

Board Meeting
January 17, 2008

ROLL CALL

APPROVE AMENDMENT OF 403(B) PLAN DOCUMENT TO ALLOW ROTH
CONTRIBUTIONS AND NON-SPOUSE BENEFICIARY ROLLOVERS

Action: Approve Amendment of 403(b) Plan Document to Incorporate Roth 403(b)
Option and Non-spouse Beneficiary Rollovers

Funding: No New Funding Required

University Human Resources recommends a title change and an amendment to the Plan document for the *University of Illinois Tax-Deferred Retirement Plan* (“Plan”), allowed under Section 403(b) of the Federal Tax Code, to accommodate post-tax Roth contributions and non-spouse beneficiary rollovers.

Because the Roth contribution option for 403(b) plans was previously scheduled to sunset in 2010 under the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), University Human Resources had opted not to recommend this addition to the Plan. However, the Pension Protection Act of 2006 made permanent all of EGTRRA’s provisions. This means that the option to make Roth contributions is now a permanent provision under the Federal Tax Code. In light of this, the addition of the Roth option to the University’s Plan is both administratively feasible and beneficial to employees.

There is little administrative impact to the University. Internal systems can accommodate post-tax deductions with minimal modification to codes and procedures, and recordkeeping will be handled by the investment company vendors. The inclusion of the Roth account offers an enhanced benefit option that leads or maintains competitiveness with other employers and peer institutions, enabling the University to attract and retain talented staff. Calls and requests to the campus Benefits Service Centers and from attendees at retirement seminars indicate that employees are strongly interested in this enhancement. Direct employee interaction confirms that this is indeed a highly sought after option.

Employees are aware of a number of potentially beneficial aspects of a Roth 403(b). A Roth option may benefit employees who do not anticipate being in a lower tax bracket at retirement. Unlike traditional 403(b) contributions, which are made pre-tax, Roth contributions are made with after-tax dollars. Additionally, Roth 403(b) contributions and any earnings can be withdrawn tax-free on or after age 59½, death, or disability, if the Roth account has been established for at least five years. Investments that are exempt from taxation at retirement may benefit those who would otherwise be presented with substantial tax obligations in retirement, including early career employees who expect their income to continually rise as their careers progress and employees whose income exceeds the allowable amount required to contribute to a Roth IRA. Further, any growth realized on Roth contributions is never taxable to the participating employee or his/her beneficiary and/or heirs as long as conditions for a qualified distribution are met.

Both of the University's 403(b) Plan vendors, Fidelity and TIAA-CREF, have agreed to offer the Roth option and to comply with all recordkeeping and other legal requirements. These requirements have been cleared by an external law firm specializing in employee benefits. The text of the Roth Plan amendment is compliant with applicable mandates and has been reviewed by the external law firm, with authorization from University Counsel.

Non-spouse beneficiary rollovers were authorized by the Pension Protection Act of 2006 and are permitted beginning January 1, 2007. This option provides an important advantage to non-spouse beneficiaries of deceased Plan participants, allowing them to avoid immediate distribution of the benefit and the associated taxation and withholding. Other than an amendment to the Plan document, adopting non-spouse beneficiary rollovers will require only changes to the rollover forms and notice.

Finally, the language on hardship distributions has been revised to clarify that the Plan will not permit distributions based on the financial hardship of the Participant's beneficiary under the Plan.

In the interest of moving forward with these important enhancements to the University's Plan, we have divided the updates to the 403(b) Plan document into two phases. Phase I renames and revises the University 403(b) Plan document to reflect the addition of the Roth 403(b) option to the Plan, and to provide for non-spouse beneficiary rollovers, which are the subject of this Board action.

Phase II involves further Plan changes precipitated by the Pension Protection Act of 2006 and recently issued Federal final 403(b) regulations. These

mandatory and newly allowable provisions will be incorporated into the Plan document and presented to the Board for adoption later in 2008. The final 403(b) regulations require that all 403(b) plans be amended for full compliance by January 1, 2009.

It is recommended that the name of the Tax-Deferred Retirement Plan dated February 1, 2004, previously approved by the Board of Trustees, be changed to the “University of Illinois Supplemental 403(b) Retirement Plan.”

In addition, it is recommended that the Board of Trustees approve and adopt the attached Plan document, amended as discussed above, as the document governing the administration of the University of Illinois Supplemental 403(b) Retirement Plan.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The Vice President/Chief Financial Officer and Comptroller concurs.

The President of the University recommends approval.