Chapter 8
NYS Deferred Compensation Plan

www.nysdcp.com

We gratefully acknowledge the cooperation of the New York State Deferred Compensation Plan who provided the information contained in this chapter, and who are entirely responsible for its contents.

Overview

The Deferred Compensation Plan (the Plan) is a voluntary retirement savings program, created by Federal and state law, enabling public employees to defer a portion of their gross pay. The following provides an overview of the Plan. For greater detail on the Plan and its benefits, visit the Plan Website at ***www.nysdcp.com*** *or call the Plan HELPLINE at 1-800-422-8463.*

WHAT DOES DEFERRED COMPENSATION MEAN TO ME?

It means that you may defer a portion of your salary on a pre-tax, or after-tax basis. The amount of your salary that you defer pre-tax to the Plan is not subject to current Federal or New York State income taxes. The result is that the amount that you are investing for your retirement is greater than the reduction in your take-home-pay. Pre-tax deferrals reduce your taxable income and, therefore, lower your Federal or New York State income taxes. You, therefore, are building greater retirement savings for your future. The amount you contribute to a Roth account comes out of your paycheck after New York State and Federal taxes. Roth contributions may be eligible for tax-free withdrawals.

Suppose you earn $1,500 per pay period. And, let us assume you would like to put $100 per pay period to the Plan. Instead of withholding taxes based on $1,500, your employer would calculate your income tax withholding based on $1,400 because your $100 is not subject to current Federal or New York State income tax withholding. Thus, at the end of the year, your IRS Form W-2 will reflect $36,400 of taxable wages instead of $39,000.

Sample 2025 Paycheck Analysis			
	Not Participating	**Moderate Participation**	**Maximum Participation**
Federal Withholding Allowance	S-1	S-1	S-1
State Withholding Allowance	S-1	S-1	S-1
Gross Salary	$1,500.00	$1,500.00	$1,500.00
Plan Deferrals	$0.00	$100.00	$884.62*
Taxable Salary	$1,500.00	$1,400.00	$615.38
Social Security	$115.00	$115.00	$115.00
Federal Income Tax	$184.00	$161.00	$61.53
NY State Income Tax	$66.00	$60.00	$6.00
Regular Savings	$100.00	$0.00	$0.00
Take Home Pay	$1035.00	$1064.00	$432.85

(**Please note, salary deferrals to the Plan are not exempt from income taxes in some states. If you are not a New York State resident, please check the income tax status of deferred compensation deferrals in your state.)**

*** Based on the 2025 contribution limit of $23,500 spread over 26 pay periods.**

SAVING MORE USING DEFERRED COMPENSATION (PRE-TAX) (*Note: assumes person filing as single with one withholding allowance, total includes Federal, State and Social Security Taxes)				
Gross Salary	**Def. Comp. Savings**	**Taxable Income**	**Withholding***	**Take Home**
$1,500	$138	$1,362	$327	$1,035

Another way of looking at this is that you can take home the same $1,035 you would have by saving with after-tax dollars and save $38 more per pay period ($138 vs. $100) by saving with pre-tax dollars through deferrals to the Plan.

If you are a Tier 3 or Tier 4 member with less than 10 years of service, contributions to the Plan will be calculated after your contribution to the Retirement System. In addition, if your health contributions are taken on a before-tax basis, your Plan contributions will be based on the remaining salary.

For most people, deferred compensation is a good way to use your income earning years as a direct means to supplement your pension and Social Security benefits when you retire and build a bright financial future. Later in this chapter we'll discuss how to know if the Plan is right for you.

Let's look at how much could be accumulated in your Plan Account if you participated in an investment option under the Plan that earns a seven percent annual return.

Cash Value Accumulation Chart Illustration of Accumulation Based on Contribution Amount			
Year	$75 per pay period or $1,950/year	$100 per pay period or $2,600/year	$150 per pay period or $3,900/year
5	$11,617	$15,489	$23,234
10	$27,911	$37,214	$55,821
15	$50,763	$67,684	$101,527
25	$127,770	$170,360	$255,540
Based on 7% annual return. *This is not a guarantee or indication of future investment returns under any investment option available under the Plan.* *Each Plan distribution is taxable as ordinary income when you receive it.*			

COMMONLY ASKED QUESTIONS

Does this mean that income taxes will never have to be paid on my Plan contributions?

No. Qualified distribution from the Roth portion of your account can be tax-free. When withdrawn, the entire pre-tax withdrawal, (including earnings) will be subject to Federal, New York State and local income taxes. If you reside outside of New York State distributions will be subject to the income tax laws of your state of residence.

How does contributing to the Plan affect my income taxes?

Your taxable income is reduced by the amount you defer, except for Roth contributions. For example, if your salary is $39,000 and you defer $2,000, your income for income tax purposes will be $37,000 on your IRS Form W-2.

What other benefits are there besides income tax reductions?

Building a supplemental retirement savings means that you will have greater financial independence and you won't have to rely only on Social Security and your pension for retirement income.

Am I still eligible for an Individual Retirement Account (IRA deduction)?

Participation in the Plan does not affect your eligibility for an IRA deduction.

However, if either you or your spouse are an active participant in a tax qualified retirement plan, including the New York State and Local Employees' Retirement System, you are eligible for a full IRA deduction only if your adjusted gross income is less than an amount described in Federal law.

Does contributing to the Deferred Compensation Plan affect my eligibility for a Roth IRA?

No. Participation in the Plan does not affect your eligibility for a Roth IRA because contributions to a Roth IRA are not deductible for Federal income tax purposes.

How is the Deferred Compensation Plan different from an IRA?

The Plan differs from an IRA in a variety of ways. It offers you the convenience of setting some retirement savings aside a little bit at a time through payroll deductions. This may help you keep the discipline you need to save for your retirement.

In addition, the Plan allows you to defer larger amounts than you can contribute to an IRA (up to 100 percent of your includible compensation or $23,500 for 2025, whichever is less). Your eligibility to make before-tax salary deferrals to the Plan are not limited by any income test like that imposed on deductible contributions to an IRA.

There are no penalties if you leave employment before age 59 $^1/_2$ and receive a distribution from the Plan. Once you have a severance from employment and the Plan receives a termination of employment notice, you will be permitted to take a distribution as long as a balance of $500 remains in the account for 45 days after severance from employment. If you wish, you may leave the balance of your Plan account to continue to grow even after you have left employment, up to age 73 when the law requires you to begin receiving Required Minimum Distributions.

Lastly, the Plan provides you a convenient place to consolidate retirement assets that you may have in a 401(k) or 403(b) plan, an IRA, or another governmental deferred compensation plan. The Plan accepts direct rollovers from eligible retirement plans. If you want, you have the option to roll over your Plan assets to another governmental deferred compensation plan, 401(k) or 403(b) plan or an Individual Retirement Account (IRA). The tax consequences, distribution options, investment options, and participation costs in each may differ from the Plan. You are encouraged to examine the requirements and limitations of any plan to which you may contemplate rolling over your Plan assets.

Do deferrals affect my Social Security taxes or pension contributions?

No. Your Social Security taxes and pension contributions, if any, will be calculated based on your gross wages.

Will participation in the Plan reduce my Social Security benefits?

No. Your Social Security benefits will not be reduced because of your participation in or your benefits from the Plan.

Do deferred compensation benefits affect eligibility for Medicaid?

Please contact Medicaid to get the most up to date information.

How do I know if participation in the Plan is right for me?

It is usually advantageous to participate in the Plan for most people who have sufficient cash on hand to cover emergencies and for individuals who would like to build savings for retirement.

Is the Plan good for those close to retirement?

It may be, depending on your situation. The Plan offers you an opportunity to defer the payment of Federal and New York State income taxes on your Plan account until as late as April 1 of the year following the year you reach age 73 or as long as you're still working for the State or a participating local government employer, whichever is later.

If you are nearing retirement, you may be eligible to defer a larger amount through either the Retirement Catch-Up or the Age Based Catch-Up provisions.

Is there a time when I must withdraw money from my Plan account?

You are not required to withdraw your money from the Plan until you are age 73 or until you leave employment with New York State or a local participating employer, whichever is later.

CONTRIBUTIONS, INVESTMENT OPTIONS, SPECIAL CIRCUMSTANCES

How much may I contribute from my paycheck?

You may defer up to $23,500 from your salary in 2025. Salary deferrals are made as a percentage of your salary from one percent of your compensation to 100 percent of your includible compensation.

Can I change my deferral amount?

Yes. You may increase, decrease, or suspend your deferral rate by calling the HELPLINE at 1-800-422-8463 or by accessing the Transaction section of the Plan Website, www.nysdcp.com. All changes will be implemented as soon as possible in one to two paychecks after you make the request.

Are there any times when I can defer more to my Plan account?

Yes, there are four time periods when you can defer more to the Plan than the regular contribution limits would allow.

If you are age 50 or over or will become age 50 during 2025, you may defer an additional $7,500 through the Age 50 and Over Catch-Up provision. The ability to make additional deferrals through the Age 50 and Over Catch-Up is available to you every year you are at least 50 years old, except the years in which you are making Retirement Catch-Up deferrals. However, if the maximum deferral permitted under the Age 50 and Over Catch-Up provision is greater than your Retirement Catch-Up amount, you may make deferrals up to the Age 50 and Over Catch-Up maximum deferral. New this year, there is now an additional Age Based Catch Up for individuals that will turn 60-63 in 2025. They would be able to contribute a total of $34,750.

The third time period you may make deferrals in excess of the regular deferrals is during your Retirement Catch-Up period. Retirement Catch-Up deferrals may be made during the three consecutive calendar years prior to your Retirement Catch-Up Age. Your Retirement Catch-Up Age is an age that you choose that is no earlier than the year during which you may retire under your employer's retirement plan without a reduction in benefits. Retirement Catch-Up Age may be no later than the year in which you turn $70\frac{1}{2}$. If you are a police officer or a firefighter, Retirement Catch- Up Age may be no earlier than age 40.

The amount you may defer through the Retirement Catch-Up provision is the difference between the amounts you were eligible to defer while an employee of the State or a Participating Employer and your actual deferrals to the Plan. In 2025, you may contribute up to an additional $23,500 dependent upon your Retirement Catch-Up amount. Assistance and paperwork are required to determine the exact amount you are permitted to defer under this special Retirement Catch-Up rule.

There is also a special provision for individuals who are called away from their regular job to perform duty in the United States military. If you return to your employer after a period of qualified military service, you will have a limited right to make up deferrals to the Plan that you could have made if you had been working for your regular employer. Please call the HELPLINE at 1-800-422-8463 and speak to a HELPLINE Representative for assistance.

When I leave employment, may lump sum payments for accrued but unused vacation leave be deferred to the Plan?

Yes, provided, that those deferrals are received by the Plan no later than 75 calendar days after your last day of employment, or within the calendar year you terminated employment.

What happens to the money that is withheld from my paycheck?

When you become a participant in the Plan, you will select how you want your deferrals to be invested. Payroll deferrals are invested in your investment selections within two days after they are received by the Plan.

What are my investment choices?

The Plan offers 31 high quality investment options, which include a stable income fund, retirement date funds, bonds, and domestic and foreign stock mutual funds. This array of options gives you the ability to fully diversify your portfolio.

In addition, a Mutual Fund Window is available to you once your account balance is in excess of $10,000 that allows you to invest up to 50% of your Plan assets in approximately 3200 mutual funds. Additional information can be obtained by calling the HELPLINE. How do I know what investments to choose?

To determine an asset allocation that suits your needs, you need to consider several factors including investment objective, risk tolerance and time horizon. The Plan Website features Morningstar Guidance Online and Ibbotson Allocation tools, retirement calculators, and several other educational resources to assist you to create a fully diversified portfolio.

What are the costs associated with the Plan?

The fee structure is a combination of a $20 annual fee, paid in two $10 semiannual installments, and an asset-based fee calculated on a percentage of the participant's account balance. The asset-based fee, estimated to be two and 3/4 tenths of 1 percent ($2.75 per $10,000 of account value), will be charged only on accounts with balances in excess of $20,000. Account assets subject to the asset-based fee are capped at $200,000. These fees will be deducted from participant's accounts in April and October of each year. Fees will be deducted pro-rata from each of the participant's investment options.

What if I start deferring to the Plan in the middle of the year at a rate designed to produce maximum contribution by year-end, but which, if made for a full year, would result in excess deferrals?

Your payroll deductions may be automatically cut off when you reach your maximum deferral amount. For the following calendar year, your deferral rate will resume at that prior deferral rate unless you contact the Plan to specify a smaller deferral rate per pay period.

Can I roll assets into the Plan?

Yes, if you have other retirement accounts in a former employer's 401(k), 403(b), deferred compensation plan, or in an Individual Retirement Account you can roll those assets into the Plan. The benefits of consolidating assets in the Plan will depend on your individual situation. Call the HELPLINE for additional information.

When can funds be withdrawn from the Plan?

There are seven conditions under which funds may be withdrawn.

1) Separation from service, including regular retirement, regardless of age.
2) Attainment of age 59 1/2, even if still employed.
3) Severe unforeseeable emergency.
4) If your Plan Account balance is no more than $5,000 **AND** you have not contributed to the Plan in the last two years **AND** you have not received a distribution under this provision before.

5) Death.
6) Loans.
7) In-Service Distributions of assets rolled in from another eligible retirement plan, except another governmental deferred compensation plan.

What is separation from service?

Separation means you have left employment due to retirement, voluntary termination, or involuntary termination of employment from your employer.

What is an unforeseeable emergency?

To meet the federal tax rules, the Plan has a strict definition of unforeseeable emergency. In general, your emergency expense must result from a situation that you could not have planned for, such as uninsured medical expenses or a natural disaster. Also, you'll have to submit written proof that you don't have any other means to pay for your emergency expense. Buying a home or sending a child to college does not meet the Plan's definition of an unforeseeable emergency. The process prescribed by law to qualify for an emergency withdrawal request is as follows:

Step One: You must submit an Emergency Withdrawal Form to the Plan and evidence that you have incurred this financial loss, including all supporting documentation and canceled checks of uninsured expenses. You must show that you have used other available savings and liquid assets to satisfy the emergency, to the extent that the use of those assets would not create an unnecessary hardship in itself.

Step Two: The Plan will determine, in accordance with the Plan's claim procedure, whether the emergency qualifies under the federal guidelines described above.

Step Three: Your request may be approved only for the amount necessary to satisfy the financial emergency. Since an unforeseeable emergency withdrawal is a taxable distribution, the amount withdrawn to cover the emergency will be a sum, which when reduced by taxes withheld on such withdrawals, should leave you with the funds needed to pay for the unforeseeable emergency.

Usually, a decision to approve or deny your emergency withdrawal request will be rendered within one week of your submission of all the required paperwork, although the Plan allows for up to sixty (60) days. If approved, you will receive the funds within 10 to 14 business days thereafter.

Step Four: Denials by the Plan may be appealed to the Review Committee. If your request for an emergency withdrawal is denied, your letter of denial will contain information about how to request an appeal and the time limits for doing so.

Deferrals to the Plan will be discontinued for six months after the approval of the unforeseeable emergency withdrawal request.

Does the Plan have a loan program?

Yes. The Plan permits participants currently employed by the State or who are on an approved leave of absence to take out a loan. Only one loan may be outstanding at a time and cannot exceed the lesser of 50% of your Plan account balance or $50,000. The minimum loan is $1,000 for account balances of $2,000 or more.

Loans for general purposes must be repaid, with interest, within 5 years. The repayment schedule may be extended up to 15 years if the loan is for the purchase of a primary residence. The interest rate is the prime rate as published in *The Wall Street Journal*, plus 1%.

Loan repayments are automatically deducted from your checking or savings account or you may pay via check directly to the Plan. Loan repayments are deposited in your Plan account according to your most recent investment allocation. Contact the HELPLINE for additional information about the loan program, including the loan origination fee, insufficient fund fee, default implications and default fees.

What are in-service distributions of rollover assets?

Participants who have rolled assets into their Plan account are able to withdraw those assets from the Plan prior to leaving public service. If your Plan account holds assets that were rolled over from a 401(k), 403(b), or an IRA, those assets are still subject to the distribution rules of the former plan(s). This means that any assets that were rolled over from a 401(k), 403(b), or an IRA may be withdrawn at any time, subject to the distribution rules of the former plan, which could include a 10% early distribution penalty if you take a distribution prior to age 59 $^1/_2$. Please know that your assets that started and grew in your regular Plan account or were rolled over from another 457 deferred compensation plan are not eligible for a withdrawal until you leave public service, become age 59 1/2, or are needed for an unforeseeable emergency withdrawal.

What happens if I retire or terminate employment?

Once you separate from service and the Plan is notified of your terminated status, you may choose how and when you would like your benefit payments to begin. The earliest permissible date for withdrawal is the day after you separate from service.

What if I leave my current employer and take a job with another employer?

If you leave your current employer, you have two options. If you take a job with another employer that maintains a deferred compensation plan or eligible retirement plan that accepts transfers, you may elect to have all or a portion of your Plan account balance transferred directly to that employer's plan. In the case of such a transfer, the amount transferred is not currently taxable to you.

You also have the option to leave your assets in the Plan. You won't be able to make additional deferrals to your Plan account, but you will be eligible to receive benefit payments.

Do I have to take my money out of the Plan when I separate from service?

No. You may leave your assets with the Plan until age 73 when you must begin "Required Minimum Distributions". In fact, you can continue to make investment changes, and roll assets into the Plan even though you are no longer contributing to the Plan.

What happens if I am still employed at age 73?

If you continue to work for your participating employer past age 73, you are eligible to receive benefit payments from your Plan account. You may also continue to make salary deferrals to your Plan account. Once you leave service, you are required to start taking your Required Minimum Distribution by December 31st of the calendar year that you separate from service.

What happens to my Plan account if I stop deferring to the Plan?

Your Plan account continues to accumulate tax-deferred earnings until benefits are paid to you.

RECEIVING YOUR BENEFITS

How do I receive my benefits and what are my benefit payment options?

There are numerous ways in which you may receive your benefit payments. You may take a one-time full withdrawal of your Plan account, a partial withdrawal of your Plan account, establish a regular periodic payment of benefits, or defer receiving your benefits until age 73. As long as there is a balance in your account, you may change your payment option by contacting the HELPLINE or an Account Executive to obtain the required forms or by logging into your online account. Benefit payments can be increased or decreased, or additional partial withdrawals may be taken in addition to your regular periodic payments at any time you need additional funds. Up to 12 periodic payments may be taken in each year and each must be at least $100.

You also have the option to defer receiving your benefits until a later date, but only until you reach age 73. If you choose this option, benefit payments must begin no later than April 1 in the calendar year after you become age 73. Each of the benefit payment options previously discussed will be available to you should you choose this option.

When you become age 73, your total annual benefit payment must equal or exceed the Federal Required Minimum Distribution (RMD). An additional benefit payment will be sent to you in December of any year in which your total periodic payments do not meet or exceed your RMD.

When will my benefit payments begin?

Once you have a severance from employment and the Plan receives a termination of employment notice, you will be permitted to take a distribution as long as a balance of $500 remains in the account for 45 days after a severance from employment.

When do I pay income taxes?

Amounts held under the Plan as pre-tax are not taxable until you receive them. Upon distribution, your pre-tax benefits will be subject to Federal, New York State and local income taxes. Qualified Roth distributions are not subject to income tax. If you reside outside of New York State, distributions will be subject to the income tax laws of your state of residence.

How are benefit payments taxed on a Federal basis?

The Plan is required to withhold 20% of all lump sum distribution and periodic payments of less than 10 years for Federal income tax purposes. The Plan is not required to withhold Federal income tax from periodic payments of 10 years or more or direct rollovers; however, participants will be required to pay Federal income taxes, if applicable.

How does New York State tax benefit payment options?

The Plan will withhold state income taxes from distributions at the request of the participant. Benefit payments from the Plan are eligible for the New York State income tax deduction applicable to private retirement plans and eligible retirement plans (such as 401(k), 403(b), and Individual Retirement Accounts).

To be eligible for this deduction, the Plan participant must be at least age 59 1/2 and the benefit payments must be in the form of periodic payments (non-lump sum payments) over at least two consecutive calendar years. The deduction is limited to $20,000 per year per spouse.

Upon my death, what is my beneficiary entitled to?

Upon your death, the amount remaining in your Plan account will be paid to your named beneficiary. If you did not name a beneficiary, the amount remaining will be paid to your spouse, if you have a spouse, or to your estate. The date when a beneficiary must begin to receive benefit payments and the maximum period over which benefit payments may be made depends on:

- the age of the Plan participant when he or she died.
- whether the Plan participant was receiving benefits from the Plan.
- whether you are the Participant's spouse, another individual, or the representative of a non-individual charity, trust, or institution.

In all instances, the earliest a beneficiary may begin to receive benefit payments is 45 days after the date of death. Beneficiaries should review the instructions in the Death Benefit Distribution Claim application carefully so that they are aware of the maximum benefits that they are entitled to receive and the manner in which they may receive them.

How do I get more information?

The Plan's toll-free HELPLINE is designed to be the primary contact for employees and participant inquiries concerning the Plan. The HELPLINE consists of dedicated full-time staff who are licensed and FINRA-registered Representatives. To speak to a HELPLINE Representative, call 1-800- 422-8463. Representatives are available from 8:00 am to 11:00 pm Eastern Time, Monday through Friday, and 9:00 am to 6:00 pm on Saturday, except holidays.

The Plan now offers an Account Executive (AE) Connect Helpline of 5 individuals, call 1-844-867-8197 and they are available Monday, through Friday 8:00 am to 4:30 pm Eastern Time, except holidays.

There are 11 Account Executives across New York State. They are available to educate and assist participants as well. You may reach your Account Executive by contacting the HELPLINE.

RETIREMENT CHECKLIST
Deferred Compensation Plan

As you approach retirement it is useful to determine what you know, what you've done, and what you need to find out or do.

Read each of the questions below and circle your answer, "YES" or "NO." Next, for each "NO" answer you gave, write down a few words in the space provided that will help you find the answers. You may want to use the same space to record other personal questions.

1. Do I participate in the NYS Deferred Compensation Plan? **YES** **NO** _____

2. If "NO" to Question Number 1, do I know the benefits of joining now? **YES** **NO** _____

3. Do I know the maximum amount I am eligible to defer to the Plan? **YES** **NO** _____

4. Am I aware of the benefit payment options I can elect? **YES** **NO** _____

5. Am I aware of how taxes will be withheld once I start receiving payments? **YES** **NO** _____

6. Am I aware of the transactions I can make to my account by accessing the web site at www.nysdcp.com? **YES** **NO** _____