

# Davis Technical College

## Social Security Replacement Policy and Procedures

**Effective Date: 1 June 2021**

Board Approval: 15 September 2011

Revised President's Council Approval: 13 April 2021

Revised Board Approval: 20 May 2021

### 1. Purpose

The purpose of this policy is to establish a policy for the administration of Social Security taxes and replacement benefits for employees of the Davis Technical College (College).

### 2. References

**2.1.** Davis Technical Technology College Employee Tax Shelter Programs Policy and Procedures

**2.2.** Davis Technical Technology College Retirement Programs Policy

### 3. Definitions

**3.1. Tax Shelter Program** - Under regulations of the Internal Revenue Service, educational institutions may establish salary-or-annuity option (tax sheltered annuity) programs, in addition to their retirement plans. Under these programs, College personnel may, through a properly drawn salary reduction agreement, divert part of their compensation on a tax-free basis to the purchase of supplemental annuity benefits or deferred compensation accounts.

**3.2. Salary Reduction Agreement** - A salary Reduction Agreement is a binding contract, as required by Treasury regulations, between the College and the employee to accept a reduction in salary payments, or to forego receipt of an increase in salary. The unpaid portion of the employee's compensation described in the agreement is then used to purchase supplemental annuity benefits or deposit funds into a deferred compensation account which are tax sheltered, i.e., federal and state taxes on the premiums remitted and on the investment earnings credited to them are deferred until the employee receives them in the form of retirement or annuity benefits. At that time, the payments received are taxed as ordinary income in the year or years in which they are received.

### 4. Policy

**4.1. Effective Date** - Eligible employees of the Utah College of Applied Technology (UCAT) voted in a UCAT-wide referendum to opt not to participate in the Federal Social Security system as permitted under Internal Revenue Service regulations. The voting deadline was September 6, 2011. As a result of that referendum vote, beginning October 1, 2011 eligible employees of the College no longer participate in the Social Security System.

**4.2. Eligibility** - The employees who will not participate in the Social Security benefit are only those who are eligible for employer paid retirement benefits. Employees who are not eligible for retirement benefits will continue to participate in the Social Security system.

**4.3 Future Contributions** - For eligible employees who are not participating in the Social Security system, the College will maintain the same percentage employer contribution (currently 6.2%) as is required for employers participating in social security. However, in lieu of paying this amount in FICA taxes, these funds will be directed to the employee's individual deferred compensation account. Employees have the option to choose if they wish to contribute some, or all, of their employee portion into this account as well.

**4.4 Duration** - The elements of this policy will remain in effect unless this portion of the compensation funding the College receives from State appropriated money is reduced or eliminated.

## 5. Procedure

**5.1. FICA Withholdings** - Under Social Security, the employee is required to pay FICA taxes of a percentage of their gross wages, and the employer also pays a matching amount. The Social Security portion of this percentage is currently 6.2% for the employee with a matching 6.2% for the employer. This tax is referred to by the Federal government as the OASDI tax or Old Age, Survivors, and Disability Insurance tax. The percentages of this tax may change from time to time as adjusted by the Federal government. The employee and employer both pay an additional 1.45% tax for Medicare. These funds are remitted regularly to the IRS for those College employees who are participating in the Social Security system.

**5.1.1.** For eligible employees who are not participating in the Social Security system, the College will maintain the same percentage employer contribution (currently 6.2%) as is required for employers participating in social security, taking into account maximum contribution limits. However, in lieu of paying this amount in FICA taxes, these funds will be directed to the employee's individual deferred compensation retirement account. Employees have the option to choose if they wish to contribute some, or all, of their employee portion into this account as well.

**5.1.2.** The 1.45% Medicare taxes paid by the employee and employer will continue to be paid to the IRS for all employees.

**5.1.3.** The contributions made to an employee's deferred compensation retirement account as a result of not participating in Social Security will be in addition to the amount paid into an eligible employee's employer paid retirement plan as defined in the Retirement Programs Policy.

**5.2. Approved Retirement Accounts** - The designated contributions from the employer will be directed into the individual's deferred compensation account. Only deferred compensation plans approved by the College administration will be used for this purpose.

**5.2.1. Contribution Limits** - The annual maximum contribution amount allowable, for both employee and employer contributions, is governed by applicable provisions of the Internal Revenue code and may vary from year to year. Information regarding these amounts is available from the College Human Resources department.

**5.2.2. Additional Elective Deferrals** - Employees are permitted to make additional elective contributions into their deferred compensation retirement accounts by completing a Salary Reduction Agreement, as described in the Employee Tax Shelter Programs Policy and Procedures. Employees may choose their account options from the approved vendors and accounts offered by the College.

## 6. Automatic Enrollment

**6.1.** Eligible employees who are not participating in the social security system and who are hired on or after June 1, 2021 will have 6.2% of their gross salary automatically deferred into the employee's URS 401(k) Plan. An employee may elect to stop, decrease, or increase these deferrals at any time. These deferrals are vested immediately and may only be withdrawn according to plan provisions.

**6.2.** However, an employee automatically enrolled in the plan may elect to opt out of the automatic arrangement and choose to make an in-service withdrawal of the elective deferral amounts (with related earnings). Such an election must be made no later than 90 days after the date of the Participant's first elective deferral contribution. Under current tax law, the amount of such withdrawal shall not be subject to the 10% early distribution tax imposed by IRS Code section 72(t).

**6.3.** If an employee has been automatically enrolled in the Plan and has not made an investment election prior to contributions being allocated to his/her vested account, such amount shall be invested in the age-related Target Date Fund, as outlined in the URS Summary Plan Description (SPD).

**6.4.** All employees automatically enrolled will be required to sign a disclosure that they have received information about how to access, enroll in, and change their eligible retirement plans and systems, prior to or on their first day of employment.