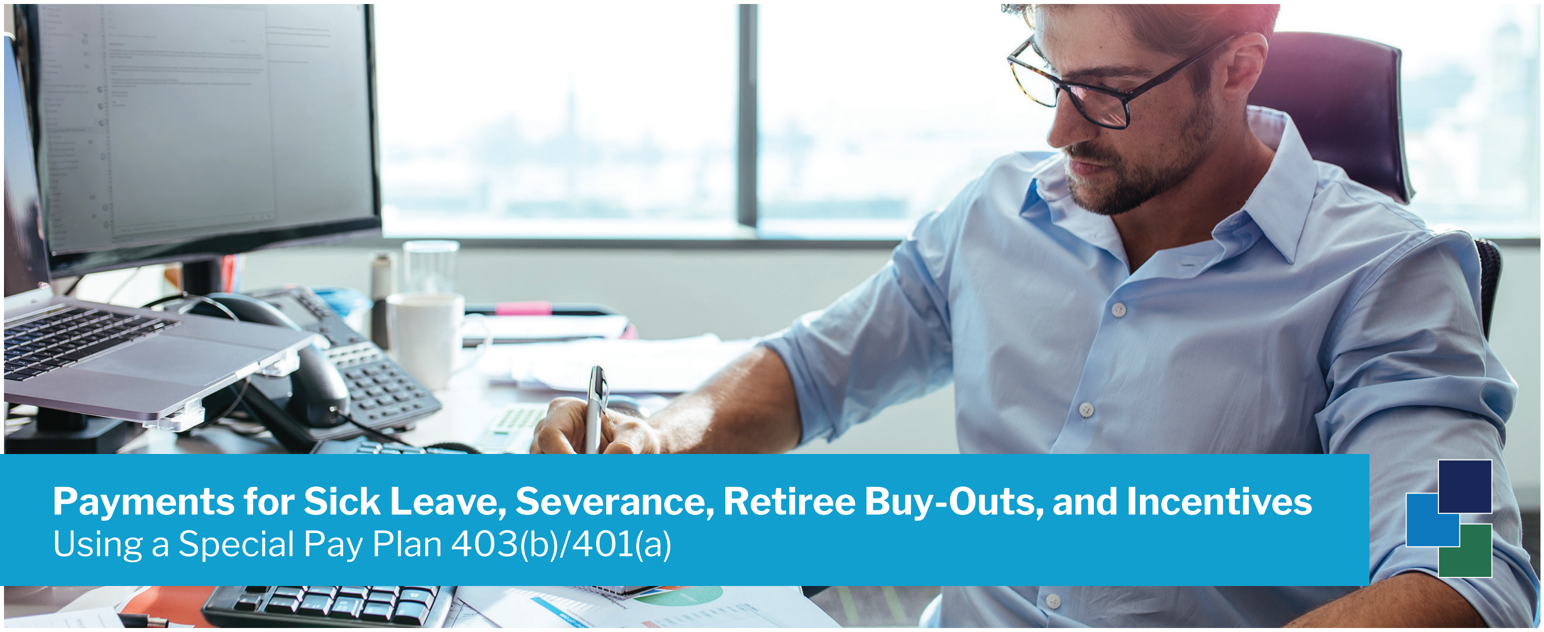
NIS National Insurance Services

Client Focused. Solution Driven.



Payments for Sick Leave, Severance, Retiree Buy-Outs, and Incentives
Using a Special Pay Plan 403(b)/401(a)

Problem

Many school districts and other local governmental employers pay retirees unused sick leave, vacation pay, or other early-retirement incentives. If these benefits are paid as wages, the employer must pay all wage-related costs, including the FICA (Social Security and Medicare) tax. Additionally, after income withholding and FICA tax, the participant receives only a portion of the full benefit, and the value of the early-retirement incentive is diminished.

Solution

A contribution into a Special Pay Plan is not subject to FICA tax for both the employer and the participant. Also, the funds are tax-deferred. This increases the value of the benefit, which may help employees afford an earlier retirement.

How It Works

- Instead of disbursing a check, the employer deposits payments for unused sick leave, severance, retiree buy-outs, or incentives into a 403(b) or 401(a) account at retirement
- Money defaults into a fixed account (variable plan options are available)

Advantages to Employer

- Save all FICA taxes

Advantages to Employee

- Save all FICA taxes
- Tax-deferred
- Benefits available at age 55 for retired employees without early withdrawal penalty
- Funds may be used for anything
- No surrender charges
- Can roll over funds

Why Choose National Insurance Services?

- Special Pay Plan expertise/knowledge
- Scheduled service calls and visits
- IRS audit and compliance support

Rules and Restrictions

- Mandatory participation by class
- Contributions can only be made up to five full calendar years following the final year of employment
- Employees who return to work between the ages of 55 and 59½ are subject to an early withdrawal penalty on any distributions taken prior to 59½.
- Contribution limits

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