



Twelve-Month Payment Plan

Policy 3.1.41:

Prior to electing to participate in Illinois State University's Optional Twelve-Month Annualized Pay Plan, employees should consider the implications of the Internal Revenue Service Code 457(f). The regulation states deferral of compensation from one taxable year to another taxable year in excess of the amount set forth in section 402(g)(1)(B) (Calendar Year 2022 = \$20,500) will require that the amount of the annualized pay deferral (amount earned but not paid at the end of the calendar year – December 31st) to be treated as taxable wages in the earlier year and be subject to a 20% excise tax on the entire deferral amount. Employees ought to consider the implications of potential salary adjustments during their appointment. Please review the front and back of this form for additional information.

If you have made a timely election to have your annual salary paid by the University over 12 months, your election (1) is irrevocable after the beginning date of any eligible contract and may not be changed or withdrawn after the first day of any eligible contract and (2) will remain in effect through your termination of employment at Illinois State University until you make a written election to revoke the election. Any revocation will become effective at the beginning of any eligible contracts beginning on or after the revocation date.

If the twelve-month optional annualized pay plan is elected, the employee's salary will be paid over twelve months beginning the first day of the first eligible employment contract. The employee's salary will be ratably spread over the twelve-month period, but not pay above what has been earned at any point in time during the twelve-month period of time. Each payroll advice will report the total funds earned but not paid to date.

In the event, you separate from service prior to the end of the 12-month payment period, you may be entitled to an additional payment for the amount you actually earned. Any payment will be included in your final paycheck.

Identification

UID _____ Name _____
Last *First* *MI*

Election

I, hereby, elect to have any eligible contracts paid over a 12 month period of time beginning on the first eligible contract and thereafter, until my election is revoked or terminated.

I, hereby, revoke my election to have any eligible contracts paid over a 12 month period of time beginning on the next eligible contract. It should be noted employees who are eligible to participate in the Optional Twelve-Month Payment Plan, who chose not to have their contracts annualized are subject to the CMS regulations pertaining to insurance deductions. Currently, employees not annualizing their salaries are direct billed by CMS for their insurance (i.e., health, dental, and life) post tax during designated months. Please contact the Benefits Office for additional information.

It is intended that the election made hereunder shall be regarded as good faith compliance with the requirements of Section 409A of the Internal Revenue Code and be construed in accordance with Section 409A of the Internal Revenue Code and the Treasury regulations and other guidance issue there under.

Explanations and Implications

Prior to electing to participate in Illinois State University's Optional Twelve-Month Annualized Pay Plan, employees should consider the implications of the Internal Revenue Service Code (457(f)) stating deferral of compensation from one taxable year to another taxable year in excess of the amount set forth in section 402(g)(1)(B) (Calendar Year 2022 = \$20,500) will require that the amount of the annualized pay deferral (amount earned but not paid at the end of the calendar year- December 31st) be treated as taxable wages in the earlier year. In addition, in the event an employee's deferred income exceeds the annual limit, the full amount of the annualized pay deferral would also be subject to a 20% excise tax in addition to any regular withholding. Employees ought to consider the implications of potential salary adjustments during the contract period.

For example, an employee who works for nine months from August 16, 2022 to May 15, 2023, but is paid over 12 months, will exceed the \$20,500 deferral cap if he/she earns more than \$164,000 in annual salary during the period of time. For example, the employee earns \$82,100 in 2022 from August 16th to December 31st but is only paid \$61,575, defers \$20,525.00 to Calendar Year 2023. The entire amount deferred in this example, \$20,525, would be subject to the 20% income tax penalty and included in your 2022 taxable income.

Employees electing the twelve-month optional payment plan must file a signed payment election authorization form with the Payroll Office prior to the beginning of the any eligible contract. Elections filed after the beginning date of the any eligible contract will be effective for any eligible contracts beginning after electing to have your pay annualized.

If you have made a timely election to have your annual salary paid by the University over 12 months, your election (1) is irrevocable after the beginning date of any eligible contract and may not be changed or withdrawn after the first day of any eligible contract and (2) will remain in effect through your termination of employment at Illinois State University until you make a written election to revoke the election. Any revocation will become effective at the beginning of any eligible contracts beginning on or after the revocation date.

If the twelve-month optional annualized pay plan is elected, the employee's salary will be paid over twelve months beginning the first day of the first eligible employment contract. The employee's salary will be ratably spread over the twelve-month period, but not pay above what has been earned at any point in time during the twelve-month period of time. Each payroll advice will report the total funds earned but not paid to date.

Authorization

This form is considered invalid if it has been altered in any way or any unauthorized additions have been made to it.

Employee Signature _____ Date: _____

electronic signature accepted

University Payroll Office (UPO) Use Only

Date Entered ___ / ___ / _____
Revised 06.29.2022

UPO Initials _____