

12. What are these “limits” that have been referred to several times?

There are two major limits that apply to contributions to 403(b) plans. They go by different names, but the Annuity Board calls them the “Basic Limit” and the “General Limit on salary reduction contributions.”

Generally, you can contribute the lesser of:

- The Basic Limit (also known as the 415(c) limit or limit on annual additions); or
- The General Limit on salary reduction contributions (also known as the 402(g) limit, the limit on salary reduction contributions, or the limit on elective deferrals).

Your Basic Limit is a limit on how much you and your employer both contribute to your 403(b) plan. For 2003, you and your employer together may contribute the lesser of:

- 100% of your Includible Compensation for your Most Recent One-Year Period of Service; or
- \$40,000.

Includible Compensation for your Most Recent One-Year Period of Service is the amount of income you receive from all Southern Baptist employers with which you are employed during the period of time that constitutes your most recent full year of service (i.e., 12 full-time months) ending no later than the last day of your Tax Year. Includible Compensation does not include housing allowance. So if you are a minister for tax purposes and your employer designates a housing allowance for you, that will affect how much you can contribute to your retirement account at the Annuity Board.

In addition to the Basic Limit, you need to consider what the Annuity Board calls the General Limit on salary reduction contributions. For employees with less than 15 full-time years of paid Southern Baptist service (or its equivalent), the General Limit is \$12,000 in 2003, but it is scheduled to increase in future years.

If you have 15 or more full-time years of paid Southern Baptist service (or its equivalent), your General Limit on salary reduction contributions may be increased by the lesser of:

- \$3,000; or
- \$15,000 minus amounts contributed above the General Limit on salary reduction contributions in prior years; or
- \$5,000 times years of service minus prior years’

salary reduction contributions to plans of Southern Baptist employers.

Beginning in 2002, the law allowed people getting closer to retirement age to “catch up” or make some extra salary reduction contributions to their 403(b) plans. If you turn age 50 in 2003 or if you’re already 50 or older, you may be able to make an extra contribution of up to \$2,000, an amount that is scheduled to increase in future years.

The \$10,000 Limit is an option that may provide for a larger contribution than permitted under the Basic Limit. Employees of Southern Baptist employers may elect to have their employers contribute up to \$10,000 a year, even if that’s more than 100% of their compensation. But total contributions under this election over an employee’s lifetime can’t exceed \$40,000.

You’ll find more information about 403(b) contribution limits in IRS Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations*.

13. What do I do if I have questions about this information or completing the worksheet my employer gave me?

Your employer received a workbook containing more specific information concerning maximum contribution limit calculations. Ask to look at the Questions and Answers (Q & A) section or the Glossary in the workbook to see if you can find the answer to your question. If you are still unsure, call the Annuity Board at **1-800-262-0511** and ask to have someone from the Compliance Department return your call; fax your question(s) to 214-720-2105, Attention: Compliance Department; or e-mail your question(s) to abcompliance@absbc.org.



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Just for Employees

**Information
about
maximum
retirement plan
contributions**

Maximum contribution calculations are complex. The following provides answers to the most commonly asked questions concerning the calculations of maximum contributions to 403(b) plans maintained by Southern Baptist employers. This information may help you understand why certain information is needed, the importance of complete and accurate information, and why you should request a calculation.

1. Why do I need to know what my maximum contribution limit is?

The Internal Revenue Code imposes certain limits on the amount of contributions which may be made to your 403(b) retirement plan. If these limits are exceeded, there are tax consequences. Before you increase contributions to your retirement plan, it is generally a good idea to have a maximum contribution limit calculation performed. Even if you don't want to make larger tax-sheltered contributions, you need to know if your current rate of contributions will exceed applicable limits.

2. My co-worker and I work in the same position. Can I make the same contributions my co-worker does?

Not necessarily. Each person's calculation must be treated individually. Includible Compensation, years of service, prior year salary reduction contributions, contribution amounts for the current year, participation in other plans, and other variables affect the results.

3. The Maximum Contribution Limits Worksheet is so complicated. In addition, some of the information requested is confidential.

We know that the information-gathering process is complex. However, it is important to submit complete and accurate data. A calculation can alert you to the possibility of exceeding the various limits imposed by law. The information you provide is kept confidential.

4. What happens if I exceed the limits?

The excess amount will be returned to you. The excess amount may need to be included in your gross income for the year of the contribution or, in some cases, the year of the distribution. If you exceed the General Limit on salary reduction contributions and do not request a correction on a timely basis, the excess amount is taxed twice.

5. Since I am in a 403(b) plan, can't I automatically contribute \$12,000 on a salary reduction basis (or \$15,000 if I have 15 or more full-time years of paid Southern Baptist service or its equivalent) through the end of the Tax Year?

Not necessarily. Determining how much can be contributed is complex. Several sections of the Internal Revenue Code coordinate for purposes of determining contribution limits to a 403(b) plan. At all times, contributions must comply with the limitations in Code Sections 415 and 402(g). Moreover, you must have enough taxable compensation to tax shelter \$12,000 (or \$15,000) in 2003. Remember, the limits will increase in future years.

6. Twenty percent of my "total package" is contributed to the retirement plan. Does this exceed the limits?

There is no automatic "rule-of-thumb" or guideline to ensure that a specific rate of contribution is automatically within the legal limits. "Total package" compensation may include nontaxable items such as minister's housing allowance. If contributions are based on compensation that includes, for example, amounts designated as minister's housing allowance, it is possible to exceed the limits even though the contributions are otherwise provided for under the plan. Consequently, the limits imposed by law supersede plan provisions! When contributions are based largely on taxable compensation, you are less likely to exceed the limits.

7. What compensation is taken into account for contribution limit purposes?

Includible Compensation is determined based upon your Most Recent One-Year Period of Service. This period is an equivalent of one year of paid full-time service with all your Southern Baptist employers. Compensation earned during this period is Includible Compensation. In addition, beginning in 2002, the annual compensation that is used to determine employer and tax-paid contributions to a retirement plan for an employee is limited to \$200,000 (indexed). This limit only applies to the plan of an organization that is not a "church" or "qualified church-controlled organization" under Code Section 3121(w). Your employer is responsible for applying this limit. If the contributions reported in the data provided to the Annuity Board do

not reflect the reduction required by the \$200,000 limit (indexed), if any, this limit will not be taken into account in the calculation and may affect the validity of the results.

8. I had a maximum contribution limit calculated several years ago. Why do I need another one?

The amounts that may be contributed change over time, even from one year to the next, and are determined by law. If some or all of the figures used in the calculation change or if the law changes, the results are likely to be different. Figures such as Includible Compensation, years of service, and prior year salary reduction contributions generally change each year. The amount you were able to contribute five years ago is not likely to be what you can contribute now.

9. If I want to put more money into the retirement plan, can I make unlimited tax-paid contributions?

No. The law also imposes limits on tax-paid contributions as well as your salary reduction and employer contributions.

10. Can I participate in more than one 403(b) plan at the same time or during the same Tax Year?

Yes. However, all of your salary reduction contributions to **all** retirement plans during the year must be taken into account to avoid exceeding the General Limit on salary reduction contributions.

11. Why do you need to know my number of years and months of paid Southern Baptist service? Can I estimate this figure?

All Southern Baptist service is used in calculating the special increase in the salary reduction limit for certain employees with 15 or more full-time years of paid Southern Baptist service (or its equivalent) through the end of the Tax Year.

Service must be measured in completed years and months of paid employment. The number of years and months of service is used as a multiplier in the calculations. Therefore, it is important that this number be as accurate as possible. Do not round to the nearest full year (e.g., 5 years). Rather, provide years and completed months (e.g., 5 years, 4 months).