



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



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.

Save Money on Taxes and Increase the Value of Retirement Benefits

Using a Special Pay Plan can help save money on taxes and increase the value of retirement benefits. With this plan, contributions are tax-exempt for both employers and participants, and the funds are tax-deferred. This means that not only can employees afford an earlier retirement, but their benefits will grow over time.

Instead of issuing a check, employers can deposit payments for unused sick leave, severance, retiree buy-outs, or incentives into a dedicated 403(b) or 401(a) retirement account. The money defaults into a fixed account, but variable plan options are also available.

Advantages to Employer

- Save all FICA taxes
- Provide an increased benefit value to retirees
- More competitive retirement benefits package
- Provide the opportunity for the employee to retire early

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
- Provide the opportunity for the employee to retire early

Rules and Restrictions

- Mandatory participation by class
- 403(b) contributions can only be made up to five full calendar years following the final year of employment
- 401(a) contributions are made in one lump sum
- 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

Why Choose National Insurance Services?

- Special Pay Plan expertise/knowledge
- Employer and retiree service and support
- IRS audit and compliance support
- Fixed or variable investment options