

457 Plan Deferrals from Buydowns and Payoffs

To defer funds from your buydown or payoffs into the Section 457 Plan, you'll need to complete a *Section 457 Plan Participation Agreement*. Due to the IRS-established waiting period for contribution increases to the Section 457 Plan, you need to complete and submit the *Participation Agreement* well in advance of the pay period in which your department will process your buydown or payoffs. Contact the Deferred Compensation Program at 805.654.2620 for information on which pay period your deferral can be processed. We suggest calling at least two months before the pay period you want to make the deferral.

Instructions for completing the *Participation Agreement* are on the form. Please be sure to read the instructions completely. Sometimes, participants are confused regarding the withholding and taxation issue. The Roth option is an **after-tax** deferral so the entire amount of the buydown or payoff is subject to taxes. The Section 457 Plan **pre-tax** option isn't subject to income taxes but it is subject to applicable deductions including FICA, MEDI, SDI, and retirement contributions, and then income taxes on those amounts. These withholdings and taxes can be handled one of two ways. The following illustration applies to the pre-tax option only.

Option 1: Withheld from your regular earnings, which will maximize your deferral, but reduce your take-home pay,
or

Option 2: Withheld from your buydown/payoff, which will reduce the amount of your deferral, but not your take-home pay.

Here's an example of how this works:

Amount of buydown or payoff	\$2,500.00
FICA deduction	155.00
MEDI deduction	36.25
SDI deduction	22.50
Retirement contribution.....	<u>145.25</u>
Total estimated deductions	\$359.00
Federal income tax on the amount of the total deductions (\$359)	\$89.75
State income on the amount of the total deductions (\$359)	<u>21.54</u>
Total estimated income tax	\$111.29
Total deductions.....	\$359.00
Total income tax.....	<u>111.29</u>
Total estimated deductions and income tax	\$470.29

Option 1: \$2,500 buydown deferred into the Section 457 Plan. Deductions of \$359.00 (estimated) withheld from your regular earnings, thereby reducing your take-home pay.

Option 2: Estimated deductions and income taxes of \$470.29 withheld from the \$2,500 buydown, thereby reducing the amount deferred into the Section 457 Plan to \$2,029.71.

The Deferred Compensation Program does not process the paperwork to initiate your buydown or payoff. For approval and processing of your Buydown, you must first submit a Buydown Request through the VCHRP system at: <https://vchrp.co.ventura.ca.us> (Home>Payroll>Vacation Buydown>Buydown Request).

Return completed the 457 Participation Agreement(s) to Brown Mail #1970. If you have any questions, call the Deferred Compensation Program at 805.654.2620 or e-mail us at deferred.compensation@ventura.org.

