

# DEFERRED COMPENSATION PLAN

Voluntary Plan for  
State of Nebraska  
Employees



# STATE OF NEBRASKA EMPLOYEES DEFERRED COMPENSATION PLAN

Nebraska Revised Statutes  
§§85-1504 through 84-1513

A Deferred Compensation Plan is a **voluntary investment plan**, authorized by IRS Code **§457** whereby you authorize your employer to defer part of your current compensation and receive the amount, plus earnings, at a later date, such as at retirement. The State of Nebraska Deferred Compensation Plan (DCP) is designed to provide employees a supplementary retirement income.

Participation in the Plan may be beneficial to you because, as salary is deferred, the payment of Federal and State Income Taxes is also deferred, thereby **reducing your current taxes**.

As with other retirement plans, there are restrictions on withdrawals from a Deferred Compensation Plan. Therefore, your participation should be considered a **long-term investment program** and *not* a short-term savings program.

This booklet provides an *overview* of the benefits available to participants and is not intended to be a substitute for retirement education. The provisions of Neb. Rev. Stat. §84-1504, et. seq., and the Plan Document, restated and adopted on October 17, 2005, in all cases supersede the information in this booklet.

The provisions of the Plan as provided in the Plan Document, statutes, and administrative rules adopted by the Public Employees Retirement Board (PERB) and Internal Revenue Code §457 legally govern the operation of the Plan. A copy of the Plan Document is available by contacting the Nebraska Public Employees Retirement Systems (NPERS).

If you have questions, write to:

**Nebraska Public Employees Retirement Systems**  
**P.O. Box 94816**  
**Lincoln, Nebraska 68509**  
**Fax: 402-471-9493**

or call **402-471-2053** or toll free **800-245-5712**. You may schedule an appointment to visit NPERS at **1221 N Street, Suite 325** in downtown Lincoln, or visit the website at **[www.npers.ne.gov](http://www.npers.ne.gov)**.

Revised 8/07

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## **PARTICIPATION**

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Any **State of Nebraska employee** employed on a permanent or temporary basis, full-time or part-time, may participate in the Deferred Compensation Plan (DCP).

Any Nebraska **county employee** employed on a permanent full-time or part-time basis, or elected official, may participate in the Deferred Compensation Plan, *provided* their county does not offer its own deferred compensation plan.

**Excluded** from participation in DCP are employees of the University of Nebraska or any of the State Colleges or Technical Community Colleges and Independent Contractors.

There is no eligibility waiting period or age restriction for new employees.

To enroll in DCP, contact your employer or call NPERS and request a Deferred Compensation Enrollment Packet. You may also download forms from NPERS' website at [www.npers.ne.gov](http://www.npers.ne.gov).

## **CONTRIBUTIONS**

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As a participant in the Deferred Compensation Plan, you may defer an elected amount from your compensation, the *minimum* being **\$25** per month. The *maximum* you can defer and contribute to DCP is the *lesser* of 100% of your annual compensation less mandatory retirement contributions or an annual dollar limit established under the Internal Revenue Code. The dollar limit is \$15,500 for 2007 and will be adjusted for inflation every year thereafter by the U.S. Secretary of the Treasury. The percentage limit remains fixed at 100% of your compensation less mandatory contributions to retirement plans.

You may begin contributing any calendar month following the month in which the Deferred Compensation Plan Enrollment Form is signed and received by your employer. You may *change* or *stop* (or start again) your contributions to DCP *at any time*. You must complete a Deferred Compensation Plan Change Form, which can be obtained from your employer or from NPERS, or printed from the website at [www.npers.ne.gov](http://www.npers.ne.gov).

Any change you make to your DCP contributions (start, increase, decrease or stop) will be effective the month following receipt by your employer of your DCP Enrollment Form or Change Form. Contributions will cease the first pay period following the receipt of written notification or a Change Form to stop deferrals.

### **Value of Pre-Tax Savings**

The following calculation illustrates how participation in DCP lowers your reported salary, which reduces your income taxes. Participation in DCP is a way to boost your personal savings and add to your financial security.

	<b><u>Pay Without DCP Contributions</u></b>	<b><u>Pay With DCP Contributions</u></b>
Monthly Pay	\$2,000	\$2,000
5% DCP Contribution	<u>0</u>	<u>100</u>
Taxable Pay	\$2,000	\$1,900
Less Federal & State Tax (assume 15% federal & 5% state)	<u>400</u>	<u>380</u>
Take-Home Pay	\$1,600	\$1,520
Difference in Take-Home Pay		\$ 80

**It only costs \$80 to save \$100 in DCP!**

As with other retirement plans, there are restrictions on withdrawals from DCP, so your participation should be considered a *long-term investment program* and *not* a short-term savings program.

### **Deferring Leave Payout**

You may elect to defer accumulated sick pay and vacation pay, or back pay, provided you sign an agreement to defer such amounts prior to the calendar month in which you would otherwise receive such amounts, subject to the annual or catch-up limits.

### **Age 50 Catch-up Provision**

During the year you attain age 50 and any year thereafter, you may contribute an *additional* \$5,000. For example, if you are age 50 in 2007, your maximum contribution would be the standard \$15,500 *plus* the \$5,000 age 50 "catch-up" or \$20,500. This provision cannot be implemented simultaneously with the Three-Year Catch-up Provision.

### Three-Year Catch-up Provision

If you did not defer the maximum amount allowed in all previous years for which you were eligible and an employee (beginning January 1, 1979), you may defer additional amounts in order to “catch up” to the maximums allowed for those prior years (including all rules regarding maximums in effect at that time).

You may elect to catch up contributions if you are *within three years* of your anticipated retirement, which cannot be earlier than age 55 in the Plan. The total deferral cannot exceed twice the annual maximum for that year and you may not contribute under the catch-up provision during the calendar year in which you elected to retire, but may contribute under the normal limitations. To begin catch-up contributions, you must notify NPERS *within three years* or less of your anticipated date of retirement. This provision may be utilized *one time only*. You may continue to work beyond the retirement date you designated, but you cannot utilize the catch-up provision again. Contact NPERS for additional information and to request a Catch-up Provision Worksheet.

### Contribution Limits

<u>Year</u>	<u>Normal Limitation Deferral</u>		<u>Age 50 Additional Catch-Up</u>		<u>Age 50 Max Deferral</u>	<u>OR</u>	<u>3-Year Catch-Up Max Deferral</u>
2007	\$15,500	+	\$5,000	=	\$20,500		\$31,000

## INCOMING ROLLOVERS/TRANSFERS

You may rollover or transfer funds into your DCP account from the following tax-qualified plans:

- ◆ §401(a) Qualified Retirement Plan [includes a 401(k) plan]
- ◆ §403(a) or (b) Tax Sheltered Annuity Account
- ◆ §457(b) Eligible Deferred Compensation Plan (Nebraska only)
- ◆ §408(a) Individual Retirement Account containing only rollover monies from a qualified plan (“Conduit” IRA)
- ◆ §408(b) Individual Retirement Annuity other than an endowment contract

When *transferring to* your State of Nebraska DCP account from another Nebraska §457 plan, these conditions must be met:

- ◆ You must be an active employee contributing to the State of Nebraska DCP. After the transfer has occurred, your initial monthly contribution to your Nebraska DCP account must be equal to or greater than the amount you were contributing to the transferring plan.
- ◆ You may not contribute more than the annual dollar limit for all deferred compensation plans you participate in during any one calendar year.
- ◆ You must have ceased employment with the entity that maintains the transferring plan *unless* you are transferring all of the assets from the other §457 plan.

When rolling funds *from* a §401, §403, or §408 account (as listed above) *into* your State of Nebraska DCP account, these conditions apply:

- ◆ Since the rollover is from a non-§457 plan, amounts rolled into your DCP account will be accounted for separately from any current and future DCP contributions.
- ◆ Amounts rolled into your DCP account will not count toward the annual limit on deferrals. (See “Contribution Limits.”)
- ◆ Amounts rolled from other retirement accounts will be subject to a 10% federal tax penalty if distribution is made prior to age 55.

## INVESTMENT OF CONTRIBUTIONS

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The Public Employees Retirement Board (PERB) selects the investment funds available in the Plan, and the Nebraska Investment Council selects the money managers for each fund. You currently have the following choices of investment funds and may invest your DCP account in any combination. Refer to the Annual Investment Report for complete investment details.

- ◆ Money Market Fund
- ◆ Stable Value Fund
- ◆ Bond Market Index Fund
- ◆ S & P 500 Index Fund
- ◆ Large Company Growth Stock Index Fund
- ◆ Large Company Value Stock Index Fund
- ◆ Small Company Stock Fund
- ◆ International Stock Index Fund
- ◆ Conservative Premixed Fund
- ◆ Moderate Premixed Fund
- ◆ Aggressive Premixed Fund
- ◆ Investor Select Fund
- ◆ Age-Based Fund

Refer to the Annual Investment Report for complete investment details. When completing your DCP Enrollment Form, please designate your choice of investment funds in *5% increments*. If you do not make an investment election, your contributions will be invested in the Stable Value Fund.

### Investment Election Changes (Future Contributions)

You may *change* the percent of future contributions you have allocated to each fund at any time. This change will not affect the existing contributions (current balance) already invested in the various funds.

### Investment Transfers (Existing Contributions)

You may *transfer* (move) a dollar amount or percentage of your **existing** balances between any of the various funds at any time except for restrictions on the Stable Value Fund. A direct transfer between the Stable Value

Fund and a “competing fund,” specifically the Conservative Premixed Fund, is not allowed. Transfers between such “competing funds” via another separate account are restricted for three months.

When transferring out of a fund, you cannot transfer into that fund on the same day.

### How to Make Investment Election Changes or Transfers

Listed below are ways you may change your investment allocations or transfer your balance among funds. There is *no fee* assessed for these changes or transfers and you will receive confirmation of account activities from Ameritas, NPERS’ recordkeeper. You may also use the following website or telephone numbers to request a statement of account.

- ◆ Access the automated voice response system at **800-449-2696** or **402-467-6925**;
- ◆ Enter changes through Ameritas’ Pension Access On-Line via NPERS’ website at [www.npers.ne.gov](http://www.npers.ne.gov); or
- ◆ Complete a Deferred Compensation Plan Change Form, available through your employer or printed from NPERS’ website, and submit to NPERS by mail or fax to **402-471-9493**.

To use the voice response system or NPERS’ website, you must know:

- ◆ Your Social Security number;
- ◆ Deferred Compensation Plan number (**002000**); and
- ◆ Your Personal Identification Number (PIN). ?If you do not know your PIN or did not assign yourself one when you enrolled in the Plan, you must complete a Deferred Compensation Plan Change Form, available from your employer or NPERS’ website, and submit to NPERS.

## STATEMENT OF ACCOUNT

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Account statements will be mailed to you each calendar quarter. These statements give a detailed summary of the amount of contributions made to your account each quarter, the investment options you have selected, your overall investment earnings or losses and the amount accumulated to date.

Statements are sent to your home address. **To insure you receive your quarterly statements, always inform your employer of your address changes.**

You may request a statement of account at any time using the website or telephone numbers listed in the previous section. (See “How to Make Investment Election Changes or Investment Transfers.”)

## **EXEMPTION FROM LEGAL PROCESS**

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All Plan assets are held by NPERS *in trust*. Your accumulated account is immune from execution, garnishment, attachment, the operation of bankruptcy or insolvency laws or any other process of law. The assets cannot be paid out because of any legal actions. In addition, you cannot use your DCP account assets as loan collateral since they are not assignable. Your Plan assets cannot be paid to anyone other than yourself or your beneficiaries except through an Internal Revenue Service tax lien.

## **ADDRESS CHANGES**

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Your address is reported to NPERS by your employer. Therefore, it is important you keep your address current *with your employer*.

If you terminate employment and do not withdraw your funds, you should report any address changes directly to NPERS, in writing with your signature, to ensure you receive your quarterly statements of account and other items mailed to you.

## **FEES**

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As a participant in DCP, you will pay recordkeeping fees *plus* agency administration charges (prorated monthly). These fees will be deducted on your quarterly account statements and are subject to change.

Your three separate costs in the Plan are the following:

- ◆ recordkeeping fees
- ◆ NPERS’ administrative fee
- ◆ investment management fee

## **Recordkeeping Fee**

The fee for recordkeeping services, currently provided by Ameritas Life Insurance Company, is subtracted directly from your account. The fees are assessed on a monthly basis and are reflected on your quarterly account statement.

When a member takes *total* distribution of his/her account through a direct payment, rollover or annuity, the recordkeeper charges a \$35 distribution fee. No fee is charged if the account is under \$50. For participants taking periodic withdrawals, the fee will be charged on the *final* distribution that depletes the member’s account.

## **Administrative Fee**

NPERS assesses a nominal charge in the form of basis points against plan assets. A basis point is one one-hundredth of a percent. The basis points are accrued against the share price of each investment fund. For example, if the share price for a particular investment fund is \$1.00, the share price would be reduced to 99.9 cents if NPERS assesses an expense charge of 10 basis points (.0010). In this example, if a member has \$10,000 in his/her account, a charge of 10 basis points in expenses would cost approximately \$10 per year. These fees are not reflected in the adjustment column of your quarterly statement, but reduce the earnings of each investment fund.

## **Investment Management Fee**

The investment management expenses include the operation costs of the Nebraska Investment Council, the custodial bank fee to handle the plan accounting, and the management fee charged by each fund manager. These fees are not subtracted on your quarterly statement, but reduce the earnings of each investment fund.

Because of economies of scale and the state’s negotiating power, the investment fees on your funds are extremely low. Currently, the fees range from less than 3 basis points (.0003) on some index funds to 41 basis points (.0041) on the more actively managed funds. In comparable mutual funds outside of the Plan, fees are often very costly and sales charges might also apply.

## BENEFICIARY DESIGNATION

Your beneficiary is the person or persons you designate to receive your account balance upon your death. At the time you join the Plan, your employer will provide you with a Beneficiary Designation Form to complete and return to NPERS.

Keeping your beneficiary designation at NPERS up to date will ensure benefits are paid promptly and properly. You should review your choice of beneficiaries if:

- ◆ you or a beneficiary marries or becomes divorced;
- ◆ a beneficiary dies;
- ◆ you have a child;
- ◆ you return to employment after receiving a distribution of your account; or
- ◆ you return to employment after retiring.

You may request a Beneficiary Designation Form from your employer or from NPERS or download from the website at [www.npers.ne.gov](http://www.npers.ne.gov). When NPERS receives your properly completed form, it will cancel any previous beneficiary designation. If you have not designated a beneficiary or your beneficiary predeceases you, your benefits will be paid to your estate.

## DISTRIBUTION OF ACCOUNT

Your contributions and earnings in the Plan may be *distributed* (paid out) upon:

- ◆ termination of employment or retirement
- ◆ death
- ◆ occurrence of an unforeseen emergency
- ◆ “de minimus” withdrawals per IRS §457 regulations

You may *transfer funds* to another qualified plan prior to retirement or termination if the transfer is made for:

- ◆ purchase of service credit in a governmental defined benefit plan (i.e., Nebraska School Employees Retirement Plan, etc.) or
- ◆ repayment of a refund in a governmental defined benefit plan

## PAYMENT OPTIONS AT TERMINATION/RETIREMENT

At termination or retirement, *regardless of your age*, you may defer payment of your account until a later date, or request distribution of your DCP account.

The following options are available:

- ◆ **Deferral** of payments until a later date (no later than age 70½).
- ◆ **Withdrawal** paid *either directly* to you (included in your taxable income) *or rolled over* to another tax deferred qualified plan or IRA.
- ◆ **Systematic withdrawals** which provide payments to you at the frequency and dollar amount you elect.
- ◆ **Monthly annuity** (proof of age is required).
- ◆ **Combination** of any of the above.

If you request distribution of your account, NPERS will provide you with the necessary form. When you select a payment option, your payment will be processed as soon as administratively possible, but **no sooner than 60 days** after your termination to allow time for processing all contributions from final pay. If you select an annuity, payments will be retroactive to your annuity start date.

When your contributions and earnings are distributed to you, the funds are taxed as ordinary income in the year in which you receive them. (See “Taxation.”)

The recordkeeper charges a \$35 distribution fee to a member who takes a total distribution of their account through rollover, direct payment or annuity. (See “Fees.”)

### **Deferral Option**

If you do not wish to take payment of your account at the time you terminate/retire, you may defer all or a part of the distribution. Payment of your account must begin by April 1 following the year in which you reach age 70½.

While your account is deferred, it remains invested. You continue to have the investment choices you had while employed and may transfer your remaining account balance among the investment options at your discretion. You will continue to pay the same fees paid by active account participants.

### **Withdrawal Option**

All or part of your account may be paid directly to you and will be reported as taxable income. Partial withdrawals will be allocated pro rata among your investment funds. The withdrawal will be subject to 20% federal tax withholding and, for Nebraska residents, 5% Nebraska state withholding. (See “Taxation”)

### **Rollover Option**

All or part of your account may be rolled over or transferred to another eligible §457 government plan or eligible retirement plan or IRA. Amounts are not taxable when an account is rolled over as your money is merely being transferred from one retirement plan to another. You will be taxed when you eventually draw the money out of the other plan.

### **Systematic Withdrawal Option**

The Systematic Withdrawal Option (SWO) is a series of withdrawals paid to you at the frequency and dollar amount you elect. The payment can be made on a monthly, quarterly, semiannual or annual basis and must be a minimum withdrawal of at least \$100. Withdrawals will be allocated pro rata among your investment funds. Changes in amount and frequency are limited to two per year.

While receiving SWO payments, the balance of your account remains invested. You continue to have investment choices and may transfer your remaining account balance among the investment options at your discretion. You will continue to pay the same fees paid by active account participants.

The SWO payment will cease when the account is fully depleted. If you die, the SWO payment will cease upon notification of your death. If a balance remains, it will be paid to your designated beneficiary.

Characteristics of SWO:

- ◆ Minimum withdrawal — \$100
- ◆ Monthly, quarterly, semiannual or annual distributions
- ◆ Can be directly deposited into your bank account
- ◆ May make changes in amount and frequency of payments twice per year
- ◆ If paid to you and not rolled over into an IRA or qualified plan, federal taxes will be withheld at a 20% rate and, for Nebraska residents, Nebraska state taxes will be withheld at 5%
- ◆ Fund allocation on remaining account determines investment gain or loss
- ◆ You have investment direction on remaining account balance
- ◆ Payments cease if account is fully depleted
- ◆ Withdrawal amounts will be subject to required minimum rules upon attainment of age 70½ .

## **ANNUITY OPTIONS**

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You may use all or part of your account to purchase an annuity. Your monthly annuity payment will be determined by the dollar amount you annuitize, your age on the date your payments are to begin, and the annuity option you select. When you select an annuity, your investment funds are liquidated and you are paid a monthly payment amount that never changes. **You CANNOT change your *option* after your annuity start date.**

When you select an annuity option, your age must be verified before payments can begin. A legible copy of your birth certificate will be considered sufficient proof of your age. When a survivor option is selected, NPERS requires your spouse’s or non-spouse’s proof of age.

You may request an annuity estimate by writing to NPERS, or calculate your own estimate by using the Benefit Estimator on the website at [www.npers.ne.gov](http://www.npers.ne.gov).

**Option 1 — Life Only Annuity** – Provides a monthly payment *for your lifetime* and no refund or death benefit. There is no beneficiary designation under this option.

- Option 2 — Modified Cash Refund Annuity** – Provides a monthly payment *for your lifetime*. If you die before receiving payments equal to that part of your account you use to purchase the annuity, the remaining amount will be paid in a lump sum to your beneficiary or estate.
- Option 3 — Period Certain and Continuous Annuity** – Provides a monthly payment *for your lifetime*, but is guaranteed for a period of five, ten or fifteen years for your beneficiary(s).
- a. **5-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 60 payments, the balance of payments will be paid to your beneficiary in monthly payments.
  - b. **10-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 120 payments, the balance of payments will be paid to your beneficiary in monthly payments.
  - c. **15-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 180 payments, the balance of payments will be paid to your beneficiary in monthly payments.
- Option 4 — Joint and Survivor Annuity** – Provides a monthly payment *for your* lifetime, and a percentage of that benefit to your spouse after your death. You must list only your spouse as beneficiary and should he/she predecease you, you cannot select another beneficiary.
- a. **50%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 50% of your benefit, paid monthly for his/her lifetime.
  - b. **75%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 75% of your benefit, paid monthly for his/her lifetime.

- c. **100%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 100% of your benefit, paid monthly for his/her lifetime.

**Option 5 — Non-Spousal Joint and Survivor Annuity** - Provides a monthly payment *for your lifetime*. When you die, your surviving beneficiary will receive 50% of your benefit, paid monthly for his/her lifetime. You must name one person as your beneficiary (this cannot be your spouse) and should he/she predecease you, you cannot select another beneficiary.

**Option 6 — Designated Period Annuity** - Provides a monthly annuity payment for a designated period of 5, 10, 15 or 20 years. Your beneficiary will receive the benefit payment(s) if you die prior to the end of the elected designated period.

- a. **5-Year** - Payment will cease at the end of the 5-year period. If you die before receiving 60 payments, the balance of payments will be paid to your beneficiary in monthly payments.
- b. **10-Year** - Payment will cease at the end of the 10-year period. If you die before receiving 120 payments, the balance of payments will be paid to your beneficiary in monthly payments.
- c. **15-Year** - Payment will cease at the end of the 15-year period. If you die before receiving 180 payments, the balance of payments will be paid to your beneficiary in monthly payments.
- d. **20-Year** - Payment will cease at the end of the 20-year period. If you die before receiving 240 payments, the balance of payments will be paid to your beneficiary in monthly payments.

**NOTE:** — Under **Options 2, 3 or 6**, you may list as many *beneficiaries* as you wish, and you may change these beneficiaries at any time after retirement.

- If you choose **Options 4**, NPERS must have legible proof of age for your spouse and a legible certified copy of your marriage license.
- If you choose **Option 5**, NPERS must have legible proof of age of your beneficiary.

You **CANNOT** change your *option* after your annuity start date. Therefore, NPERS suggests you request estimates of benefits under the above options before you make your selection.

## **DEATH BENEFIT**

If you die after purchasing an annuity, the death benefit is regulated by the form of the annuity you choose. (See “Annuity Options.”)

If you die before requesting a distribution and your spouse is the primary beneficiary, he/she may elect to have the benefits paid under any of the payment options. (See “Payment Options at Termination/Retirement.”) This election must be made *within 90 days* of your date of death.

If you die before requesting a distribution, and your primary beneficiary is not your spouse, he/she may elect either the Withdrawal Option or the Systematic Withdrawal Option. This election must be made *within 90 days* of your date of death.

If an election has not been made within 90 days, benefits will be paid to your beneficiary as a lump sum payment.

If you die without a designated beneficiary, payment will be made to your estate.

Proof of death must be provided before any payments will be distributed.

## **EMERGENCY WITHDRAWAL/FINANCIAL HARDSHIP**

If you suffer a severe, unforeseen emergency, you can apply to withdraw all or a portion of your account prior to ceasing employment. Emergency withdrawals are not allowed for personal expenses, such as a down payment for a house, purchase or repair of an automobile, college or other educational expenses, normal monthly bills, payments of loans or federal or state taxes.

The financial hardship must result from a sudden and unexpected illness or accident of you or your dependents, or the loss of your property due to casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control. Under most circumstances, divorce proceedings are not considered an unforeseeable event.

Before it can be determined whether the event is unforeseeable, you must provide financial records that document the hardship and complete an Emergency Withdrawal Request Questionnaire. You must also prove that you cannot meet the need for this hardship from other resources, or by simply stopping your contributions to DCP. Distributions because of unforeseeable emergency will be limited to the amount necessary to satisfy the need.

Contact NPERS for additional information regarding Emergency Withdrawal/Financial Hardship. Emergency withdrawals must be approved by the Public Employees Retirement Board (PERB).

## **“DE MINIMUS” WITHDRAWALS**

You may withdraw your total account if your balance is less than \$5,000 and you have not contributed to the Plan during the prior two years. In addition, if you do not make contributions during the prior two years and the account balance is less than \$1,000, NPERS may distribute your account to you without your consent. Only one de minimus withdrawal is allowed during a member’s participation in the Plan.

## TAXATION

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Your current contributions to your DCP account are not taxed when deducted from your salary and remitted to the Plan. This means the taxable income reported on your Wage and Earning Statement (IRS Form W-2) issued by your employer is reduced by the amount you contribute to your DCP account.

When your contributions and earnings are returned to you, either as an annuity or another form of distribution, the funds are taxed as ordinary income in the year in which you receive them. Payments are subject to both federal and state income tax. State income tax will be based on your state of residence when you receive payments.

Once you receive payments from your DCP account, the income will be reported to you on a 1099-R form each year in January for the payments received the prior year. A copy of that form will also be provided to the Internal Revenue Service.

You may wish to contact the Internal Revenue Service and/or a tax consultant for additional income tax information.

### Taxation of Withdrawals

Any amounts from your account that are rolled into an Individual Retirement Account (IRA) or another qualified retirement plan are not subject to taxation at the time of the rollover. Those amounts will be subject to taxation when you take a distribution from the rollover accounts.

NPERS is required *by law* to withhold **20%** for federal income taxes and, for Nebraska residents, **5%** for Nebraska state income taxes for all withdrawals paid directly to you that are eligible to be rolled over.

### Taxation of Annuities

If you purchase an annuity, NPERS will withhold federal taxes, and Nebraska state taxes for Nebraska residents, from each monthly check based on the withholding election you designate on a Withholding Certificate for Annuity Payments form submitted with your Request for Distribution Form. If you do not submit a withholding form, NPERS will withhold taxes at the rate of “married taxpayer with three exemptions.” You may

change your withholding at any time by submitting a new withholding form.

If you are not a resident of the State of Nebraska, you may be subject to state taxes of the state of which you are a resident.

### IRS Regulations

All disbursements from your DCP account must comply with IRS regulations for §457 of the Internal Revenue Code.

Unlike some other pension and deferral programs, Nebraska’s DCP payments are *not* subject to a 10% federal tax penalty for early withdrawals prior to age 55.

Distributions are required to begin the year you reach age 70½ unless you have not separated from service. Payments may be delayed until April 1 following the year you reach 70½ or the year you terminate employment.

Withdrawals from your DCP account will not affect your Social Security or Pension Benefits.

## RETIREMENT SAVINGS TAX CREDIT

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You may be eligible for a tax credit on your contributions to DCP. The “Retirement Savings Contributions Credit” was added to the federal tax code by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and regulations issued by the IRS during 2002.

You may take the credit if *all* of the following apply:

- ◆ You were born before January 2, 1985.
- ◆ You are not a full-time student.
- ◆ No one else claims an exemption for you on their income tax return.
- ◆ Your adjusted gross income is not more than:
  - \$50,000 if your filing status is married filing jointly,
  - \$37,500 if your filing status is head of household (with qualifying person), or
  - \$25,000 if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.

The tax credit is only available for *elective deferrals* (i.e., voluntary contributions) to various types of retirement plans. “Elective deferrals” include amounts you *choose* to contribute to:

- ◆ A governmental §457 (i.e., deferred compensation) plan;
- ◆ A traditional IRA or a Roth IRA;
- ◆ A §401(k) plan (these are funded with *voluntary* contributions);
- ◆ A §403(b) annuity plan;
- ◆ A SIMPLE IRA plan; or
- ◆ A salary reduction SEP.

For further information and full details on the “Retirement Savings Contributions Credit,” please consult your own tax professional or access the Internal Revenue Service website at [www.irs.gov](http://www.irs.gov).

## APPEALS PROCESS

As a participant of DCP, you have the right of review if you disagree with a written decision reached by NPERS’ Director or the PERB. You must file your appeal form within 30 days after you receive notice of the Director’s or the PERB’s decision.

A hearing officer appointed by the PERB will schedule a formal hearing and send written notice to all parties concerned. If you wish to further appeal a decision, you are entitled to judicial review under the Administrative Procedure Act.

## ADMINISTRATION OF THE FUND

The **Public Employees Retirement Board (PERB)** consists of eight members appointed by the Governor for five-year terms. Six members are participants in the retirement systems administered by the PERB. Two are at-large members and are not employees of the State of Nebraska or any of its political subdivisions. The State Investment Officer is also a member of the PERB in a non-voting, ex-officio capacity.

The PERB is responsible for the administration of the Judges, State Patrol, School Employees, State Employees and County Employees Retirement Systems and the Deferred Compensation Plan. The PERB

meets monthly and meeting dates are posted on NPERS’ website at [www.npers.ne.gov](http://www.npers.ne.gov).

The **Nebraska Public Employees Retirement Systems (NPERS)** is the agency responsible for the administration of the Deferred Compensation Plan.

A **Director** is hired by the PERB and directs NPERS in its administration of the various systems. The Director is subject to the approval of the Governor and a majority vote of the Legislature.

The **State Treasurer** is the custodian of the funds and securities of the retirement systems.

The **Nebraska Investment Council** is responsible for the investment and management of the system’s assets. The Council contracts with outside managers to invest the various funds.

The **Recordkeeper** is a company under contract with the PERB to maintain individual member accounts, provide quarterly statements and allow for changes in investment allocations.

## RELEASE OF INFORMATION

Member account information including name, address, account balances, beneficiaries, or payment options, will only be released to you under the following conditions:

- ◆ Your personal visit to NPERS
- ◆ Adequate proof of identity provided over the phone
- ◆ Written requests
- ◆ Written release signed and dated by member (release date must be less than six months old)
- ◆ Court ordered release
- ◆ Request from guardian or conservator with proper certified authorization (request date must be less than three months old)
- ◆ Request from individual holding power of attorney with authorization to receive confidential information

Account information may be released to your employer for verification of necessary information. The Internal Revenue Service may receive account information to comply with federal tax laws.

## **Fax Policy**

The following will be honored via facsimile (fax) if signed by the member:

- ◆ Requests for account information
- ◆ Requests for beneficiary listings
- ◆ Requests for annuity estimates
- ◆ Changes in tax withholding
- ◆ Changes in direct deposit

Original, signed NPERS forms are required to process annuities or payments, to change beneficiaries, or change of address for payment requests. However, faxed applications for a payment will be accepted to determine effective date of processing of payment **if the original, signed form is received within five working days**. Faxed Beneficiary Designation Forms shall also be accepted with timely receipt of the original, signed form.

## **E-mail Policy**

General questions about DCP and requests for forms may be communicated through e-mail.

At the present time, NPERS does not answer individual account questions by e-mail; such questions must be submitted as a signed, written request.