

MONTANA UNIVERSITY SYSTEM 403(b) PLAN 15 YEARS OF SERVICE CATCH-UP PROCEDURES

SECTION I BACKGROUND

Montana University System ("MUS") sponsors the Montana University System 403(b) Plan (the "Plan") under which eligible employees may voluntarily choose to make salary reduction contributions.

The Plan permits eligible employees to make salary reduction contributions up to the basic contribution limit pursuant to Section 402(g)(1)(B) of the Internal Revenue Code ("Code"). Any eligible employee who is a "qualified employee" may make additional salary reduction contributions up to the 15 years of service catch-up limit pursuant to Code Section 402(g)(7). Any eligible employee who is age 50, or who will be age 50 before the end of the calendar year, may make additional salary reduction contributions up to the age 50 or 60-63 catch-up limit pursuant to Code Section 414(v). The law requires that the 15 years of service catch-up, to the extent available, be used before the age 50 or 60-63 catch-up, to the extent available. Therefore, the total salary reduction contributions that an eligible employee could potentially make to the Plan each taxable year are:

1. the basic contribution limit (\$24,500 for taxable years beginning in 2026); plus
2. to the extent applicable, the 15 years of service catch-up contribution limit (up to \$3,000 for the taxable year); plus
3. to the extent applicable, the age 50 catch-up contribution limit (\$8,000 for taxable years beginning in 2026) or the age 60-63 catch-up contribution limit (\$11,250 for taxable years beginning in 2026).

SECTION II PURPOSE OF PROCEDURES

MUS is responsible for monitoring the contribution limits under the Plan. These procedures outline a process that MUS can follow in calculating the 15 years of service catch-up contribution limit that can be made on behalf of qualified employees.

SECTION III EXPLANATION OF 15 YEARS OF SERVICE CATCH-UP LIMIT

Catch-up Formula

The maximum amount of 15 years of service catch-up contributions that can be made to the Plan in any taxable year¹ for a qualified employee is the least of the following amounts:

¹ This is the qualified employee's taxable year. The taxable year for the vast majority of individual taxpayers is the calendar year, but it is possible for individuals to file their income tax returns on a fiscal year basis other than the calendar year. MUS must ascertain whether a qualified employee files individual tax returns on a calendar year or other basis.

1. \$3,000;
2. \$15,000, reduced by the total amount of 15 years of service catch-up contributions made to the Plan by the qualified employee in all prior years of employment with MUS; or
3. \$5,000, multiplied by the qualified employee's total number of years of service with MUS, minus the total amount of salary reduction contributions (pre-tax and Roth) made to the Plan by the qualified employee in all prior years of employment with MUS. *Age 50 catch-up contributions are not included in this total.*

Note that even if the result under (3) is zero for a taxable year, if the qualified employee completes additional years of service with MUS, the employee may become eligible for a 15 years of service catch-up contribution in a future year.

Maximum Limits

The maximum annual amount of 15 years of service catch-up contributions that can be made to the Plan on behalf of a qualified employee in a taxable year is \$3,000. The maximum lifetime amount of 15 years of service catch-up contributions that can be made to the Plan on behalf of a qualified employee is \$15,000. However, the actual annual and/or lifetime contribution amounts available to a qualified employee could be less these maximums, and may, in fact, be zero, depending on the amount of prior salary reduction contributions made to the Plan on behalf of the qualified employee.

Coordination with Basic Contribution Limit and Age 50 Catch-up Contribution Limit

A qualified employee must first exhaust the basic contribution limit before making 15 years of service catch-up contributions under the salary reduction agreement to the Plan.

Salary reduction contributions in excess of the basic contribution limit will count first as 15 years of service catch-up contributions (if available) and next as age 50 or 60-63 catch-up contributions (if available).

SECTION IV

CALCULATING 15 YEARS OF SERVICE CATCH-UP CONTRIBUTION LIMIT

Salary Reduction Contributions in Excess of Basic Limit

If (i) an eligible employee has submitted a salary reduction agreement electing to contribute salary under the Plan in excess of the basic limit for that calendar year, **or** (ii) an eligible employee's total salary reduction contributions actually made to the Plan for a calendar year exceed the basic limit for that calendar year, MUS must determine if Section I, II or III applies:

- I. If the eligible employee is not age 50 and will not attain age 50 before the end of the calendar year, MUS must determine if the employee is a qualified employee under STEP ONE below.**

- a. If the employee is not a qualified employee, **stop here**. *MUS should either modify the salary reduction election to prevent an excess contribution, or timely correct any excess contribution actually made to the Plan.*
 - b. If the employee is a qualified employee, MUS must complete STEP TWO and STEP THREE below in order to calculate the employee's 15 years of service catch-up contribution limit, if any.
 - i. A salary reduction election that exceeds the basic limit plus the 15 years of service catch-up limit is an excess contribution. *MUS should either modify the salary reduction election to prevent an excess contribution, or timely correct any excess contribution actually made to the Plan.*
- II. If the eligible employee is age 50 or will be age 50 before the end of the calendar year, and the salary reduction election does not exceed the basic limit plus the age 50 catch-up limit for the calendar year, stop here.**
- III. If the eligible employee is age 50 or will be age 50 before the end of the calendar year, and the salary reduction election exceeds the basic limit plus the age 50 catch-up limit for the calendar year, MUS must determine if the employee is a qualified employee under STEP ONE below.**
- a. If the employee is not a qualified employee, **stop here**. *MUS should either modify the salary reduction election to prevent an excess contribution, or timely correct any excess contribution actually made to the Plan.*
 - b. If the employee is a qualified employee, MUS must complete STEP TWO and STEP THREE below in order to calculate the employee's 15 years of service catch-up contribution limit, if any.
 - i. A salary reduction election that exceeds the basic limit plus the 15 years of service catch-up contribution limit plus the age 50 or 60-63 catch-up limit, is an excess contribution. *MUS should either modify the salary reduction election to prevent an excess contribution, or timely correct any excess contribution actually made to the Plan.*
 - ii. Note: a salary reduction contribution that is made to the Plan under Section II above will count first against the 15 years of service catch-up contribution limit if the employee was a qualified employee that year, and then against the age 50 or 60-63 catch-up limit. See STEP TWO and STEP THREE below.

Notwithstanding the above, if an eligible employee requests MUS to calculate his or her 15 years of service catch-up contribution limit before the employee completes the salary reduction agreement, MUS must complete STEP ONE, STEP TWO, and STEP THREE below.

Steps in Calculating 15 Years of Service Catch-up Contribution Limit

STEP ONE: *Confirm that the Eligible Employee is a Qualified Employee*

MUS should obtain the following information specific to the eligible employee who desires to take advantage of the 15 years of service catch-up for the taxable year:

1. The total number of years of service the qualified employee will have completed with MUS before the end of the employee's taxable year for which the 15 years of service catch-up limit is being calculated.
 - *The years of service will have to be determined from MUS records.*
 - *See the definition of years of service for detail on the information required to determine the applicable years of service for a qualified employee.*

If the number of years of service is 15 or greater, then the eligible employee is a qualified employee.

STEP TWO: *Secure the Required Information to Perform the Calculation*

MUS should obtain the following information specific to the eligible employee who desires to take advantage of the 15 years of service catch-up for the taxable year:

2. The total amount of salary reduction contributions the qualified employee has made to the Plan for all prior taxable years, to any vendor, since the employee commenced employment with MUS (not including any age 50 catch-up contributions).
 - *This information may be available from MUS records, or MUS may need to request this information from the vendor or vendors to which the qualified employee has directed salary reduction contributions be made under the Plan.*
 - *MUS cannot rely on the self-certification of the qualified employee.*
 - *If MUS cannot determine this from its records, MUS should ensure that it secures this information from all vendors which received salary reduction contributions under the Plan on behalf of the qualified employee during the employee's employment with MUS.*
3. The total amount of 15 years of service catch-up contributions the qualified employee has made to the Plan for all prior taxable years since the employee commenced employment with MUS.
 - *This information should be available from MUS records. It is unlikely that a vendor would be able to accurately provide this data.*
 - *MUS will need to ensure that any salary reduction contributions made on behalf of the qualified employee for any prior year that exceeded the basic contribution limit for that year are first counted toward the 15 years of service catch-up (to the extent applicable) and then to the age 50 catch-up limit (to the extent applicable). This includes salary reduction contributions that exceed the basic limit on behalf of any eligible employee under Section II above, to the extent that the eligible employee was a qualified employee that year.*

To the extent that MUS cannot obtain the above information, the qualified employee is not eligible for a 15 years of service catch-up contribution. If the above information is obtained, *proceed to Step Three.*

STEP THREE: *Complete the Worksheet at Appendix A*

MUS should complete the Worksheet at Appendix A with the information obtained under items 1, 2 and 3 above to determine the 15 years of service catch-up contribution limit available to the qualified employee for the taxable year, if any. If an eligible employee made salary reduction contributions in excess of the basic limit under Section II above, to the extent that the employee was a qualified employee for that year or years, a separate Worksheet should be completed for each such year to determine the amount of the 15 years of service catch-up contribution limit that was utilized, if any.

SECTION IV DEFINED TERMS

Qualified Employee

Only qualified employees are eligible to make 15 years of service catch-up contributions. A qualified employee is an employee who will have completed at least 15 "years of service" with MUS before the end of the taxable year during which the 15 years of service catch-up contributions are made.

Year of Service

Annual Work Period

A year of service is based on the employer's "annual work period," not the employee's taxable year. The annual work period for a faculty member is the academic year. The annual work period for administrators and other 12-month employees is the calendar year. A qualified employee's years of service with MUS equals the aggregate of the annual work periods during which the employee is employed by MUS.

Aggregating Years of Service

A qualified employee must be credited with a full year of service for each year during which the individual is a full-time employee of MUS for the entire work period, and a fraction of a year for each part of work period during which the individual is a full-time or part-time employee of MUS, as follows:

- A full-time employee who works an entire annual work period is credited with one year of service.
- A full-time employee who works part of an annual work period is credited with a fractional year of service, determined by dividing the period of time during which the individual is a full-time employee during the annual work period, by the period of time that is the annual work period.

- A part-time employee who works an entire annual work period is credited with a fractional year of service, determined by dividing the amount of work performed by the individual, by the amount of work normally required of individuals who perform similar services and who are employed full-time for the entire annual work period.
- A part-time employee who works part of an annual work period is credited with a fractional year of service, determined by multiplying the fractional year of service that would apply if the individual were a part-time employee for a full annual work period, by the fractional year of service that would apply if the individual were a full-time employee for part of an annual work period.

Fractional years of service are not rounded up.

Determining Work Performed

In determining whether a qualified employee is employed full-time, the amount of work which the employee actually performs is compared with the amount of work that is normally required of employees performing similar services from which substantially all of their annual compensation is derived. The work performed is generally determined based on the employee's "hours of service." An hour of service means each hour for which an employee is credited, as follows:

- (1) An employee is entitled to credit for each hour for which the employee is paid, or entitled to payment, for the performance of duties for MUS.
- (2) An employee is entitled to credit for each hour for which the employee is paid, or entitled to payment, on account of a period during which no duties are performed (irrespective of whether employment has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence; provided, however, that no hours of service shall be credited for periods for which no duties are performed and for which the employee is paid or entitled to payment, if such payment is made or due solely to reimburse an employee for medical or medically-related expenses or solely for the purpose of complying with applicable workers' compensation, unemployment compensation, or disability insurance laws. No more than 501 hours of service shall be credited to an employee on account of any single continuous period during which the employee performs no duties (whether or not this period occurs in a single annual work period) unless the hours of service are credited pursuant to paragraph (4) or (5) below.
- (3) An employee is entitled to credit for each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by MUS.
- (4) Hours of service shall be credited on account of a period of qualified military service to the extent required under USERRA and Code Section 414(u).
- (5) Hours of service shall be credited for a leave which qualifies as family or medical leave under the FMLA; provided, however, such hour of service shall be credited only to the extent required by the FMLA and the regulations thereunder.

Notwithstanding the preceding, if appropriate under the facts and circumstances, a different measurement of services may be used. For example, a faculty member's work may be measured by the number of courses taught during an annual work period.

EXAMPLE: An employee is employed as a part-time professor for one semester teaching 3 hours a week. A full-time professor at MUS teaches 9 hours a week for the full academic year. The part-time professor is considered to have completed $\frac{1}{6}$ of a year of service during the academic year, determined as follows:

- (i) The fractional year of service if the professor were a part-time employee for a full year is $\frac{3}{9}$ [*number of hours employed divided by the usual number of hours of work required for that position*];
- (ii) The fractional year of service if the professor were a full-time employee for half of a year is $\frac{1}{2}$ [*one semester, divided by the usual two semester annual work period*];
- (iii) These fractions are multiplied – $\frac{3}{9}$ times $\frac{1}{2} = \frac{1}{6}$ of a year of service [*multiply the fractions under (i) and (ii) to obtain the fractional year of service*].

**MONTANA UNIVERSITY SYSTEM 403(b) PLAN
15 YEARS OF SERVICE CONTRIBUTION CALCULATION WORKSHEET**

Qualified Employee's Name _____ Taxable Year _____

This Worksheet must be completed *for each year* that a qualified employee (i) makes a salary reduction election that exceeds the basic limit, or (ii) if the qualified employee is age 50 or will be age before the end of the calendar year, that he or she makes a salary reduction election that exceeds the basic limit and the age 50 catch-up limit. This Worksheet should be maintained in the Plan's records as documentation of compliance with the contribution limits.

Step #1:

		<u>Step Results</u>	<u>Maximum Limit</u>
(a)	Lifetime 15 years of service catch-up contribution limit	\$ 15,000	
(b)	15 years of service catch-up contributions made to Plan by the qualified employee in all prior taxable years	\$ _____	
	Step #1 Limit = (a) minus (b)		\$ _____

Step #2:

(a)	Total years of service qualified employee will have completed with MUS by the end of the taxable year for which calculation is being made		
(b)	Enter \$5,000 (amount in regulations)	\$ 5,000	
(c)	Product of (a) times (b)	\$ _____	
(d)	Total amount of salary reduction contributions qualified employee has made to Plan in all prior taxable years (<u>not</u> including age 50 catch-up contributions but including 15 years of service catch-up)	-\$ _____	
	Step #2 Limit = (c) minus (d)		\$ _____

Step #3:

Enter \$3,000 (amount in regulations) \$ 3,000

Step #4:

Enter the lowest dollar amount from Step 1, Step 2, or Step 3. This is the maximum annual 15 year of service catch-up contribution limit for the qualified employee's current taxable year.

\$ _____

I certify that to the best of my knowledge, the above information is complete and accurate.

Employee Signature _____ Date _____

Verified by _____ Date _____