



Davis School District

Retirement Incentive Package Payment Options

The employer sponsored post-retirement benefit plan converts your Davis School District Retirement Incentive Package – which may include Early Retirement Stipend(s), Sick Leave and Vacation/Personal Leave payouts, *if applicable* – to an employer contribution into either a tax-deferred **Special Pay Plan** (similar to a 401k or 403b) with VALIC or a tax-free **Health Reimbursement Account Plan** (HRA) with Pelion.

How Does the Plan Work?

Prior to retirement you will need to participate in a brief **Exit Interview** with an agent designated by Davis School District. Your answers to a few objective verbal questions will help determine your financial needs upon retirement and will enable the District, in accordance with IRS regulations regarding **Constructive Receipt** (see below), to make an informed decision as to which benefit plan will best meet your needs during retirement. Based on this determination, your retirement incentive package will be converted into either the **Special Pay Plan** (Option 1) or the **Health Reimbursement Account Plan** (Option 2).

Due to the specificity of the questions there should be no ambiguity at the end of the **Exit Interview** as to which plan your retirement package will be converted to.

What is “Constructive Receipt”?

For income tax purposes, **Constructive Receipt** is used to determine when a taxpayer has received gross income. A taxpayer is subject to income tax in the current year if he or she has unfettered control in determining when items of income will or should be paid. However, income is not considered *constructively received* if the taxpayer’s control of its receipt is subject to substantial limitations and restrictions. (Treasury Regulations, Subchapter A, § 1.451-2.)

Failure to comply with this IRS regulation would void both retirement plans, which would result in: 1) retirees losing the tax benefits associated with each plan; 2) the District being subject to penalties; and 3) retirees paying income taxes on their entire retirement incentive package in the year the benefit is converted.



Option 1: The Special Pay Plan

Employee Benefits:

- Deferral of Federal and State Income Taxes
- No FICA Taxation
- Guaranteed Interest Account
- No Front or Back-end sales charges – 100% liquidity
- Transferable to another qualified plan or an IRA with no charges
(If you rollover/transfer funds to another account, it is your responsibility to find out if there are fees/penalties attached to those accounts.)
- Immediately vested
- Beneficiary eligible

* A 10% early distribution penalty may be applied prior to age 59½ unless the retiree works into the calendar year in which he/she turns 55.

* Funds are taxable (federal and state) upon withdrawal.

Option 2: The Health Reimbursement Account Plan

Employee Benefits:

- Tax free reimbursements for eligible Post-Retirement Healthcare Expenses for you, your spouse and *qualified* dependents. Eligible reimbursements include: COBRA, Health Insurance Premiums, Medicare Premiums, most Long-term Care Insurance and more!
- No Federal or State Income Taxes
- No FICA Taxation
- Guaranteed Interest Account

* Administrative and Reimbursement fees apply.

* Funds can only be used for eligible health insurance expenses and premiums.

* Upon the death of the retiree (and spouse/eligible dependents, *if applicable*), any remaining funds will be returned to Davis School District.