

The Special Pay Plan Newsletter

FRIDAY, JUNE 10, 2011 – VOL. II

MESSAGE FROM WES COMPTON, PRESIDENT OF MIDAMERICA

MidAmerica is pleased to provide our second issue of the Special Pay Plan Newsletter for our Special Pay Plan clients. As you are probably aware, your Special Pay Plan is technically an Employer Sponsored 403(b) Plan that accepts both/either employer contributions or non-elective employee contributions.

This newsletter will become a regular piece of correspondence outlining developments in the marketplace, discussing changes and enhancements to our service offering, and answering frequently asked questions. We hope that you find it useful and encourage your comments and suggestions.

415 LIMITS

When calculating the contributions for Special Pay Plan retirees, the 2011 IRS limit is \$49,000 (less any voluntary contributions since the beginning of the calendar year). For example, if you have an employee who retires on 6/15/2011, you would take \$49,000 less voluntary contributions from 1/1/2011 – 6/15/2011. If you have plan participants who will exceed this limit for 2011, please contact MidAmerica to discuss planning opportunities.

403(b) SPECIAL PAY DATA REQUEST

In an effort to better communicate the Special Pay Plan to the current retirees, we are requesting that you begin providing us with the telephone number of the retiree on the Special Pay Data Requirements Spreadsheet. This will allow us to provide the retiree with more information regarding the Special Pay Plan and better communicate the benefits of the plan.

CASH IN LIEU OF HEALTH CARE CONTRIBUTIONS

It has come to our attention that some of our clients offer their employees the option to receive an employer contribution to their 403(b) plan if the participant elects not to receive benefits under the company's health care plan. This arrangement is often referred to as a contribution in lieu of medical benefits.

Contributions in lieu of medical benefits have been challenged by the IRS in recent years for not adhering to the IRS doctrine of constructive receipt. This doctrine generally requires that all amounts made available to the employee are included in the employee's gross income for that year, even if the employee does not actually receive them. An exception to this rule exists if the employee's control over the receipt of income is subject to substantial limitations or restrictions. The IRS has taken the position that a choice, even if only a one-time, irrevocable choice, generally will not satisfy those conditions. Since the participant has the choice whether or not to accept the medical benefits, the cash contribution for the health care benefit, if chosen, should be treated as taxable income to the participant in the year of contribution according to the IRS.

We have identified the following two options your company may select to maintain IRS compliance for cash in lieu of health care contributions:

- Deposit the contribution into a Health Reimbursement Arrangement (HRA). With an HRA, no choice of whether to take cash or to have it contributed to a 403(b) is allowed, even a one-time and irrevocable choice. This type of plan allows the deposits to be made in a non-taxable manner where there is no election. As a result, both the participant and your company can enjoy the non-taxable benefit which is not subject to FICA. Additionally, money in the HRA account is not subject to federal income tax, however, it must be used exclusively to reimburse the participant for eligible health care expenses.



MidAmerica

Administrative & Retirement Solutions, Inc.

211 E Main Street, Suite 100, Lakeland, FL 33801

Phone: (800) 430-7999 Fax: (863)686-9727

www.midamerica.biz

The Special Pay Plan Newsletter

FRIDAY, JUNE 10, 2011 – VOL. II

CASH IN LIEU OF HEALTH CARE CONTRIBUTIONS - Continued

- Pay the contribution in cash to the employee as additional salary, but add language to the 403(b) plan document (if necessary) which would treat the additional salary as compensation for employee deferral purposes under the 403(b) regulations. This option would allow the participant to either take the cash into income or contribute the amount into his or her 403(b) plan account as an employee pre-tax salary reduction contribution. As such, the contribution would be subject to the IRS maximum allowable limits concerning elective 403(b) contributions (for 2011, \$16,500, plus another \$5,500 if age 50 and over in the plan year) along with other rules and regulations governing such contributions. Additionally, salary reduction contributions to 403(b) plans are subject to FICA. The participant would need to affirmatively elect to contribute this amount to his or her plan account by completing a Salary Reduction Agreement (SRA). This option would not allow cash paid as salary to be used to make health care account contributions or pay premiums for health benefits on a pre-tax basis.

If you would like to explore either of these options with us in further detail, please let us know so that we can address your questions or concerns appropriately.

CONTRIBUTION TURN AROUND TIMES

School is almost out and the summer is upon us! This means many of your finance / payroll departments will now be processing contributions to the Special Pay Plan for your retirees. In an effort to ensure the contributions are deposited as quickly as possible, here are some measures that will assist us in making this happen:

- ACH the funds instead of sending paper checks. Not only does this eliminate transit time in the postal service, but Bank of America does not apply holds to ACH deposits. For paper checks, Bank of America can apply holds of up to 4 days.
 - ROUTING NUMBER: 026009593 (for wires only)
 - ROUTING NUMBER: 063100277 (for ACH only)
 - ACCOUNT NUMBER: 005500505961
 - TITLE ON ACCOUNT: AUL Special Pay Trust / MidAmerica Administrative & Retirement Solutions, Inc.
 - BANK NAME: Bank of America, N.A.
 - BANK BRANCH: Lakeland, FL
 - BANK PHONE NUMBER: (863) 616-5318
 - REFERENCE: (EMPLOYER NAME) AUL Special Pay
- Submit data electronically. To do so, just type <https://www.midamerica.biz/content/employers/uploadform.aspx> into your web browser, populate the required fields, attach your data file and click submit!

NEED TO SUBMIT CONTRIBUTION DATA? USE OUR SECURE UPLOAD SITE!

Just type <https://www.midamerica.biz/content/employers/uploadform.aspx> into your web browser, populate the required fields, attach your data file and click submit!

MidAmerica plans to periodically send newsletters to our clients. If you would like to add to or change email recipients, please contact Brittany.Decker@midamerica.biz.



MidAmerica

Administrative & Retirement Solutions, Inc.

211 E Main Street, Suite 100, Lakeland, FL 33801

Phone: (800) 430-7999 Fax: (863)686-9727

www.midamerica.biz