




DEAN GRADUATE DIVISION
VICE CHANCELLOR, ACADEMIC AFFAIRS
405 HILGARD AVENUE
LOS ANGELES, CALIFORNIA 90024

TO: Deans, Department Chairs, Directors, and Departmental Staff

FROM: Robin Fisher
Associate Dean, Graduate Division 

RE: FICA Withholdings and Exceptions to 50% Appointments

DATE: March 14, 1995

Beginning April 1, 1995, graduate students working over 50% time or carrying fewer than 8 units will be required to contribute 7.5% of their gross earnings to the university's Defined Contribution Plan (in lieu of Social Security) and an additional 1.45% to Medicare. This change is being implemented because of recently revised IRS guidelines.

Please advise your graduate students that, if an exception is granted by the Graduate Division to work over 50% time, FICA and Medicare will be withheld by Payroll from their gross earnings. Therefore, an appointment exception to work over 50% time but under 60% is not in the student's immediate best interest.

Also please advise students that the money accumulated in the DCP can be withdrawn after the student leaves university employment and reinvested in another retirement vehicle without penalty, or it can be left in the plan and used as retirement income after the student reaches age 50. Additional information may be obtained from the Benefits and Personnel Services Office in Campus Human Resources.

Neither The Regents of the University of California nor any officer or affiliated officer of the University makes any recommendation to participants for building supplemental retirement savings, and the various options available for contributions should not be construed in any respect as a judgment regarding the prudence or advisability of such investments or as tax advice.

In conformance with applicable law and University policy, the University is an affirmative action/equal opportunity employer.

Inquiries regarding the University's affirmative action and equal opportunity policies may be directed to the Senior Vice President—Academic Affairs at 510-987-9020 (for academic employee-related matters) or to the Senior Vice President—Administration at 510-987-9029 (for staff employee-related matters).

The benefits discussed here are governed entirely by the terms of the applicable plan documents, custodial agreements, University of California Group Insurance Regulations, group insurance contracts, and state and federal laws. Those terms apply if information here does not agree with the source documents listed above. These documents are available for inspection upon request to University of California Benefit Programs (800-888-8267). What is written here does not constitute a guarantee of plan coverage or benefits—particular rules and eligibility requirements must be met before benefits can be received. The University of California intends to continue the benefits described here indefinitely; however, the benefits of all employees, annuitants, and plan beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums and employer contributions at any time. Health and welfare benefits are subject to legislative appropriation and are not accrued or vested benefit entitlements. If you belong to an exclusively represented bargaining unit, some of your benefits may differ from the ones described here. Contact your Personnel or Labor Relations Office for more information.

UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTION PLAN

QUESTIONS AND ANSWERS ABOUT RETIREMENT PLAN COVERAGE FOR PART-TIME/SEASONAL/ TEMPORARY UC EMPLOYEES

UC BENEFITS

University of California Benefit Programs
300 Lakeside Drive, 5th Floor
Oakland, California 94612-3556
2/93 20.5M



To satisfy state and federal requirements, the University of California Defined Contribution Plan has been selected to provide retirement benefits to employees who are not otherwise covered by a retirement system. The Defined Contribution Plan (the DC Plan, or the Plan) is established and maintained under section 401(a) of the Internal Revenue Code (IRC). Administered by University of California Benefit Programs (UC, or UC Benefits) for the sole benefit of participants and their beneficiaries, the DC Plan provides retirement benefits based on participants' contributions, plus earnings.

Participation in the Plan is mandatory as a condition of employment for all eligible University employees. Part-time, seasonal, and temporary employees who participate in the DC Plan under this arrangement are called Safe Harbor participants.

Please read this brochure for information about the DC Plan and the impact of participation on your current salary and future retirement benefits. Questions about eligibility for DC Plan participation should be directed to the person in your department who handles benefits or to your Benefits Representative.

1. Who must be covered by the DC Plan?

University employees who are presently excluded from membership in a retirement system because of their appointment. This includes employees who are:

- Casual or per diem staff;
- Academics in visiting titles;
- In any academic title that is less than 50% time or less than one year;
- Housestaff; or
- In noncareer positions at the Department of Energy labs.

2. Are any employees exempt from mandatory DC Plan participation?

Yes. Federal law does not require the following employees to be covered:

- Registered UC students, and
- Nonimmigrant aliens with F-1 or J-1 visa status.

3. When do I enroll in the Plan and how much am I required to contribute?

DC Plan enrollment is automatic and begins the first day of an eligible appointment. The mandatory contribution rate is 7.50% of gross wages. Contributions are deducted from your salary before income taxes are calculated, reducing your taxable income. The net effect is that you pay less in current federal and state income taxes.

4. What happens to my contributions?

Your contributions to the DC Plan are automatically invested in the Savings Fund, an investment fund managed by the Treasurer of The Regents. Participants can, however, direct contributions to one of the other five UC-managed investment funds (see question #6). To do so, complete form UPAY 752 (*Defined Contribution Plan—Pretax Account Fund Designation*), available in your department or Benefits Office.

5. What is the UC-managed Savings Fund?

The Savings Fund is an investment fund that seeks interest income through U.S. Treasury securities and federally insured bank certificates of deposit. U.S. Treasury securities are considered among the safest investments available and are backed by the U.S. government. For the 12 months ending December 31, 1992, the Savings Fund rate of return was 7.93%. The 10-year average annual rate of return at December 31, 1992, was 9.57%.

6. What are the other investment options for my contributions?

In addition to the Savings Fund, UC manages five other funds with different investment objectives and portfolio structures. Briefly, the funds are as follows:

- Insurance Company Contract Fund: Seeks interest income through investments in contracts with insurance companies that guarantee the payment of principal and a fixed and predictable annual rate of interest for a specific period of time.
- Money Market Fund: Seeks interest income through investments in money market and fixed-income instruments with maturities of a year or less.
- Equity Fund: Seeks long-term capital appreciation through investments in high-quality, blue chip common stocks.
- Bond Fund: Seeks current income enhanced by potential capital appreciation through investments in high-quality, call-protected corporate and government bonds with long-term maturities.
- Multi-Asset Fund: Seeks a diversified return combining interest income and capital appreciation by investing fixed percentages in the existing UC-managed Savings, Equity, Bond, and Money Market funds.

For more detailed information on the investment funds, see *Fund Descriptions and Schedules of Investments*; performance results can be found in *Quarterly Investment Reports*. Both of these publications are available in your department or Benefits Office.

7. Will the University provide an “employer-match” to my DC Plan contributions?

No. There is no matching employer contribution; retirement benefits from the DC Plan are based exclusively on participants' contributions, plus any earnings.

8. Are participants charged any administrative fees?

Not directly. Currently, an administrative fee equal to 0.15% annually is deducted from the total monthly earnings of each investment fund. No fees are deducted from individual participants' accounts.

9. Can my contributions be temporarily suspended?

No. Federal regulations require you to contribute a percentage of income to a retirement system or an equivalent qualified plan "as services are performed." As long as you work in a paid appointment that falls under the Safe Harbor provisions, contributions will be deducted from your gross wages. DC Plan contributions will stop only if you leave University employment, go on leave without pay or furlough, or if your appointment changes and you become eligible for membership in the University of California Retirement Plan (UCRP).

10. Can I transfer all or part of my account balance in the Plan among the different investment funds?

Yes. Although you can direct contributions to only **one** investment fund at a time, you can transfer money you've accumulated in the Plan among the funds as often as once a month. Transfers cannot, however, be made directly between the Insurance Company Contract Fund and the Savings or Money Market funds.

Valuation deadlines determine when transfers will be effective. The investment funds are valued on the 25th of each month. For transfers to be effective on the first of any month, UC Benefits must receive the request (written or telephoned, see below) by the 25th of the previous month. If the 25th falls on a weekend or holiday, the preceding business day is the cutoff date. Transfer requests received after the cutoff date will be processed and valued at the end of the following month.

For written transfers, complete form *U5637T (Fund Transfer Request)*. Transfers can also be made by telephone on UC Fund TransferLine. Participants wishing to use TransferLine must first complete and return to UC Benefits form *UBEN 118 (Telephone Transfer Authorization)*. Both of these forms are available in your department or Benefits Office.

11. What are the vesting rules for DC Plan participants?

DC Plan participants are 100% vested as soon as they begin contributing to the Plan. Vesting refers to the point at which you have nonforfeitable ownership of your contributions (plus any earnings).

12. Will I receive statements of my DC Plan account activity?

Yes. DC Plan participants will receive quarterly statements showing accumulated contributions and any earnings thereon, as well as investment performance information. The statements are mailed approximately six weeks after the end of each quarter. For example, the statement for the quarter ending December 31 will be mailed in mid-February.

13. When can I receive the money that I have accumulated in the DC Plan?

You can receive a distribution of your DC Plan accumulations only after you leave University employment. You should allow five to ten weeks from the date UC Benefits receives your distribution request for your check to arrive. Note: if you return to University employment before UC Benefits pays the distribution, you may be ineligible to receive your accumulations.

14. What options do I have for my money once I have left University employment?

If you leave University employment, you can:

- keep your money in the Plan with continued preferential tax treatment (total Plan balance must be at least \$2,000);
- request a distribution to be paid to you or arrange for a direct rollover of your money to an IRA or other employer plan (see question #15); or
- receive retirement income from the Plan, if eligible (see question #17).

15. What are the distribution options?

You must choose how you want your money distributed before UC Benefits will issue your check. The choice you make will affect the amount of tax withheld from your distribution. If you:

- want a distribution paid to you, 20% will be withheld for federal taxes. No exceptions.
- arrange a direct rollover of the distribution to an IRA or other qualified employer plan that accepts rollovers, no taxes will be withheld. UC Benefits will make the check payable to the recipient IRA or plan and mail it to you. You are responsible for depositing the money in the IRA or plan.

All distribution requests must be made using the appropriate form in the *UCRS Distribution Kit*. The kit also contains a *Special Tax Notice*, which UC Benefits is required to provide to all employees who request a distribution. The notice contains detailed information about distributions that are subject to the tax-withholding laws, the choices you have, and how your taxes are affected by the choice you make. *UCRS Distribution Kits* are available from your Benefits Office or UC Benefits Customer Service.

16. How are distribution requests processed?

UC Benefits processes distribution requests once a month. The cutoff date for processing requests is the 25th of each month (or the preceding business day if the 25th falls on a weekend or holiday). All distribution requests received from the 26th of previous month through the 25th of the current month are processed together. Your accumulations will be valued based on the monthly fund valuation in effect after the cutoff date.

For example, accumulations for all distribution requests received from March 26 through April 25 are based on the April 30 investment fund value. Distribution requests received after the monthly cutoff date (April 25 in this example) will be processed and the accumulations valued at the end of the following month.

17. When am I eligible to receive retirement income from the DC Plan and what options do I have?

You may receive retirement income from the DC Plan after you leave University employment, if you are age 50 or older. Retirement income is available in the form of commercial annuities purchased through UC's group contracts with California-licensed, third-party insurance carriers. Alternatively, you can take a lump sum distribution (subject to tax withholding) and purchase an annuity on your own from the insurance carrier of your choice.

Although you are eligible for retirement income from the Plan when you leave University employment and reach age 50, early distribution penalties may apply if you are under age 55 when you leave. If you choose a life annuity, however, the money will be exempt from the early distribution penalties.

18. What happens to my DC Plan accumulations if I die before I retire or leave University employment?

If you die before retirement or termination of employment, your DC Plan accumulations will be payable in a lump sum to your beneficiary. Therefore, you should designate a beneficiary to receive your DC Plan accumulations. Your beneficiary can be a person, trustee, or organization. You can also name more than one beneficiary and specify the percentage of your accumulations that each beneficiary is to receive. If you die after retirement income under the Plan has begun, the amount and length of payment to your beneficiary or contingent annuitant will depend on the annuity payment option you chose.

If you didn't designate a beneficiary, or if your beneficiary dies before you do, your DC Plan accumulations will be paid to your statutory survivors in the following order:

- surviving legal spouse; or, if none,
- surviving children, equally shared; or, if none,
- surviving parents, equally shared; or, if none,
- your estate.

19. What happens to my accumulations if I become eligible for UCRP membership?

Your accumulations will remain in the DC Plan. You will continue to accrue earnings on your account balance and to receive quarterly statements. When you leave University employment, you will have the same income options previously described.

20. If I go to work for another employer, can I roll over my account balance in the DC Plan to my new employer-sponsored plan?

Yes. The money you accumulate in the DC Plan is intended primarily for use when you retire. Because your DC Plan savings are portable, when you leave University employment, you can roll over your account balance into another employer's qualified 401(a) or 401(k) plan if they accept

rollovers, or into an IRA, and retain the tax-deferred status of the money. There are specific tax rules that apply to money being rolled over into a new qualified plan or IRA. Please see your tax advisor.

21. If I retire and leave California, will a distribution of my DC Plan accumulations be subject to California income taxes?

Yes, because the contributions (and earnings thereon) were made while you were employed and paid in the state of California.

22. Who should I notify about a change in my address?

If you are currently working and are paid through the University payroll system, notify your payroll or personnel office of any address changes. Once you retire, you should notify UC Benefits Customer Service in writing of your address change.

23. Will my participation in the DC Plan affect any IRA contributions I make?

Participation in the DC Plan may affect the income tax deductibility of any contributions you make to an IRA. IRA contributions may still qualify for a full or partial income tax deduction, depending on your adjusted gross income and tax filing status. You can also make nondeductible contributions to an IRA and defer taxes on the earnings. Please check with your tax advisor.

24. Will my participation in the DC Plan have any impact on contributions I make to the University's Tax-Deferred 403(b) Plan?

It could. The IRC limits the annual amount of pretax contributions you can make to tax-advantaged retirement plans. If you participate in the DC Plan and also contribute to the University's 403(b) Plan, you will need to take your DC Plan contributions into account when determining your maximum contribution limit for the 403(b) Plan. Questions about individual contribution limits and the 403(b) Plan should be directed to your Benefits Representative.

25. How do I reach UC Benefits?

If you still have questions, call UC Benefits Customer Service toll free at 800-888-8267, extension 70651. (Customer Service representatives can also arrange for individuals to answer questions in Spanish, Tagalog, Cantonese, Korean, and Vietnamese.) Written inquiries or address changes should be sent to:

UC Benefits
Attn. (Customer Service, Refunds, Accounting, etc.)
300 Lakeside Drive, 5th Floor
Oakland CA 94612-3557