

Board Meeting  
January 24, 2013

APPROVE AMENDMENT NUMBER TWO OF 403(b) PLAN DOCUMENT TO  
ADDRESS MANDATORY LOAN AND HARDSHIP COORDINATION WITH THE  
STATE OF ILLINOIS 457 PLAN

**Action:** Approve Amendment Number Two of 403(b) Plan Document to Address Mandatory Loan and Hardship Coordination with the State of Illinois 457 Plan

**Funding:** No New Funding Required

University Human Resources recommends for approval an amendment of the plan document for the University of Illinois Supplemental 403(b) Retirement Plan (Plan) to address mandatory loan and hardship coordination with the State of Illinois 457 plan.

The 403(b) Plan is a voluntary defined contribution plan intended to have tax favored status under Section 403(b) of the Internal Revenue Code of 1986 (Code), as amended. Section 1.403(b)-3(b)(3) of the Treasury Regulations provides that the Plan document must contain all material terms and conditions for eligibility, benefits, applicable limitations, the contracts available under the Plan, and the time and form under which benefit distributions would be made. The State of Illinois sponsors a separate voluntary plan under section 457(b) of the Code. Employees may elect to participate in either or both voluntary plans.

The 403(b) Plan has historically permitted participants to take loans. Loans for active employees are available only from Fidelity, and eligibility and qualifications

follow the Code's requirements. Participants are limited to one outstanding loan across plans at any given time; participants who have defaulted on a loan are not permitted to take additional loans.

The State 457 Plan has historically not permitted loans. Beginning January 1, 2013, the State 457 Plan will allow its participants to borrow from their plan accounts. The Code requires employers to coordinate loans between all qualified plans of the employer offering loans, such as 403(b), 457(b), 401(k), and 401(a). Likewise, the Code also requires hardship distributions to be coordinated between the 403(b) and 457 plans. External legal counsel has advised the separately maintained 403(b) Plan and 457 Plan are treated as though they are sponsored by a single employer for loan and hardship coordination compliance purposes.

To ensure compliance with the mandate under Section 1.403(b)-3(b)(3) of the Treasury Regulations that the Plan document contain all material terms and conditions, and to comply with Sections 72(p)(2)(D)(ii) and 72(p)(4)(A) and (B) of the Code and Section 1.72(p)-1 of the Treasury Regulations that require loan coordination; and to comply with Sections 1.401(k)-1(d)(3)(iii)(B) and 1.401(k)-1(d)(3)(iv)(E) of the Treasury Regulations that govern hardship withdrawals, it is recommended that the Board of Trustees approve and adopt the attached Amendment Number Two to the Plan document.

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 recommends approval.