Functional Series 600 – Budget and Finance
ADS 637 – U.S. Personal Services Contractors 401(k) Defined Contribution Pension Plan

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ADS 637 – U.S. Personal Services Contractors 401(k) Defined Contribution Pension Plan

637.1 OVERVIEW

Effective Date: 01/01/2003

This chapter provides guidance on the eligibility and enrollment procedures for participation in the USAID U.S. Personal Services Contractor (**USPSC**) 401(k) Defined Contribution Pension Plan, henceforth called the **Plan**. USAID does not match participant contributions. Any USPSC may participate in the Plan. There is no open season. USPSCs may enroll or terminate their participation at any time.

The Plan is a 401(k) Defined Contribution Pension Plan. A defined contribution plan requires the employer to specify an amount to contribute, but does not specify the amount that may be paid as a benefit to the participant. An employer may elect not to contribute any monies to a pension plan. USAID does not contribute any monies to Plan participant accounts. Participants make all contributions. Participant-contributed monies and earnings are vested immediately.

Some major advantages to participating in 401(k) defined contribution pension plans are as follows:

- Deferral of Federal income taxes on contributions and earnings until benefits are received or funds are withdrawn;
- Wide variety of ways to receive retirement benefits;
- In 2003, deferral up to $12,000 a year in income contributed to the Plan and an additional $2,000 a year for each participant over age 50. The Internal Revenue Service (**IRS**) establishes the contribution limit annually;
- Ability of participants to borrow funds contributed to their Plan accounts; and
- Ability of participants to have daily access to the status of their accounts from any location in the world by telephone or the Internet.

On August 31, 2001, USAID selected a contractor to administer, respond to inquiries, invest, and maintain records on pension plan contributions for participants. The pension plan became effective via the Agency Adoption Agreement (the legal document that establishes the Plan at USAID) for all payroll periods beginning on or after October 15, 2001. The Contractor has received prior approval from the IRS concerning this Plan.

A Summary Plan Description (**SPD**) provides the requirements and basic characteristics of the Plan. The SPD is distributed to each Plan participant. It is also available on the USAID web site located at **http://inside.usaid.gov/M/FM/401k.htm**.

637.2 PRIMARY RESPONSIBILITIES

Effective Date: 03/05/2002

a. Office of the Chief Financial Officer (CFO). Directs, manages, and provides policy guidance and oversight of the Agency's USPSC 401(k) Defined Contribution Pension Plan to prospective and current USPSC participants and overseas Plan Administrators. This Office also serves as the Plan Administrator for all Washington-based USPSC Plan participants.

b. Mission Controller of an Overseas Accounting Office. Acts as the Plan Administrator for all overseas-based USPSCs who are prospective and current participants. This responsibility extends to all offices and any sub-offices that report to the Controller.

c. Plan Administrator. Acts as the central point of contact concerning enrollment and withholdings contributions for remittance to the Contractor. The Plan Administrator provides all applicable enrollment forms and processes all contribution withholding actions; remits contributions to the Contractor; and processes any participant-initiated changes in enrollment or contribution.

d. Contractor. Provides information concerning enrollment; provides investment products; maintains participant account records; files required Plan documents with the IRS; maintains statistical data on processing activities; and performs other activities defined in the contract.

e. Participants. Responsible for seeking professional assistance from their tax advisor or financial consultant regarding the tax implication and/or financial impact of their decision to participate in the 401(k) Defined Contribution Pension Plan. Participants may also contact the Contractor and/or Plan Administrator regarding the program; investment products; records; and other general questions.

637.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

637.3.1 Financial Documentation Responsibilities

Effective Date: 01/01/2003

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within the Controllers' or Office of Financial Management (FM) operations, but includes any source material causing or resulting in a financial transaction. Cognizant Technical Officers (CTOs), Loans/Grants Officers, Strategic Objective (SO) teams, etc., are responsible for retaining financial documentation and ensuring its availability for audit by either the Office of Inspector General or another responsible audit organization.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented;

- Source documentation must be readily available for audit (by either the Office of Inspector General or a responsible audit entity);

- The general rule of thumb for retention of financial documents is seven years; however, retention times may vary, so please refer to retention by document type in **ADS 502**, **The USAID Records Management Program**. The specific financial Records Disposition Schedules are located in the Mandatory Reference Section of ADS 502, under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records; and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the National Archives and Records Administration (NARA) General Records Schedules, GRS 6, Accountable Officers' Account Records; and GRS 7, Expenditure Accounting Records.

637.3.2 Enrollment

Effective Date: 03/05/2002

The USAID Tax-Deferred Annuity Plan for USPSCs became effective for all payroll periods beginning on or after October 15, 2001. Any USPSC is eligible to join this Plan. Eligible individuals can enroll or terminate their participation in the Plan at any time. There is no open season for enrollment.

USPSCs enroll by completing the **Enrollment Form**, supplied by the Contractor; a **Salary Reduction Agreement**, which authorizes USAID to deduct contributions from the participant's salary; and a **Certification of Participant Contribution**, which requires the participant to certify that monies being contributed do not exceed the IRS allowable contribution limit. The participant completes each form and makes two copies, submitting the original and one copy to the Plan Administrator and retaining one copy for the participant.

The Plan Administrator for USPSCs based in Washington, DC is the Cognizant Technical Officer (**CTO**) for the pension plan contract. The Plan Administrator is located in the Office of the CFO. For USPSCs assigned overseas, the Plan Administrator is the Controller of the Mission's accounting office. This includes all sub-offices that report to a central overseas accounting office.

Participants should receive confirmation of account statements from the Contractor within **30** days of their first contribution, or they can obtain this information more quickly by contacting the Contractor directly.

637.3.3 Contributions by Plan Participants

Effective Date: 01/01/2004

*The IRS annually establishes the amount that a participant can contribute to a 401(k) pension plan. For calendar year 2004, this amount is $13,000. Participants 50 years of age or older may contribute an additional $3,000 under the **catch-up** provision of the

law. Eligible salary includes all gross taxable salary payments reduced by amounts paid to FICA and Medicare. All salary payments after FICA and Medicare have been paid are eligible for contribution to the 401(k) pension plan subject to the amounts determined by the IRS. A participant may designate a contribution by either percent of salary or an annual specific dollar amount.

Participants must fund their contributions through current salary. The Employee Retirement Income Security Act of 1973 and other implementing regulations preclude the funding of pension plan contributions by check or any method other than current salary.

The IRS requires that participants and employers certify that amounts contributed do not exceed the amounts allowable for contribution by law or regulation. To comply with this requirement, USAID requires that Plan participants complete and sign a Certification of Participant Contribution form, which assists the participant in determining the allowable amount. Both USAID and the participant are required to maintain a copy of this form. For assistance in completing the form, participants should seek the advice of the Plan Administrator. For assistance in determining participation or amounts that should be funded, the participant should seek the advice of an investment counselor and/or a tax advisor.

Since USAID has an approved 401(k) pension plan in effect during calendar year 2003, all participants are eligible to contribute the amount allowable and determined by the IRS for this calendar year. Also participants who contributed previously to a tax-deductible individual retirement account (IRA) will not be allowed to take a deduction for these amounts since the employer had an existing pension plan in effect during the calendar year.

637.3.4 Remittance of Contributions by Plan Administrators

Effective Date: 03/05/2002

Plan Administrators remit participant contributions in the manner established by the Contractor and in accordance with the participant's instructions established in the Enrollment Form, Salary Reduction Agreement, and Certification of Participant Contribution form. The Contractor provides specific procedures in the Plan Administration Manual. These procedures are supplemented by guidance provided by Contractor personnel and the USAID CTO.

Plan Administrators must remit contributions biweekly at the same time as payroll is processed for the USPSC. The Plan Administrator deducts the designated amount for each participant and lists the participant and related identifying information about the participant on a remittance listing. For the remaining information, the Plan Administrator should refer to the Contractor's Plan Administration Manual. The Manual requires, and provides specific information, that the remittance listing identify location by name, address, and number and the date of the remittance. Plan Administrators must submit the remittance listing coincident with their submission of the remittance by wire,

Automated Clearinghouse (ACH), U.S. Department of the Treasury FEDWIRE, or check payment.

Upon receipt, the Contractor must post the contribution to the participant's account and generate a receipt indicating that the payment was fully processed. Listings that do not reconcile or contain incorrect information will not post accurately to the participant account and will delay processing of the remittance listing. Monies will earn interest in the amount of the investment funds money market account until the remittance processes completely. The Contractor must update the participant's account no later than the next business day after receipt of the contribution.

637.3.5 Loans, Disbursements, and Other Investment Matters

Effective Date: 03/05/2002

The Plan provides participants with the opportunity to receive loans, early distributions, and other disbursement opportunities. Participants should contact the Contractor directly concerning these issues as well as any other questions. Participants are advised that some transactions have penalties and tax consequences and should consult with their tax or financial advisor concerning any disbursement action.

637.4 MANDATORY REFERENCES

637.4.1 External Mandatory References

a. Contractor's Plan Administration Manual (The Contractor provides the Manual to each Plan Administrator)

b. Contractor's literature on investment products, enrollment, plan features, and other information (Plan Administrators provide this material to each Plan participant)

c. Enrollment Form

637.4.2 Internal Mandatory References

a. Adoption Agreement, as filed with the Internal Revenue Service

***b. Certification of Participant Contribution**

***c. Salary Reduction Agreement**

d. Summary Plan Description

637.5 ADDITIONAL HELP

Effective Date: 03/05/2002

a. Sources for 401 (k) Plan Assistance

USPSCs are directed to contact their Plan Administrators regarding administrative matters such as enrollment, termination, and contribution amounts.

USPSCs should contact the Contractor regarding investment products; account information; and loans, disbursements, and other issues.

The Contractor has both toll-free and commercial telephone numbers that operate from 7:00 a.m. through 11:00 p.m. EST Monday through Friday and 8:00 a.m. through 5:00 p.m. EST Saturday and Sunday. Plan participants may also refer to the Contractor's web site for information on investment products; performance; investment news; and account status and query activities. The site URL can be obtained from your Plan Administrator.

Further, **USPSCs** should consult their tax advisor or financial planner before investing into any 401(k) pension plan product.

Plan Administrators should contact the Contractor regarding contribution activities and accounting issues. Plan Administrators may also contact the CTO regarding plan administration and other pension plan matters.

b. Tax Reporting Treatment of the Contributions

Since 1972, 401(k) contributions have been tax deferred, not exempt, for all taxing authorities. This is clearly established in laws and regulations. Report 401(k) deferred contributions on the **W-2, Wage and Tax Statement**. Instructions on W-2 preparation and samples of the form are available on the IRS web site at **http://www.irs.gov/**. The form may also be available through IRS representatives at various Embassies.

The following is extracted from the **Instructions for Forms W-2 (2002)** found on the IRS web site:

Box 1 - **Wages, tips, and other compensation**: Report the amount of gross wages, less the amount of the 401(k) deferred contributions.

Box 2 - **Federal income tax withheld**: Report the Federal income tax withheld on the wages reported in Box 1 (the amount withheld on gross wages, less the amount of the 401(k) deferred contributions).

Box 3 - **Social security wages**: Report the amount of gross wages, subject to FICA wage limitations. (This includes the amount of the 401(k) deferred contributions.)

Box 4 - **Medicare wages and tips**: Report the amount of gross wages, without any FICA wage limitations. (This includes the amount of the 401(k) deferred contributions.)

Box 5 - **Social security tax withheld**: Report the tax withheld based on the gross wages (the amount in Box 3).

Box 6 - **Medicare tax withheld**: Report the tax withheld based on the gross wages (the amount in Box 4).

Box 12a - Report a **D** in the first block (the block identifies the type of income deferral, imputed receipt, etc.). **D** is the code for voluntary elective deferral. Put the amount of the 401(k) deferred contributions in the second block.

Note: The box numbers may change on the W-2 form itself, but the contents required in the categories should remain the same pending any major change to the tax law.

Answers to specific questions about the 401(k) plans can be found either on the FM Home Page (**http://www.inside.usaid.gov/M/FM/401k.htm**) or on the TIAA-CREF web site (**http://www.tiaa-cref.org/**).

637.6 DEFINITIONS

Effective Date: 03/05/2002

The definitions listed below have been included into the ADS Glossary. See the **ADS Glossary** for all ADS terms and definitions.

401(k) Defined Contribution Pension Plan
A pension plan that requires the employer to specify an amount to contribute but does not specify the amount that may be paid as a benefit to the participant. (Chapter 637)

Adoption Agreement
This is the legal document, filed with the Internal Revenue Service, which allows the employer to establish and implement a 401(k) pension plan. (Chapter 637)

Summary Plan Description
This is the legal document that specifies the requirements and features of the 401(k) pension plan. (Chapter 637)

Abbreviations and Acronyms

ACH Automated Clearinghouse

IRA individual retirement account

IRS Internal Revenue Service

SPD Summary Plan Description

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