

Davis Applied Technology College: A Utah College of Applied Technology Campus Social Security Retirement Benefit Policy and Procedures

Effective Date: 1 October 2011

Campus President's Council Approval: 13 September 2011

Board Approval: 15 September 2011

1. Purpose

The purpose of this policy is to establish a policy for the administration of Social Security taxes and benefits for employees of the Davis Applied Technology College: A Utah College of Applied Technology Campus (College Campus).

2. References

2.1 Davis Applied Technology College Employee Tax Shelter Programs Policy and Procedures

2.2 Davis Applied Technology College Retirement Programs Policy

3. Definitions

3.1. Tax Shelter Program. Under regulations of the Internal Revenue Service, educational institutions may establish salary-or-annuity option (tax sheltered annuity) programs, in addition to their retirement plans. Under these programs, College Campus personnel may, through a properly drawn salary reduction agreement, divert part of their compensation on a tax-free basis to the purchase of supplemental annuity benefits.

3.2. Salary Reduction Agreement. A salary Reduction Agreement is a binding contract, as required by Treasury regulations, between the College Campus and the employee to accept a reduction in salary payments, or to forego receipt of an increase in salary. The unpaid portion of the employee's compensation described in the agreement is then used to purchase supplemental annuity benefits which are tax sheltered, i.e., federal and state taxes on the premiums remitted and on the investment earnings credited to them are deferred until the employee receives them in the form of retirement or annuity benefits. At that time, the payments received are taxed as ordinary income in the year or years in which they are received.

4. Policy

4.1. Effective Date. Eligible employees of UCAT voted in a UCAT-wide referendum to opt not to participate in the Federal Social Security system as permitted under Internal Revenue Service regulations. The voting deadline was September 6, 2011. As a result of that referendum vote, beginning October 1, 2011 eligible employees of the College Campus will no longer participate in the Social Security System.

4.2. Eligibility. The employees who will not participate in the Social Security benefit are only those who are eligible for employer paid retirement benefits. Employees who are not eligible for retirement benefits will continue to participate in the Social Security system.

4.3. Refund. In accordance with the Social Security referendum, the College Campus will seek a refund of the OASDI taxes paid during the period eligible for refund. The refunded employer contributions will be deposited into the individual employee's deferred compensation retirement account. Eligible employees who wish to obtain the refund of their employee portion of contributions are able to choose whether they will retain some or all of their refund. They may also choose to increase their employee contributions into their deferred compensation retirement account.

4.4. Future Contributions. For eligible employees who are not participating in the Social Security system, the College Campus will maintain the same percentage employer contribution (currently 6.2%) as is required for employers participating in social security. However, in lieu of paying this amount in FICA taxes, these

funds will be directed to the employee's individual deferred compensation account. Employees have the option to choose if they wish to contribute some, or all, of their employee portion into this account as well.

4.5. Duration. The elements of this policy will remain in effect unless this portion of the compensation funding the College Campus receives from State appropriated money is reduced or eliminated.

5. Procedure

5.1. FICA Withholdings. Under Social Security, the employee is required to pay FICA taxes of a percentage of their gross wages, and the employer also pays a matching amount. Prior to 2011, the Social Security portion of this percentage was 6.2% for the employee with a matching 6.2% for the employer. During 2011 the employee portion of the tax was reduced to 4.2%. This tax is referred to by the Federal government as the OASDI tax or Old Age, Survivors, and Disability Insurance tax. The percentages of this tax may change from time to time as adjusted by the Federal government. The employee and employer both pay an additional 1.45% tax for Medicare. These funds are remitted regularly to the IRS for those College Campus employees who are participating in the Social Security system.

5.1.1. For eligible employees who are not participating in the Social Security system, the College Campus will maintain the same percentage employer contribution (currently 6.2%) as is required for employers participating in social security, taking into account maximum contribution limits. However, in lieu of paying this amount in FICA taxes, these funds will be directed to the employee's individual deferred compensation retirement account. Employees have the option to choose if they wish to contribute some, or all, of their employee portion into this account as well.

5.1.2. The 1.45% Medicare taxes paid by the employee and employer will continue to be paid to the IRS for all employees.

5.1.3. The contributions made to an employee's deferred compensation retirement account as a result of not participating in Social Security will be in addition to the amount paid into an eligible employee's employer paid retirement plan as defined in the Retirement Programs Policy.

5.2. Approved Retirement Accounts. The designated contributions from the employer will be directed into the individual's deferred compensation account. Only deferred compensation plans approved by the DATC administration will be used for this purpose.

5.2.1. Contribution Limits. The annual maximum contribution amount allowable, for both employee and employer contributions, is governed by applicable provisions of the Internal Revenue code, and may vary from year to year. Information regarding these amounts is available from the College Campus Human Resources department.

5.2.2. Additional Elective Deferrals. Employees are permitted to make additional elective contributions into their deferred compensation retirement accounts by completing a Salary Reduction Agreement, as described in the Employee Tax Shelter Programs Policy and Procedures. Employees may choose their account options from the approved vendors and accounts offered by the College Campus.