



REFORM PENSION BOARD

RABBI TRUST

March 2011

Questions and Answers

Q1: What is a Rabbi Trust?

A1: A Rabbi Trust is a deferred compensation arrangement in which funds are invested in an irrevocable trust to be held for the benefit of employees for retirement purposes. The funds contributed are tax deferred in a similar manner to other tax deferred vehicles such as the Reform Pension Board 403(b) Plan. The name Rabbi Trust is a wonderful coincidence for RPB participants, but its use is not restricted to rabbis alone. The Rabbi Trust is widely utilized in commercial enterprises as well as in not-for-profit organizations.

Q2: Why the need for a Rabbi Trust?

A2: IRS regulations limit the amount of deferred income that can be contributed to tax deferred plans such as the RPB 403(b) Plan.

Q3: What are the maximum contributions that can be made to the RPB 403(b) Plan for plan year 2012?

A3: The maximum contribution rules to the RPB 403(b) plan for plan year 2012 are:

- Employer Contributions – For the 2012 RPB plan year, which runs from July 1, 2011 through June 30, 2012, the maximum contribution that an employer can contribute to the RPB 403(b) plan is \$49,000 or 100% of the participant's includable salary if the includable salary as reported to the IRS is less than \$49,000. (Includable salary is the participant's salary excluding parsonage.) If an employer's contribution exceeds the maximum contribution limit, the overage will be applied to the participant's RPB Rabbi Trust Account.
- Elective Salary Deferrals – The maximum amount allowable by a participant as an elective salary deferral in the 2012 RPB plan year is \$16,500 or 100% of the participant's includable salary if the includable salary as reported to the IRS is less than \$16,500.
- Over 50 Catch-Up Provision – Beginning with the RPB plan year in which participants attain the age of 50, the elective salary deferral portion of a contribution can be increased. Participants who attain the age of 50 or older during the 2012 plan year may increase their elective salary deferral by \$5,500 to a maximum of \$22,000. In any case, the participant's elective salary deferral cannot exceed their includable salary.
- Combined Limits – The combined contribution limit to the 2012 plan year is \$49,000 unless the over 50 catch-up provision is utilized. If the over 50 catch-up provision is utilized, the combined maximum contribution limit is increased up to \$54,500 (the \$49,000 limit and a dollar for dollar

increase for the over 50 catch-up amount). In any case, a contribution for a participant cannot exceed their includable salary.

There are no minimum pension contribution requirements.

Q4: What do you mean by taxable income?

A4: For clergy, taxable income is salary plus other **taxable** congregational income such as FICA tax reimbursement, but **not including** parsonage. For all other RPB participants, it is your W-2 salary.

Q5: How will I calculate my RPB 403(b) maximum and my Rabbi Trust contribution?

A5: You don't have to! The Reform Pension Board realizes that performing complicated tax calculations or retaining a tax professional can be stressful and/or expensive. The 403(b) rules and regulations are not well known by most tax professionals and certainly not well understood by the majority of organizations that sponsor such plans. The Board of the RPB decided to relieve its participants of the responsibility of becoming knowledgeable in this area. The staff, along with the Board's outside legal and pension plan expert counsel, has researched the IRS rules and incorporated the formulas, including some of the exceptions, into our computer system.

Q6: How is Rabbi Trust money invested?

A6: Rabbi Trust money is invested with the same money managers and at the same asset allocations as your 403(b) money.

Q7: Do I have to be concerned about administration?

A7: No, the Reform Pension Board will do all the administration.

Q8: How will I know how my money is being invested?

A8: Your account statements will show your RPB 403(b) Plan and the Rabbi Trust funds separately.

Q9: What is the relationship of the Rabbi Trust money to my congregation?

A9: The Rabbi Trust funds are invested by the RPB and held in trust by the RPB, but the actual account (contributions and earnings) is technically an asset of the congregation.

Q10: Does that mean the congregation can use the money?

A10: No. The **only** time that Rabbi Trust funds could be accessed is if the congregation becomes legally insolvent. Under those circumstances, assets in the Rabbi Trust would be available to the claims of creditors of the congregation that contributed the funds.

Q11: What if the congregation has a severe cash flow problem?

A11: The Rabbi Trust assets **cannot** be used.

Q12: What if the congregation merges with another congregation?

A12: The Rabbi Trust assets remain intact.

Q13: What if I change congregations?

A13: The Rabbi Trust assets from Temple A are segregated from Temple B, and so on, as you move on in your career. The RPB will maintain the records for you.

Q14: Can I commingle the Rabbi Trust assets with the RPB 403(b) Plan into one account when I retire?

A14: Unfortunately, you cannot. Each account is treated separately.

Q15: Why does the RPB maintain two different Rabbi Trust accounts?

A15: As a result of the American Job Creation Act of 2004, there are two Rabbi Trust accounts based on when your contributions (and resulting investment earnings) were made to the RPB. Contributions received prior to January 1, 2005 (Rabbi Trust Account) and contributions received on or after January 1, 2005 (Rabbi Trust Post–2004 Account) are segregated in different accounts.

Q16: Are there any differences in how the two Rabbi Trust accounts are processed?

A16: The main difference between the two Rabbi Trust accounts is in the way money is distributed at retirement.

Q17: How is the Rabbi Trust money paid out at retirement for contributions (and related earnings) that were received prior to January 1, 2005?

A17: As a default, your distributions will commence upon later of attainment of age 65 or retirement, paid in five annual installments. You can, however, make an election in the year prior to your scheduled receipt of your Rabbi Trust account –usually at the later of age 65 or retirement– to receive the Rabbi Trust account balance in one to fifteen–year installments or to defer the distribution until the attainment of age 70 ½. In any case, the minimum annual distribution you can receive from the Rabbi Trust is the lesser of your account balance or \$25,000. The RPB will mail an election form to you to make a timely election.

Q18: How is the Rabbi Trust money paid out at retirement for Rabbi Trust Post–2004 accounts?

A18: As a default, your distributions will commence upon later of attainment of age 65 or retirement, paid in five annual installments. In lieu of the five-year payout, a participant may elect to receive either a lump sum or distributions over two to fifteen–year installments, provided that the election has to be made at least twelve months in advance in order for it to be effective, and which defers commencement of payment (after termination of employment, if so elected) for at least five years, but to no later than the April 1 of the year following the year in which the participant attains the age of 70 ½. The remainder of the Rabbi Trust Post–2004 Account will be distributed if the value

as of January 1 of any year is less than the elective salary deferral amount (currently \$15,500) after payments have commenced. The RPB will mail an election form to you to make a timely election.

Q19: Can contributions that were placed in my Rabbi Trust Account be transferred back to my 403(b) account?

A19: Contributions in the pre-2005 Rabbi Trust account can be transferred to your 403(b) account if in any year you are still making pension contributions and have not used up your entire elective salary deferral limit. The RPB will notify you each spring of any transfers being made to your 403(b) account. Contributions in the Post-2004 Rabbi Trust account cannot be transferred to your 403(b) account.

Q20: What if I do not want any pension contribution funds automatically contributed to the Rabbi Trust?

A20: You must inform the RPB in writing, jointly signed by you and an officer of the congregation. You must realize, however, that your pension contribution to the RPB will be limited to the IRS 403(b) maximum (see Q3) and your ultimate pension benefit from the RPB will be less than would otherwise be available.