

Invest Your November Lump Sum Payment in a **U-M RETIREMENT PLAN**

The collective bargaining agreement between the University of Michigan House Officers Association and the University of Michigan calls for a lump sum payment to be included in your Nov. 27 pay. Here's an overview of how you can invest some or all of your lump sum payment in a 403(b) and 457(b).

What plans can I invest in?

You may direct some or all of the payment to your 403(b) Supplemental Retirement Account and/or to your 457(b) Deferred Compensation Plan as a tax-deferred or after-tax Roth contribution to save for retirement. The chart below lists the 2024 lump sum payment amount by level.

Is the lump sum payment subject to FICA withholding?

All contributions are subject to FICA withholding (the 7.65% Social Security and Medicare tax). You may want to adjust the amount of your contribution by the value of the FICA tax. The chart below illustrates: (A) the amount of the payment; and, (B) the amount you could contribute, minus the associated FICA tax withholding so your net pay is not further reduced by the FICA tax.

Are tax-deferred contributions subject to tax withholding?

Tax-deferred contributions are **not** subject to federal and state income tax withholding when deducted, but are still subject to FICA tax.

How about Roth contributions?

If you make an after-tax Roth contribution, the entire amount is subject to federal and state income tax withholding, as well as FICA tax withholding, when deducted.

Level	(A) Lump Sum Payment	(B) Lump Sum Payment Minus FICA
House Officer I	\$7,227	\$6,673
House Officer II	\$7,516	\$6,941
House Officer III	\$7,817	\$7,219
House Officer IV	\$8,130	\$7,508
House Officer V	\$8,455	\$7,808
House Officer VI	\$8,793	\$8,120
House Officer VII	\$9,145	\$8,445
House Officer VIII	\$9,510	\$8,782
House Officer IX	\$9,891	\$9,134



HOUSE OFFICER NOVEMBER LUMP SUM **PAYMENTS**

Two Elections You Need to Make

1

Enter your contribution amount for the November 27 paycheck

Use Self Service > Benefits in Wolverine Access to indicate the amount to contribute in your November paycheck.

Deadlines to use Wolverine Access

403(b) SRA and 457(b): 10/21 thru 11/17



November 27 Paycheck

Your contribution amount is deducted. You will need to cancel or lower the amount or it will continue to be deducted in December and beyond.



2

Enter your contribution amount for the December 31 paycheck

Use Self Service > Benefits in Wolverine Access to indicate the amount to contribute in your November paycheck.

Deadlines to use Wolverine Access

403(b) SRA and 457(b): 11/18 thru 12/15



December 31 paycheck

The amount you elected for the November paycheck will continue to be deducted until you lower the amount or cancel it.

If you already contribute

- If you already make a contribution to the 403(b) SRA or 457(b) and wish to increase it to include the November lump sum payment, enter the **TOTAL AMOUNT TO BE DEDUCTED**, not just the amount of the increase.
- You will need to make a second election to lower the November amount back to the October amount so it will take effect with your December paycheck or the November amount will continue to be deducted.

If you do not already contribute

- The amount you elect to contribute from the November lump sum payment will continue to be deducted with the December paycheck and beyond.
- You will need to make a second election to lower or cancel the November amount for the December paycheck or it will continue to be deducted.



FREQUENTLY ASKED QUESTIONS

Saving for Retirement: 403(b) SRA and 457(b)

Do I have to do anything to receive the lump sum payment?

If you are eligible, the payment will be added automatically to your November paycheck.

Can I invest the lump sum payment?

You can direct all or part of the lump sum payment into the U-M 403(b) SRA and/or the U-M 457(b). You may make your contributions as tax-deferred, after-tax Roth, or any combination of both.

Is there a U-M match for contributing?

No.

Is this my only chance to contribute to a 403(b) SRA and/or 457(b)?

No. You can start a monthly contribution for the 403(b) SRA or 457(b) anytime. This is being offered now to coincide with the annual lump sum payment to encourage saving for retirement.

Can I change my choice of investment funds after I enroll?

Yes. You can transfer money among the funds offered by TIAA and Fidelity at any time.

When can I cash out or elect a rollover?

- Once you have terminated your employment with the University, you may cash out the 403(b) SRA or 457(b) at any age or roll it over to an IRA or another employer's retirement plan.
- You may take a loan.
- Cash withdrawals that meet IRS definitions of hardship and disability are also available on the 403(b) SRA, but not the 457(b).

Roth 403(b) SRA & Roth 457(b)

Roth contributions are taxed when taken from your paycheck but offer the incentive that qualified distributions are tax-free when made after a 5-taxable-year period of participation and is either made on or after the date you attain age 59½, made after your death, or attributable to your being disabled. In contrast, tax-deferred contributions are not subject to income tax when deducted from your paycheck, but are taxed when you take a distribution.

Another incentive to the after-tax Roth 403(b) SRA and Roth 457(b) plans is that you may postpone distributions indefinitely during your lifetime and you can even pass assets tax-free to your heirs.

Who may benefit from a Roth 403(b) or Roth 457(b)?

- Those not eligible for a Roth IRA due to IRS income restrictions which do not apply to the U-M Roth plans.
- Young faculty and staff who have a long retirement horizon that will allow time to amass significant tax-free assets.
- Those who believe their income tax rates will rise in the future.
- Those who want tax diversification of having both after-tax and tax-deferred assets as a hedge against potential tax increases.

How do I designate my beneficiaries?

You must designate your investment fund choices and beneficiaries separately for each type of plan in which you enroll. Fund choices and beneficiary designations you have already made for one plan do not automatically carry over to the 457(b) or the 403(b) SRA (and vice versa). You must designate your beneficiary separately each time you enroll in a new type of plan. [View the steps to update your beneficiaries.](#)

Who are U-M's investment partners?

The university's choices for its faculty and staff retirement plans are Fidelity Investments and TIAA. These longtime partners have international reach, but also continue neighborhood access with offices near Ann Arbor's north campus.

[Learn more about Fidelity's and TIAA's philosophies, funds and services.](#)

Where can I get more information about 403(b) and 457(b)s?

- After-tax Roth plans: hr.umich.edu/roth-option
- 403(b) SRA plans: hr.umich.edu/403b-sra
- 457(b) plan: hr.umich.edu/457b-deferred-compensation-plan

403(b) Supplemental Retirement Account (SRA)

- You contribute a fixed dollar amount; there is no U-M match.
- Contribute up to \$23,000 for 2024; the limit is \$30,500 if you are age 50 or older.
- Withdrawals while you are still employed at U-M are available: 1) at age 59½ or older; or, 2) due to total and permanent disability; or, 3) due to financial hardship.
- Loans are available.
- Withdrawals are available at any age once you have terminated employment.

Contribute up to \$46,000 in total between the 403(b) and 457(b)

Contribute up to \$61,000 if you are age 50 or older

457(b) Deferred Compensation Plan

- You contribute a fixed dollar amount; there is no U-M match.
- Contribute up to \$23,000 for 2024; the limit is \$30,500 if you are age 50 or older.
- Withdrawals while you are still employed at U-M are available at age 59½ or older.
- Loans are available.
- Withdrawals are available at any age once you have terminated employment.
- The IRS 10% penalty for withdrawals prior to age 59½ does not apply to the 457(b).

Two Ways to Contribute

Tax-deferred
Distributions are taxed

Roth after-tax
Qualified distributions are tax-free

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How are the 457(b) and the 403(b) SRA similar?

Both plans have the following in common:

- You can make tax-deferred contributions and/or after-tax Roth contributions.
- The same investment fund options.
- The same income options at any age once you have terminated employment.
- The ability to take a loan at any time.
- Cash withdrawals and rollovers at any age once you have terminated employment.

How are the 457(b) and the 403(b) SRA different?

- The IRS 10% penalty on withdrawals made before age 59½ applies to the 403(b) SRA, but does not apply to the 457(b).
- The 403(b) SRA allows cash withdrawals as a current member of the faculty or staff if you become disabled, in the event of financial hardship, or at age 59½ or older. These are not available under the 457(b).
- The 457(b) allows cash withdrawals as an active member of the faculty or staff at age 59½ or older.

The 403(b) SRA may be a good option if:

You want the flexibility to cash out the SRA before you terminate employment due to:

- Disability
- Financial hardship
- At age 59½ or older

The 457(b) may be a good option if:

- You anticipate taking a cash withdrawal before age 59½ and want to avoid the IRS 10% early withdrawal penalty.
- You already contribute the maximum allowable to the 403(b) SRA and want to save more.
- You do not need to cash out the accumulations before you terminate employment or reach age 59½.

IMPORTANT: Information is based on the university's current understanding of complex Internal Revenue Code and U.S. Department of Treasury regulations. It is provided for general informational purposes only. It is not intended to constitute tax, legal, accounting, estate planning or investment advice. It is the responsibility of the individual to address questions or concerns to a qualified professional.



HOW TO ENROLL OR MAKE CHANGES TO THE

403(b) SRA and/or 457(b) Plans

Caution: Don't miss the last 4 steps in RED!

Make your 403(b) Supplemental Retirement Account (SRA) and/or 457(b) enrollments or changes on Self Service > Benefits through Wolverine Access.

1. Go to Wolverine Access.
2. Enter "Benefits" in the search bar.
3. Select the Benefits Self-Service tile.
4. Enter your unqname and UMICH (Level-1) password; the two-factor (Duo) for Weblogin is required.
5. Select the Initiate Ret Savings Elections tile.
6. Review the information on the Ret. Savings Plan Elections page, then click the Continue button.
7. Select the TIAA SRA or Fidelity SRA card (if you want to open an SRA with both investment companies, repeat this step for the vendor you did not choose the first time).
8. Click the Select button next to the plan name (TIAA or Fidelity).
9. Enter your per-paycheck contribution.
10. Click the Save button in the upper righthand corner to save your selections.
11. Select the 457(b) and/or Roth 457(b) card.
12. Enter your per-paycheck contribution amount and how much of this amount you wish to allocate to TIAA and/or Fidelity. If you are waiving enrollment (most likely for the December paycheck), click the "Select" button next to "Waive." Please do not enter a "0" in the dollar field.
13. Click the **Save** button in the upper righthand corner to save your selections.
14. Click the **Finalize Elections** button.
15. Click the **Submit** and **View Stmt** buttons. It is highly recommended that you immediately save your statement to your computer.

The Default Investment Fund

When you enroll in the 403(b) SRA or 457(b), the investment fund will automatically be a default to an age-appropriate Lifecycle Index Fund if you select TIAA, and a Freedom Index Fund if you select Fidelity Investments. A TIAA Lifecycle Index Fund or Fidelity Investments Freedom Index Fund is a mutual fund that is a diversified portfolio of other mutual funds offered by that company; essentially a fund of other funds. This includes domestic and international stock funds, bond funds and money market funds. Each Lifecycle Index or Freedom Index Fund automatically selects the allocation of stock, bond and money market funds that are appropriate for a target retirement date of approximately age 65.

Lifecycle Index and Freedom Index Funds provide a simple solution if you lack the time, confidence or investment knowledge to create and manage a well-diversified portfolio. Each fund is professionally managed and provides you with a simple, single investment fund.

IMPORTANT: You need to designate your investment fund choices and beneficiaries separately for each type of plan in which you enroll with the appropriate vendor, TIAA at ttaa.org/umich or Fidelity at netbenefits.com/uofm. Fund choices and beneficiary designations you have already made for one plan, such as the Basic Retirement Savings Plan, do not automatically carry over to the 457(b) or the 403(b) SRA (and vice versa). You need to designate your beneficiary separately each time you enroll in a new type of plan.

TAXATION OF LUMP-SUM PAYMENT

Your November paycheck will contain salary as well as the lump-sum payment, with three different types of taxation that will apply:

- **Salary:** subject to federal income tax and state income tax, with federal rates that increase as salary increases. The amount of federal income tax withheld from your salary payment depends on the amount of your salary and the information on your Form W4.
- **Lump-Sum Payment:** subject to the supplemental tax rate that is fixed at 26.25% (22% federal and 4.25% state).
- **FICA:** the 7.65% Social Security and Medicare tax applies to the lump-sum payment and salary regardless of whether any portion is directed into the tax-deferred 403(b) SRA or 457(b).

If you make a tax-deferred contribution, a portion is subtracted from both the salary component and lump-sum payment proportionally to determine the federal income tax withholding. The proration is based on the percentage that each pay component represents of the total paycheck. The result produces an overall blended tax rate in the November paycheck.

The proration of the lump-sum payment applied to income tax withholding and supplemental tax withholding is for information only for the November lump-sum payment. This amount can also be affected by several other factors, and the above summary does not cover every scenario that may affect your paycheck. The University of Michigan does not provide tax advice or tax modeling. Due to the multiple factors that can affect income tax withholding, the university cannot provide a projection of your net pay. Consult with a qualified tax advisor if you have questions.



QUESTIONS?

Call the SCC Contact Center at (734) 615-2000 or toll-free at 1(866) 647-7657.



Email questions or request a one-on-one Zoom consultation with Suzanne Giddings in the HR Benefits Office at suzg@umich.edu.

