

# 403 (b) RETIREMENT PLAN

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*EMPLOYER BOOKLET*



Helping Churches Grow

# ESTABLISHING A RETIREMENT PLAN JUST GOT EASIER

As a non-denominational church or ministry, you may have felt that you had few places to turn when it came to providing for your employees' retirement. The retirement planning world has not paid much attention to ministries and their employees, forcing many to get creative in establishing their own plans – sometimes at considerable cost in time and dollars.

CDF Capital™ can now help you establish a 403(b)(9) plan which offers your employees:

- Greater pre-tax contributions than an IRA
- Low cost of setup and administration
- Deferral of taxation on interest earnings
- Reduced current taxable income
- A convenient, regular investment plan
- A competitive return on their investment
- The ability to invest in churches – because CDF Capital™ uses these retirement dollars to finance church buildings and other capital improvements for churches and ministries.

Once the plan has been approved by your Board of Directors, each employee who is interested in participating simply completes the corresponding paperwork. Employees elect to defer salary in order to have you, as their employer, place funds into their 403(b) account.

## GETTING STARTED IS SIMPLE

No one likes to pore over pages of fine print. That is why we designed this plan to be easy to understand and implement. If you have questions, please call (888) 540-7112 and ask for the 403(b) department, or visit [www.CDFcapital.org/403b](http://www.CDFcapital.org/403b).

The investments you make with CDF Capital™ go right to work for the Kingdom. As you invest, we are able to use those dollars to make loans to churches for their expansion. In a real sense, everyone wins.

Every year thousands of retiring Christian workers move from a lifetime of service to economic uncertainty because no one showed them a plan. CDF Capital™ wants to change that—for the better. Thank you for your commitment to the cause of Christ and for considering CDF Capital™ as your partner in ministry.

*\* Church Development Fund, Inc. is not in the business of providing legal advice.*

*For your protection we recommend that you have all documents reviewed by your legal counsel.*

# HOW TO ESTABLISH A CDF CAPITAL PENSION MAXIMIZER 403(b)(9) PLAN

1. Have your legal counsel review the plan documents.
2. The Board of Directors of your church or ministry must approve the establishment of a Pension Maximizer 403(b)(9) plan and the accompanying documentation. "Pension Maximizer" is the vehicle at CDF Capital™ through which the 403(b) is invested, and 403(b)(9) is the specific type of 403(b) we offer (though we will refer to it simply as 403(b) throughout this booklet).
3. CDF Capital™ has a sample Plan Agreement available for your review.\* Once the plan has been approved, simply adjust the language in your Plan Agreement to fit issues specific to your ministry, such as the name of the plan as your Board has determined (e.g., First Christian Church Retirement Plan) and to allow for any comments your legal counsel may have made. ***The IRS requires this to be in place before you offer this 403(b) plan to your employees.***
4. Distribute a CDF Capital™ 403(b) Employee Booklet to each employee participating in your ministry's 403(b) program. This booklet contains all of the forms an employee would need in order to open a 403(b) account:
  - ***403(b) Plan Enrollment and Investment Form.*** This will serve to establish the 403(b) plan for that employee and to open a CDF Capital™ investment.
  - ***403(b) Agreement for Salary Deferral Form.*** Your ministry may use the form provided in the CDF Capital™ 403(b) Employee Booklet or you may create your own. Once completed, this form is to be kept on file at the church office and *not* sent to CDF Capital™.
- ***Direct Roll Over Request Form.*** This form only needs to be completed by employees who want to roll over funds from an existing 403(b) plan and should be included with forms mailed to CDF Capital™.
5. Your church or ministry will make direct salary deferral contributions to the plan for each participating employee. Ministries making salary deferral contributions for multiple employees should designate how much is to be attributed to each employee's account.
6. Mail all of the forms, with the exception of the Agreement for Salary Deferral Form, to the CDF Capital™ office with:
  - A check from your ministry for the initial total investment of \$100 or more (the total of all employees' funds).
  - A copy of the Plan Agreement that your ministry has developed to implement this 403(b) plan at your church.

*\*To receive a Plan Agreement electronically, please contact the CDF Capital™ office at 888-540-7112 or [403b@CDFcapital.org](mailto:403b@CDFcapital.org).*

# WHAT A PLAN ADMINISTRATOR SHOULD KNOW

Your church or ministry, by providing a 403(b) plan to your employees, is considered the Plan Administrator. The Plan Administrator is responsible for accurately tracking the total employer contributions versus employee contributions. This is very important when deciding how much an employee can take when there is a hardship distribution.

- The employee's maximum contribution level is the lesser of \$18,500 or 100% of their salary (minus housing allowance).
- Catch-up contributions may be made by employees over the age of 50 up to \$6,000 per year (total contribution = \$24,500).
- There is a special rule for catch-up contributions for those who have been employed with their church for 15 years or more. Please contact CDF Capital's 403(b) department at 888-540-7112 or 403b@CDFcapital.org for details.

The plan allows employees to make withdrawals (i.e. take distributions) without penalties **only** in the case of one of the following triggering events:

- Attainment of age 59 ½
- Disability (severe)
- Death (funds distributed to the chosen beneficiary)
- Hardship (employee contributions only are available for distribution). The IRS generally recognizes the following hardships as cause for distribution from a 403(b):
  - Medical expenses
  - Tuition for a family member
  - Threatened foreclosure or eviction from home
  - Purchase of primary residence

Distributed funds will be considered taxable income and may be subject to a 10% penalty from the IRS. A six-month freeze on deferrals may also take effect. In the case of hardship, an employee may only take funds equal to or lesser than the amount they have deferred. Employer contributions are not available.

Your church or ministry, as Plan Administrator, may offer more than one investment option for your employees' 403(b) plan, including other institutions. Employees may **not** transfer funds to another institution, unless it is included as one of the options you provide or they have reached a triggering event.

Once a retired employee of your ministry reaches the age of 70 ½, they have until April 1 of the following year to begin their Required Minimum Distributions (RMD). If the employee has not retired by age 70 1/2, he or she may extend the beginning date to April 1 of the year after they retire (see page 6 for detailed information about required distributions). After the first year of RMD, the deadline is December 31 every year.

# QUESTIONS AND ANSWERS

A glossary has been included on page 9 of this booklet.  
Each word included in the glossary is italicized and underlined in the text.

## **Q. How does a 403(b) plan work?**

**A.** A 403(b) plan permits your church or ministry, as the employer, to make authorized pre-tax salary deferral contributions to retirement accounts for your employees. Each employee decides the amount that they wish to invest, and you send a check to CDF Capital™ each month for that amount, which is deducted from the employee's salary. The investment then accumulates tax-deferred. Employees cannot make contributions to CDF Capital™ directly; they must be made by you, the employer, through salary deferral.

## **Q. What interest rate does CDF Capital™ pay on the 403(b)?**

**A.** CDF Capital™ pays a competitive interest rate on this plan. For a complete list of current rates, please call 888-540-7112 or visit [www.CDFcapital.org/rates](http://www.CDFcapital.org/rates).

## **Q. How much can be contributed?**

**A.** Guidelines allow employees to contribute up to the **lesser of** 100% of their salary (minus housing allowance) or \$18,500 per year (beginning January 2018). The combined employer/employee 403(b) contribution cannot exceed the **lesser of** \$54,000 or 100% of the employee's adjusted compensation (minus housing allowance).

## **Q. Is it true that employees can contribute more to their 403(b) if they are 50 or older?**

**A.** Yes. Catch-up contributions can be made over and above your regular maximum contribution levels. Anyone 50 or older in the year of contribution can make a catch-up contribution of up to \$6,000 to their 403(b) plan.

## **Q. Is a minister's housing allowance considered annual income for the purpose of calculating maximum 403(b) contributions?**

**A.** A housing allowance is not taxable income; therefore it cannot be used to calculate salary for a 403(b) plan.

For example, if an employee's adjusted compensation is \$10,000 (after subtracting the housing allowance), the maximum the employee could contribute to the 403(b) plan that year would be \$10,000 (100% of adjusted compensation).

If the employee is age 50 or older, a catch-up contribution may be made over and above the maximum contribution level.

## **Q. What happens if an employee contributes too much?**

**A.** If contributions exceed the maximum contribution limit, the IRS will impose a 6% penalty tax on the excess amount. This tax is imposed every year until the excess amount is corrected. By under-contributing in subsequent years it may be possible to decrease or eliminate the excess.

## **Q. Can an employee stop making contributions during the year?**

**A.** Yes. To do so, they must inform you, as their employer, of their desire to stop making contributions.

For details on stopping or resuming contributions, please contact the CDF Capital™ 403(b) department at 888-540-7112 or [403b@CDFcapital.org](mailto:403b@CDFcapital.org).

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## **Q. Can an employee change their contribution amount once their plan is under way?**

**A.** Yes. IRS regulations permit employees to change their salary deferral election during the tax year.

## **Q. How often should contributions be made?**

**A.** The number of contributions you make in a year is determined in the plan agreement you make with your employees. The most common form of contribution is once each pay period.

## **Q. What happens if an employee goes to work somewhere else?**

**A.** If an employee goes to work for another not-for-profit ministry, they may be able to arrange to continue making contributions to their CDF Capital™ 403(b). If not, the individual may maintain their present 403(b) with CDF Capital™ or transfer the account to another 403(b) or an individual retirement account (IRA).

## **Q. Can employees transfer existing 403(b) accounts to CDF Capital™?**

**A.** Yes. Employees can easily transfer the assets of their existing plan(s) into CDF Capital's 403(b) plan by filling out the Request for Direct Rollover form and returning it with their application. CDF Capital™ will then arrange to have funds transferred directly from the employee's current trustee.

## **Q. When may an employee start withdrawing from their account?**

**A.** The plan allows employees to make withdrawals (i.e. take distributions) without penalties for the following reasons *only*:

- Attainment of age 59 1/2
- Disability (severe)
- Death (funds distributed to the chosen beneficiary)
- Hardship (only the employee's contributions are available for distribution). The IRS generally recognizes the following hardships as cause for distribution from a 403(b):
  - Medical expenses
  - Tuition for a family member
  - Threatened foreclosure or eviction from home
  - Purchase of primary residence

Other types of withdrawals may cause the employee to incur tax penalties.

# QUESTIONS AND ANSWERS

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## **Q. When are employees required to take distributions?**

- A.** Individuals are required to begin taking distributions no later than April 1 of the calendar year *following* (the later of):
- The calendar year in which they become 70 1/2
  - The calendar year in which they retire from employment with the employer maintaining their plan.

*Example 1:* If an individual is retired from the employer maintaining their plan and they turn 70 1/2 any time during 2016, then he or she must begin taking distributions before April 1, 2017.

*Example 2:* If an individual is 75 when he or she retires from their employer in 2016, then they must begin taking distributions before April 1, 2017.

*Example 3:* If an individual is still working for their employer and attains age 70 1/2 they are not required to take distributions until April 1 of the year after they retire.

## **Q. How do individuals make withdrawals?**

- A.** Withdrawals (distributions) may be received in one lump sum payment or in periodic installments. Many people base the amount of periodic payments on their life expectancy. Whatever the distribution is, it is taxed as ordinary income in the year withdrawn. All distributions from a 403(b) are subject to withholding of federal taxes. CDF Capital™ can help employees with all of their withdrawal requirements, which are determined by your plan agreement.

# GLOSSARY

## **ANNUAL YIELD**

The compounded rate of return paid when funds remain in an investment for a full year. Annual percentage yield (APY) is the effective annual rate of return, taking into account the effect of compounding interest, whereby the original principal earns interest, then that combined amount earns interest. All CDF Capital™ investments are compounded quarterly on the basis of a 365-day year.

## **MAXIMUM CONTRIBUTION**

The greatest amount of money that can legally be added to a 403(b) plans in a given year.

## **PENSION MAXIMIZER**

The CDF Capital™ investment into which 403(b) funds are invested.

## **PRE-TAX CONTRIBUTION**

A payment made to a retirement plan with dollars that have not yet been taxed.

## **SALARY DEFERRAL**

An employer setting aside a certain portion of salary for future payment to the employee.

## **TAX-DEFERRED**

Payment of income tax on interest earned at a later date, usually when funds are withdrawn.

## **TAX YEAR**

The twelve-month period for which tax reporting is made to the Internal Revenue Service. This period runs from January 1 through December 31 for individuals. Corporations may choose a different twelve-month period.

This booklet, prepared by Church Development Fund, Inc. (CDF Capital™), must be preceded or accompanied by the current Offering Circular of Church Development Fund, Inc. At present the Internal Revenue Service has not announced a procedure for approval as to the form of a 403(b)(9) agreement. Therefore, while the agreement has been designed to qualify under section 403(b)(9) of the Internal Revenue Code, the sponsor is unable to make any representation as to its qualification.



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