

**TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
457(b) DEFERRED COMPENSATION SUPPLEMENTAL SAVINGS PLAN ("SSP")**

SUMMARY OF COMPENSATION

Pursuant to 40 ILCS 5/16-204, Covered Employees as defined by the Plan will be automatically enrolled in the Plan and deemed to have elected to make Elective Deferrals to the SSP equal to 3% of their Compensation. All Employees (new and existing) as defined by the Plan will also be able to elect to make Elective Deferrals to the SSP as a percentage of their Compensation, as an alternative to a flat dollar amount. Understanding the definition of "Compensation" is, therefore, important to ensuring that the SSP is being operated in accordance with the Illinois Pension Code and the written plan document governing the SSP.

GENERAL DEFINITION	INCLUDES	EXCLUDES
<p>"Compensation" means all</p> <ul style="list-style-type: none"> • <u>cash</u> compensation • for services provided by the Employee to his or her Employer • that is <u>includible in the Employee's gross income</u> (<i>i.e.</i> taxable income to the Employee reported in Box 1 of Form W-2) • that is paid to the Employee prior to severance from employment, <p><u>PLUS</u></p>	<ul style="list-style-type: none"> • salary • wages • fees • commissions • bonuses • overtime pay • stipends • summer pay • lump sum cash-out of unused vacation or sick days at end of school year during employment • differential wage payments to military personnel • sick pay (short term disability) • distributions from nonqualified deferred compensation plan (457(f) or short term deferral) • Roth salary deferrals made to a 401(k), 403(b) or 457(b) plan <p>NOTE: If an Employee also has non-teaching employment with the Employer (<i>i.e.</i> multiple jobs), payments to the Employee for that employment are also <u>included</u> in Compensation if the payments otherwise meet the definition of Compensation.</p>	<ul style="list-style-type: none"> • member contributions to the System defined benefit plans (regardless of whether picked-up by the Employer) • Employer contributions to System defined benefit plans, SSP, or a 403(b), 457(b), or 401(a) plan sponsored by the Employer • Employee and Employer contributions to the Teachers' Health Insurance Security Fund • non-taxable expense reimbursements • non-cash compensation, <i>i.e.</i> fringe benefits such as meals or automobile allowances • Employee and Employer contributions to nonqualified deferred compensation plan (457(f) or short term deferral) • imputed income from gifts, awards, or domestic partner coverage • value of group term life insurance over \$50,000 • wellness incentives other than cash
<ul style="list-style-type: none"> • Employee salary reduction elections under Internal Revenue Code Section 125, 132(f), 401(k), 403(b), or 457(b), <p><u>PLUS</u></p>	<ul style="list-style-type: none"> • Employee contributions to an Employer sponsored health plan for medical, dental or vision • Employee salary deferrals to Medical Care Assistance 	<ul style="list-style-type: none"> • Employer contributions to an Employer sponsored health plan for medical, dental or vision • Employee and Employer contributions to the Teachers' Health Insurance Security Fund

GENERAL DEFINITION	INCLUDES	EXCLUDES
	Plan/Dependent Care Assistance Plan <ul style="list-style-type: none"> • Employee HSA contributions • Employee pre-tax salary reduction elections for qualified transportation benefits under the Commuter Savings Program, <i>i.e.</i> work-related commuting and parking expenses • Employee pre-tax salary deferrals made to a 401(k) plan, 403(b) plan, or 457(b) plan (<i>i.e.</i> State of Illinois Deferred Compensation Plan or SSP) 	<ul style="list-style-type: none"> • State or Employer HSA contributions
<ul style="list-style-type: none"> • payment that otherwise satisfies the definition of "Compensation" and that would have been paid to the Employee prior to his or her severance from employment had the Employee continued in employment (<i>i.e.</i> regular pay paid after severance due to timing of payroll period), <p><u>PLUS</u></p>	<ul style="list-style-type: none"> • must be paid to the Employee by the later of 2½ months after <ol style="list-style-type: none"> (i) the Employee's severance from employment, or (ii) the end of the calendar year of the Employee's severance from employment 	<ul style="list-style-type: none"> • any other payment paid <u>after</u> severance from employment, including <ol style="list-style-type: none"> (i) severance pay (ii) distributions from nonqualified deferred compensation plan (457(f) or short-term deferral) (iii) incentive payments based on years of service
<ul style="list-style-type: none"> • cash-out of unused accumulated sick, vacation or other leave if the Employee could have used the leave had employment continued (<i>but only if Employee separately elects for cash-out to be included in Compensation</i>) 		<ul style="list-style-type: none"> • cash-out of unused accumulated sick, vacation or other leave that is contributed as an employer contribution to a 403(b) or 457(b) plan (with no employee right to elect to instead receive in cash)

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FREQUENTLY ASKED QUESTIONS REGARDING COMPENSATION

QUESTION #1: What do we include in "compensation" for purposes of calculating salary deferral contributions to the SSP?

ANSWER #1: The definition of compensation under the SSP is very common in supplemental salary deferral only retirement plans. Compensation under the SSP is defined as:

1. the Employee's taxable income as reported in Box 1 of the Employee's Form W-2, **PLUS**

2. amounts not included in taxable income under (1) above due to the Employee's voluntary pre-tax salary reduction election under:

- Code Section 125 – a cafeteria plan or flexible benefit plan,
- Code Section 132(f) – a qualified transportation benefit plan, or
- Code Section 401(k), 403(b) or 457(b) – retirement plans,

LESS,

3. amounts reported in Box 1 of the Form W-2 under (1) above that are paid after the Employee's severance from employment, except amounts paid within the later of 2½ months after the Employee's severance from employment or the end of the calendar year of the Employee's severance from employment that represent:

- compensation, commissions, bonuses, *etc.* that would have been paid had the employee continued in employment with the employer or
- a cash-out of unused accumulated sick, vacation or other leave that the Employee could have used if employment continued,

LESS,

4. amounts reported in Box 1 of the Form W-2 under (1) above that represent non-cash compensation.

QUESTION #2: Are Employee contributions to THIS or to the TRS defined benefit plan included in the SSP definition of compensation?

ANSWER #2:

No. Employees' wages are reduced by a mandatory contribution to Teachers' Health Insurance Security Fund ("THIS") and by a mandatory contribution to the TRS defined benefit plan. These contributions are not included in Employees' taxable income. Employees have no option to receive these amounts as taxable compensation. While these amounts reduce Employees' salary, because they are not the result of a salary reduction election under Code Section 125, 132(f), 403(b), 457(b), or 401(k), they are not added back to taxable wages for purposes of determining Compensation under the SSP.

QUESTION #3:

Are wages reduced by federal and state tax withholding, and the employee share of Medicare, for purposes of determining Compensation under the SSP?

ANSWER #3:

No.

EXAMPLES

EXAMPLE #1:

An Employee is paid the following taxable compensation for the month of January:

Salary	\$5,000.00
Coach stipend	\$ 200.00
Wellness gift card	\$ <u>100.00</u>
	\$5,300.00

The Employee has the following deductions/contributions made on her behalf for the month of January:

	EMPLOYEE (EE) DEDUCTIONS	EMPLOYER (ER) CONTRIBUTIONS
403(b) Roth Deferrals	\$150.00	-
457(b) Pre-Tax Deferrals	\$100.00	-
Union dues	\$50.00	-
Health/Dental/Vision Insurance	\$75.00	-
HSA Contribution	\$25.00	-
TRS Employer Contribution (.58%)	-	\$30.74
TRS Mandatory Employee Contribution (9%)	\$477.00	-
Employer Contribution to THIS (.67%)	-	\$35.51
Employee Contribution to THIS (.9%)	\$47.70	-
TOTAL	\$924.70	\$66.25

STEPS:

1. Box 1 of Form W-2:

\$5,300.00 taxable compensation
- 100.00 457(b) pre-tax deferrals
- 75.00 EE pre-tax premiums for health/dental/vision (125 plan)
- 25.00 EE HSA contribution (125 plan)
- 477.00 mandatory EE contribution to TRS
- 47.70 mandatory EE contribution to THIS
\$4,575.30

2. Add back salary deferral elections under 125, 132(f), 403(b), 457(b) or 401(k):

\$4,575.30 Box 1 gross taxable income
+ 100.00 457(b) pre-tax deferrals
+ 75.00 EE pre-tax premiums for health/dental/vision (125 plan)
+ 25.00 EE HSA contribution (125 plan)
\$4,775.30

3. N/A since no amounts in this example are paid after severance from employment

4. Reduce by non-cash compensation:

\$4,775.30
- 100.00 wellness gift card
\$4,675.30 = COMPENSATION FOR SSP

Alternatively, start with the Employee's taxable wages of \$5,300, and remove items that are not included in the SSP definition of compensation:

\$5,300.00 taxable wages
- 100.00 wellness gift card
- 477.00 mandatory EE contribution to TRS
- 47.70 mandatory EE contribution to THIS
\$4,675.30 = COMPENSATION FOR SSP

EXAMPLE #2:

An Employee has a severance from employment. Two weeks after the Employee's severance from employment, the Employee receives payment of the Employee's regular wages of \$2,000 for weeks worked prior to severance, a severance payment of \$1,000, and a cash-out of unused vacation time of \$1,000. The Employee has made an election under the SSP to include the cash-out in the Employee's compensation for purposes of the SSP.

The Employee's compensation for purposes of the SSP:

- includes the \$2,000 in regular wages because it was paid within 2½ months of the Employee's severance from employment,
- includes the \$1,000 cash-out of unused vacation because it was paid within 2 ½ months of the Employee's severance from employment and the Employee made a separate election under the SSP to include it in compensation, and
- does not include the \$1,000 severance payment.

Accordingly, the Employee's compensation for purposes of the SSP includes \$3,000 of the Employee's post-severance payments.