

POLICY OF DISTRICT ON TAX SHELTER ANNUITY OPERATION

ESTABLISHMENT OF PROGRAM

The Merton Community School District (the “District”) sponsors a Tax Sheltered annuity Program (“Program”) intended to qualify under Section 403(B) of the Internal Revenue Code of 1986, as amended, (“Code”) for the benefit of eligible employees. The administrator and operation of the Program are governed by the rules and procedures set forth herein.

VOLUNTARY EMPLOYEE SALARY REDUCTION

1. Salary Reduction Election

Each eligible employee of the District may elect to reduce his or her salary in a specified amount (“salary reduction”) by executing a salary reduction agreement, to be provided by the District. Exhibit A. Elections will be irrevocable and effective on a prospective basis only. An election will apply only to compensation earned on or after the effective date of the election.

2. Amount of Salary Reduction

The salary reduction agreement must specify the amount of the salary reduction which the employee elects to have the District contribute toward the purchase of an annuity contract or to a custodial account on behalf of the employee. An employee’s salary reduction for a calendar year may not exceed the maximum amounts specified in Section 402(g)(4) of the Code, the exclusion allowance under Section 403(b)(2) of the Code and the annual addition limitation under Section 415 (c) of the Code.

3. Change or Revocation of Election

The salary reduction agreement and the amount of the salary reduction, designated by an employee, is irrevocable while the employee is employed by the District. However, as permitted herein, under specified circumstances an employee may change or stop salary reduction payments. An employee may change the amount of a salary reduction twice each calendar year. An employee may also discontinue salary reduction payments, effective prospectively, as of the first day of the pay period following the pay period in which notice of the change is provided to the District. If an employee discontinues the salary reduction, the employee may not again elect to reduce his or her salary except as provided under this program.

4. Completion of Election

Any election by an employee to reduce salary under the program (including any change in amount or revocation thereof) must be received by the District at least three (3) calendar weeks prior to the pay date such election, change or revocation is to be effective.

5. Payroll Deduction

Salary reductions shall be made by the District in lieu of the payment of compensation to an employee and may be accomplished by the District through regular payroll deductions. Through a salary reduction agreement an employee releases any and all rights, present and future, to receive payment of the sums from the District resulting from such salary reductions in any form except (a) the right of the employee's estate to receipt of sums so paid upon the employee's death, or (b) the right of the employee upon termination of employment (by reason other than death) to receive all or any part of the amount specified for which service has been rendered, but which has not been remitted to the tax sheltered annuity provider selected by the employee.

6. Certification of Deferral

The vendor selected by the employee as the recipient of the deferred amounts shall provide the employee and the District with a calculation which demonstrates, to the satisfaction of the District, that the level of the deferral elected satisfies the limitations of law as set forth in paragraph 2 above, unless such requirement is waived by the District. The certification shall be provided annually and with each change in deferral, other than a revocation.

7. Tax Withholding

Salary reductions are subject to applicable FICA withholding. Salary reductions are not subject to federal or state income tax withholding.

8. Wisconsin Retirement System

The amount of salary reductions shall be included in computing contributions and benefits under the Wisconsin Retirement System.

ANNUITY CONTRACTS AND CUSTODIAL ACCOUNTS

1. Eligible Annuity and Custodial Account Providers

The District, subject to the terms of any agreement negotiated with representatives of affected employee collective bargaining units or as established by the Business Office of the District for other employees, will allow various annuity and

custodial account providers to participate in the program (“eligible providers”). The eligible providers will make available to employees participating in the program, annuity contracts and/or custodial accounts qualifying under Section 403(b) of the Code. A list of eligible providers, as set forth at Exhibit B, shall be provided to interested employees by the District.

2. Remittance by District

Salary reductions made pursuant to a valid election by an employee, will be remitted by the District to the appropriate eligible provider no later than the fifteenth day of the month following deferral.

3. Provider Election

Each employee making salary reductions must select one of the eligible providers. An election by an employee of a provider, other than an eligible annuity provider, is invalid.

4. Changing Providers

The designation of an eligible provider by an employee will remain in effect until changed in accordance with these rules and procedures. Twice a calendar year an employee may select another eligible provider, effective prospectively on the first day of a calendar month.

RESPONSIBILITIES OF PARTICIPATING EMPLOYEES

1. Completion of Election

The provider election (including any change of provider) must be received by the District at least three (3) calendar weeks prior to the effective date thereof. The employee has the sole responsibility to obtain, complete and execute all required application forms of an eligible provider, as well as all required forms to change or terminate a salary reduction election and to deliver the forms to the Director of Finance.

2. Employee Responsibility

a. General Responsibility

The employee will be solely and exclusively responsible for the selection of an eligible provider, the evaluation of the investment qualify of any annuity contract or custodial account offered by an eligible provider and the selection of any investments options offered. The District shall have no liability whatsoever for any loss suffered by an employee arising out of selection of an eligible provider or

due to the financial insolvency of or loss of benefits provided by the eligible providers.

b. Cooperation With Providers

Participating employees must cooperate with the provider which they select in calculating the maximum exclusion allowance, annual addition limitation and deferral limitation, to include providing accurate salary and years of service information as reflected in District records and other information sources.

c. Notice of Change of Status

As soon as reasonably possible, participating employees must provide written notice to the provider as to any change in employment status including, but not limited to, a reduction from full-time to part-time employment, a leave of absence, or decrease in annual compensation.

RESPONSIBILITIES OF DISTRICT

1. **General Responsibilities**

The sole and exclusive responsibility of the District with respect to this program is limited to collecting salary reductions as required by valid salary reduction elections and remitting such salary reductions to eligible providers, except as otherwise provided at law.

2. **No Fiduciary Relationship**

No action taken by the District under this program shall be construed to create a trust of any kind or a fiduciary relationship between the District and participating employees, designated beneficiaries or any other person.

3. **Tax qualification**

The District makes no warranty or representation to employees that any annuity or custodial contracts offered by eligible providers are qualified under Section 403(b) of the Code or that salary reductions applied to the purchase of annuity contracts or invested in custodial accounts will be excluded from the gross income of employees under Section 403(b) of the Code.

RESPONSIBILITIES OF ELIGIBLE PROVIDERS

1. **Annuity Contract and Investment Information**

Eligible providers will provide information to requesting employees regarding the annuity contracts and/or custodial accounts offered and the investment

performance thereof. Eligible providers will also provide to requesting employees all applications, forms, elections, and documents necessary to apply salary reductions toward the purchase of annuity contracts and/or custodial accounts offered under this program.

2. **Qualified 403(b) Contract**

Eligible providers will make available to employees participating in this program, only annuity contracts or custodial accounts which meet the requirements of Section 403(b) of the Code. Eligible providers and their agents must adhere to all applicable federal and state laws, rules and regulations which govern tax deferred annuity programs.

3. **Salary Reduction Limitation**

Eligible providers will maintain records necessary to assure compliance with the annual deferral limitation under Section 402(g)(4) of the Code, the maximum exclusion allowance under Section 403(b)(2) of the Code and any other limitations on salary reductions which may be imposed by law.

4. **Annual Reporting**

Eligible providers will provide employees purchasing annuity contracts or investing in custodial accounts under this program with information concerning salary reductions and investment performance and will provide assistance to employees in calculation the annual maximum exclusion allowance on at least an annual basis.

5. **Indemnification**

As a condition of eligibility to participate in this program, annuity providers and custodial account sponsors must agree, in writing, to indemnify and hold the District harmless with respect to any liability, including fines or penalties, imposed upon the District by a court, administrative agency or otherwise as a result of a violation of this policy as it relates to providing assistance to employees or a violation of the federal or state laws, rules and regulations governing tax deferred annuity programs as to that vendor only. Exhibit C.

AMENDMENT AND TERMINATION

1. Amendment

The Board may amend these rules and regulations from time to time.

2. Termination

The District may terminate this program if required by law or with the concurrence of representatives of affected collective bargaining units.

Rule Approved: December 18, 1996

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Revised: January, 2006