

Deferral of Vacation and Sick Leave Payouts from Final Paychecks to 403(b) or 457 Plans

I. INTRODUCTION

Employees who are retiring or leaving State service can contribute a portion of their final payouts for unused vacation or sick leave to the 457 Deferred Compensation Plan--- open to most active employees--or the 403(b) Plan, limited to employees of eligible educational institutions and hospital facilities.¹ By making a pre-tax deferral from the vacation/sick leave payout into the 457 or 403(b) Plan, employees can reduce taxes withheld from the final paycheck and boost their retirement savings. The process requires advance planning because IRS regulations require deferral arrangements to be made the month before the final payment occurs. All required forms are located under the “Forms” tab on the plans’ website, www.CTDCP.com.

II. PROCEDURE

A. Determining Deferral Amount.

Employees should ask their Payroll/Human Resources office for an estimate of the gross vacation/sick leave payout, the date when it will be paid, the employee record number to be used for the final payout, the estimated mandatory Social Security and Medicare taxes, and their year-to-date contributions to the 457 or 403(b) Plan. When determining the amount available to defer, the employee should take the estimated gross payout amount, subtract the estimated Social Security and Medicare taxes and subtract any other mandatory payroll deductions, such as: health insurance premium, Retiree Health Fund contribution on the vacation portion of the payout, union dues, etc. The remaining amount approximates what is available for deferral. Next, when setting the deferral amount, an employee should factor in any contributions that will have taken place by the date of the final paycheck. The maximum for 2020 is \$19,500 (plus an additional \$6,500 for age 50 and over). Someone who is eligible for both Plans can contribute the maximum amount to each.

¹ Detailed eligibility guidelines can be viewed on the Plans’ dedicated web site – www.CTDCP.com.

B. Changing Deferral Amount--Current Participants

Existing 457 Plan members should complete the *Deferral Election for Final Vacation and Sick Payout Form* to enter the desired deferral amount and the date of the final paycheck, and the employee record number. While online contribution changes are now available for this plan, they are not recommended for final paycheck deferrals because there is no ability to enter a specific date for an online contribution change to take effect. If the incorrect employee record number is incorrect, the deduction will not take place.

Existing 403(b) Plan members should use the *Deferral Election for Final Vacation and Sick Payout Form* to indicate the final contribution amount, effective paycheck date, and the Employee Record Number. Employees who work (or have worked) at more than one state agency or multiple positions at the same agency may have multiple Employee Record Numbers and should ask Payroll/Human Resource personnel which Employee Record Number will be used to pay unused vacation/sick leave. If the incorrect Employee Record Number is entered on the *Deferral Election for Final Vacation and Sick Payout Form*, the deduction will not take place.

C. Employees Not Previously Enrolled.

Employees who have not previously participated in the 457 or 403(b) Plan will need to enroll online or complete the final payout Investment Allocation and beneficiary sections on the attached form. (An employee who is eligible for and wants to contribute to both the 457 and 403(b) Plans for the first time will need to complete the final payout investment allocation and beneficiary for each plan.)

To enroll in the 457 Plan *or* 403(b) Plan, go to the home page, www.ctdcp.com, click on “Enroll” and follow the instructions.

D. Deadline for Submitting Forms.

The completed forms with original signatures must be received by Prudential Retirement, the third-party administrator, **before** the Cut-Off Date for the employee’s final paycheck, shown on the Payroll Cut-Off schedule (see below). All forms should be mailed to:

Prudential Retirement
30 Scranton Office Park
Scranton, PA 18505-5370

You may also fax forms to: **866-439-8602**.

Once the final payout check has been issued, agency personnel cannot reverse or reprocess paychecks to allow employees to make untimely deferrals of vacation and sick leave payouts.

E. Common Problems to Avoid.

Advance planning will prevent common mistakes that can derail deferrals of vacation and sick leave payouts.

- Do not wait until the last minute. When the final payout forms are submitted too close to the cut-off date, there may not be enough time for the plan administrator to obtain corrections, original signatures, or missing information.
- Ensure that the selected deferral amount (together with all year-to-date contributions) does not exceed the IRS maximum limit; otherwise, no deduction will be taken.
- Make sure the requested deferral does not exceed the net amount in the final payout check. If it does, no deduction will occur.
- Plan participants must verify their employee ID number and employee record number on which the vacation/sick leave payout will be made and use that number on the deferred election for final vacation/sick payouts.

III. CONCLUSION

Employees who want help with calculating sick or vacation leave deferrals to the 403(b) or 457 Plan should call **Prudential at 844-505-SAVE** or **contact your retirement counselor.**



Retirement products and services are provided by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT or its affiliates. PRIAC is a Prudential Financial company.

© 2018 Prudential Financial, Inc. and its related entities. Prudential, the Prudential logo, the Rock symbol and Bring Your Challenges are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.