

Benefits of the Special Pay Plan

The Special Pay Plan represents a significant retirement benefit for governmental and school district employees with accumulated vacation, sick, or other leave pay, collectively referred to as "Special Pay." Through this mandatory plan, all eligible employees with accumulated Special Pay will have the contributions automatically made to the Plan by their employer. By making the contributions in this manner, the employee defers any income tax on the contributions until they are withdrawn, and permanently avoids Social Security and Medicare taxes (7.65%) on those contributions.



The contribution limit to a 401(a) Special Pay Plan for 2025 is \$70,000 and is not offset by voluntary contributions to a 403(b) or 457 plan. Additionally, contributions to the Plan are 100% vested to the employee and can be withdrawn at any point in time after the contribution to the Plan. Not only does this enable the employee to save the 7.65% in Social Security and Medicare tax immediately, it also provides an opportunity to manage the withdrawal of the funds, which may reduce income tax liability, based on the individual's personal circumstances.

Special Pay Plan Example

| | <u>Without Plan</u> | <u>With Special Pay Plan</u> |
|----------------------------------|---------------------|------------------------------|
| Earned Vacation / Sick Pay | \$15,000 | \$15,000 |
| Federal Taxes (25%) | \$ 3,750 | deferred |
| State Taxes (6%) | \$ 900 | deferred |
| Social Security (6.2%) | \$ 930 | \$ 0 |
| Medicare (1.45%) | \$ 218 | \$ 0 |
| Take Home | \$ 9,202 | deferred |
| Retirement Plan Contribution | \$ 0 | \$15,000 |
| Tax Savings | | |
| Employee | | |
| ■ Social Security and Medicare | None | \$ 1,148 |
| ■ Deferred Income Tax | None | Yes |
| Employer | | |
| ■ Social Security/Medicare Match | None | \$ 1,148 |

Employer Tax Savings

In addition to the benefit to the employee, the employer will save the Social Security match on the payroll for this employee, or \$1,148. When accumulated with all the other retiring employees, this can be a substantial savings for the employer.

About U.S. BENCOR/MidAmerica

U.S. BENCOR/MidAmerica is the leading provider of IRS-approved Special Pay and FICA Alternative Plans nationally. IRS-approval for these plans was received in 1994 for FICA Alternative and 1998 for Special Pay.

Leadership position has come from providing industry-leading services focused on five key elements:

1. Special Pay Plan Experience

The nation's leading provider of IRS-approved Special Pay Plans.

2. Low Cost Solution

Our Plans are typically provided at no cost to employers and no cost to active participants.

3. Investment Flexibility

Utilizing Charles Schwab as the custodian for our plans and providing access to industry-leading Stable Value Funds as well as thousands of mutual funds.

4. Turn-Key Administrative Support

Our plan administration provides the support and experience to minimize the workload on your payroll and HR functions.

5. Employee Communication

Providing a complete curriculum of materials to support the communication of these plans to your employees. Materials are customized for each employer and include Plan Overviews, Frequently Asked Questions, Easy Access Guides, videos and statements, all complemented by our local Advisors.

