

## 457(b) Deferred Compensation Deduction - How to Implement

These instructions describe the steps required to implement a 457(b) Deferred Compensation deduction in a district's payroll system.

The deduction as implemented below will be "pre-tax" regarding federal and state income tax withholding; however, it will be "after-tax" regarding Medicare and social security withholding taxes. Therefore, the amount of the deduction will be excluded from the wages reported in box 1 and included in boxes 3 and 5 of the employee's W-2 form, as described in the Internal Revenue Service publication *2006 Instructions for Forms W-2 and W-3*.

In the *Payroll Module Administration* module, on the *Payroll Deduction Definition Screen*, you must add a new deduction definition record.

1. First review the *Deduction Priority* for currently defined deductions. The *Reports > Deduction Definitions Report* may be printed to make this step easier. The payroll system deducts money from employee's gross pay in order of the *Deduction Priority* defined for the deduction code. The lowest number deduction is taken first, then the next lowest number until the highest number deduction is taken. For further details regarding deduction priorities, please see the FAQ *Roth 403b (or Roth 401k) Deductions - How to Implement*.

The priority of the 457(b) Deferred Compensation deduction should be in the 400-range, with a lower priority (higher number in the 400 range) than the "403B" deduction. We suggest 420, if available. Note: make sure the *Deduction Priority* you choose is not being used by another deduction code. Also, always try to maintain a "gap" (e.g. 410, 420, etc.) between deduction priorities so that, if necessary, new deductions may be added in the priority order desired.

2. Click **New** or press the F9 key. The system will automatically assign a sequence number.
3. In the *Code* field enter "457 ". The deduction code must be entered exactly as specified here.
4. For *Description*, enter "457(b) Deferred Compensation".
5. For *Abbreviation*, enter "457(b)".
6. The *Deduction Priority* should be in the low 400-range, as discussed above.
7. Click to put a check mark in the *Balance Report* field, if it is not already checked.
8. The *Default Frequency*, *Default Organization*, *Default ASN*, *A/P Batches?* and *Sign* fields may be entered as desired.
9. There should be no records added to either the *Earning Codes Excluded from Wage Base* or *Deduction Codes Excluded from Wage Base* areas of the deduction definition record.
10. Click **Save** or press the F4 key to save the new deduction definition.

11. After the record has been added, the record for the "FIT " Federal Income Tax withholding deduction must be updated. Retrieve the deduction definition record for the "FIT " deduction. Then, select *Operations > Add Excluded Deduction Code*. When the *Valid Deduction Codes* window appears, select "457 " and press enter. The system should respond with the message 'Deduction "457 " now excluded from the wage base for deduction "FIT "'. The Code "457 " should appear in the *Deduction Codes Excluded from Wage Base* window, as shown in Figure 1.
12. Update the record for the "MIT " (and any other state withholding tax deductions in your payroll system) as above. These records may be for "IIT " (Indiana), "WIT " (Wisconsin), etc.

Your screen(s) should look similar to the screen shown in Figure 1.

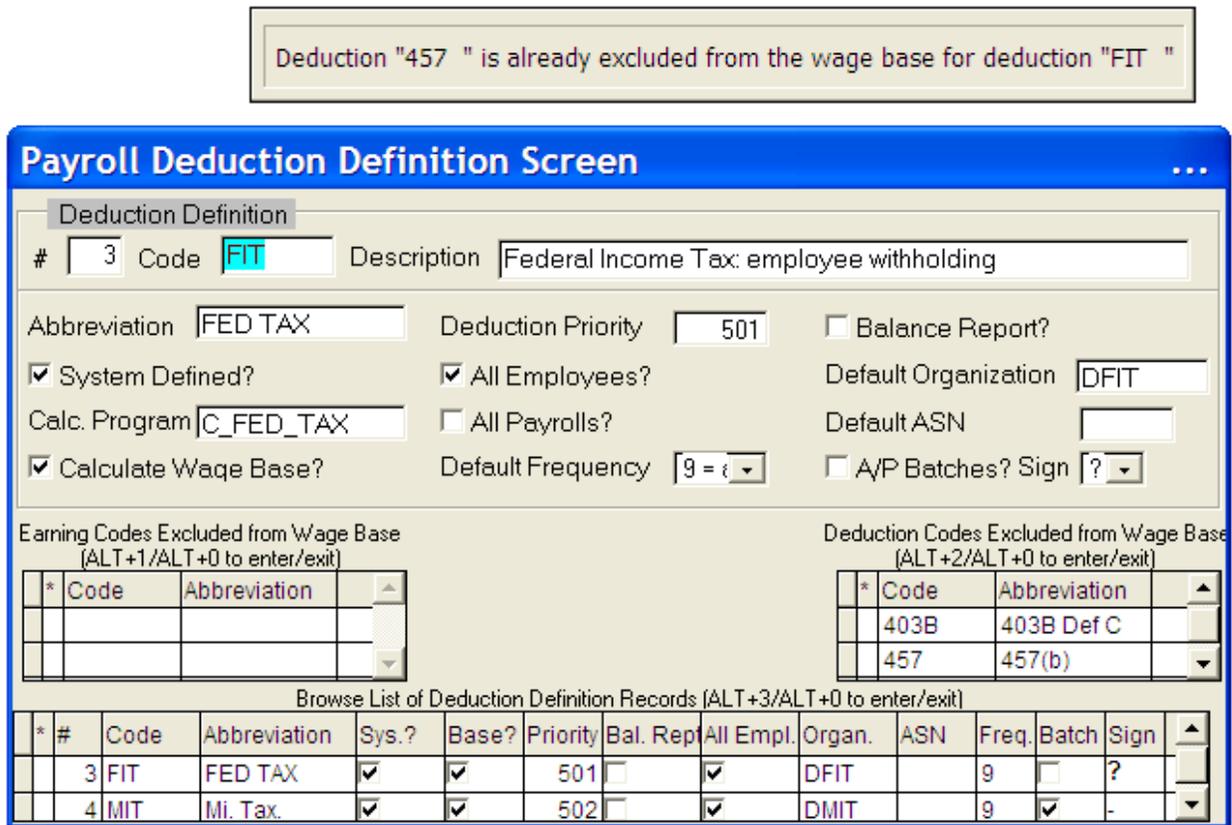


Figure 1 – Payroll Deduction Definition Screen

After the above record(s) have been added, review the *Payroll Financial Organizations Screen* for the appropriate vendor. If there isn't a vendor already set up, do so at this time. The 457(b) deduction records may be added to individual *Employee Elective Deduction Screens* as needed, using the normal procedures for that screen.