



## **ACCUMULATED LEAVE PLAN FREQUENTLY ASKED QUESTIONS**

Changes were made to the policy for the Accumulated Leave Plan (formerly known as the Sick Leave Plan) effective January 1, 2019. Both unused vacation days and accumulated leave will be paid out under this new method. In accordance with this policy, if you are under the age of 55, you will be paid the amount of accumulated sick/personal and/or vacation days in cash. If you are age 55 or older, the payouts of accumulated sick/personal and/or vacation days will be made to the Cypress-Fairbanks Employer Paid 403(b) Plan. If your payout amount is greater than the 403(b) employer contribution limits (\$56,000 minus employee voluntary deferrals to 403(b) plan up to \$19,000 in 2019), then the amount of the payout above the limit will be deposited into the Cypress-Fairbanks ISD 401(a) Plan. This document has been developed to address questions as a result of this change.

### **1. What are the eligibility requirements for Accumulated Leave?**

- Employee must be eligible to retire under the regulations of the Teacher Retirement System and submit resignation online giving notice of retirement.
- Employee must be eligible to receive a STANDARD annuity that is not reduced for early retirement under the Texas Teacher Retirement system.
- Employee must be employed at least five years with Cypress-Fairbanks ISD.
- Employee must retire at the completion of the semester as identified in the current school calendar or annual work calendar year.

### **2. How is the Accumulated Leave payment calculated?**

Total local, state sick and state personal leave days will be added together. For hourly employees, leave hours will be divided by 8 in order to calculate a full day. The rate is \$125.00 for employees who have been with the District for ten years or more prior to retirement, \$112.50 for nine years, \$100.00 for eight years, \$87.50 for seven years, \$75.00 for six years and \$62.50 for employees that

have been with the District for five years prior to retirement. The maximum number of days to be paid is 150, for a maximum payout of \$18,750.

**3. Why did the district make the decision to change how retirees receive their payment for unused leave and/or vacation days?**

This change provides the retiree and the district with a greater benefit since Medicare tax is not withheld or paid on distributions to an employer paid 403(b) plan.

**4. How does this change benefit the retiree?**

The retiree receives a greater benefit payout because the retiree does not have to pay Medicare tax on the amount. The retiree must pay ordinary income tax when the payment is in cash, which can move them into a higher tax bracket. Under this employer paid 403(b) plan, payment of ordinary income tax is deferred until the distribution is taken, thus allowing the retiree the option to wait and take the distribution when they are in a lower tax bracket.

**5. Why is the cut off for rolling money into a 403(b) for retirees 55 years and older?**

Per IRS rules for employer paid 403(b) plans, if the employee is 55 or older and retired then there is no “early distribution penalty”. Employees under the age of 55 receive a cash payout as there is no way for them to access the funds prior to age 59 ½ without being assessed a penalty. Anyone 55 or older has the cash option via a distribution, but also has the option to defer.

**6. Since many employees already have a 403b, will the money roll directly to their existing account or will the district create a new/separate account to roll the payment for unused leave days?**

The money will be placed into a separate employer paid 403(b) account created and managed by TCG Administrators. The contribution limits are higher for employer paid 403(b) contributions and many voluntary 403(b) plans won't accept employer contributions.

**7. Can employees under 55 years of age elect to roll their money into their existing 403(b) or 457(b) plan?**

No. If the district gave the employee this option, the IRS would consider the payout an employee contribution into a voluntary 403(b) plan that could not be withdrawn until age 59 ½, or the employee would incur a 10% “early distribution penalty”.

**8. Is it possible for a retiree 55 or over to receive a check from CFISD instead of rolling the money into a 403(b) plan?**

No. Per IRS rules, an employer paid 403(b) plan cannot give a retiree the option of a cash payout.

**9. How can a retiree 55 or older be guaranteed that they will not be penalized for withdrawing the accumulated leave payment from their 403(b) plan before they turn 59 ½?**

IRS regulations provide this guarantee. The IRS waives the “early withdrawal penalty” for retirees who participate in an employer paid 403(b) plan. They are exempt from an early withdrawal penalty through the Separate of Service exemption. Further information can be found at <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions>.

**10. If a retiree 55 or older does not have a 403(b) account already set up, how hard is it to establish one for the payment of accumulated leave? If a new account must be created, are there regulations for withdrawing on newly created accounts that may differ from established accounts?**

A new account will automatically be created by TCG Administrators when payment is received from the district. Instructions for accessing your account will be mailed to you by the district when the payment is remitted to TCG. The default investment for both plans is the moderately conservative portfolio and you can make election changes at any time by logging in to your account at [www.tcgservices.com](http://www.tcgservices.com) or contacting TCG at 800-943-9179. There are no regulations on withdrawing funds from the newly created account.

**11. How does a retiree withdraw money from their 403(b) plan?**

TCG Administrators is the administrator for the 403(b) and 401(a) accumulated leave plans. They are also the district’s retirement plan provider for the voluntary 457(b), voluntary 403(b) and the 457(b) FICA Alternative plan. Employees who wish to receive a distribution or roll their funds over to another retirement account for any of the plans managed by TCG Administrators must complete a distribution form. Questions or to request a distribution form should be addressed to TCG Administrators at [403b@tcgservices.com](mailto:403b@tcgservices.com) or contact their customer service team at 800-943-9179.