the pretax amount distributed equals or exceeds the total amount of a direct rollover, then the direct rollover will

consist entirely of pretax funds.

- If the participant also makes a 60-day rollover in addition to a direct rollover, all rollover funds will be pretax so long as the pretax funds exceed the sum of the rollovers.
- Any remaining pretax funds distributed to the participant are subject to income tax, to withholding, and potentially to the premature distribution penalty tax.

#### Planning Opportunities

After-tax employee contributions have been mostly out of the spotlight for the last thirty years. However, employees looking to contribute up to the Internal Revenue Code 415 Compensation Limit that cannot do so because of deduction and deferral limitations may want to consider using after-tax contributions to bolster their retirement account.

Only plans that do not currently permit after-tax employee contributions will need a plan amendment to take advantage of this changed tax treatment. If you have any questions, please contact your NBS Account Manager.

Note: This newsletter is intended for general information and is not a substitute for professional advice or opinion.



Please contact your Account Manager if there is a topic you would like addressed in a future 403(b) educator.

<http://nbsbenefits.com/>

#### When can employees take money out of a 403(b) plan?

In addition to loans and hardship distributions, a 403(b) plan may allow employees to take money out of the plan when they:

- Reach age 59 1/2;
- Have a severance from employment;
- Become disabled; or
- Die.

The employee will have to pay taxes on any amount of the distributions that was not from designated Roth or after-tax contributions and may have to pay an additional 10% early distribution tax unless an exception to this tax applies.

For a list of IRS approved exceptions to the early distribution tax, please visit <http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics---Tax-on-Early-Distributions>