

Memo

Date: February 5, 2026

To: Agency Payroll, Human Resources, and Accounting Staff

From: Katie Karow, Director, Statewide Payroll Services

RE: Deferred Compensation Upon Separation

The following information has been provided regarding payments processed following an employee's separation from employment, which may be directed to:

- Minnesota State Deferred Compensation 457(b) Plan (MNDCP).
- Minnesota State Tax Sheltered Annuity 403(b) Plan (TSA).

Compensation Eligible for Deferral After Separation

Section 415(c) Treasury regulations clarify that compensation can include post-severance compensation if it is paid within the later of 2½ months after separation from service or the end of the calendar year in which severance occurs. 26 C.F.R. 1.415(c)-2(e) (3). The governing Treasury regulation is published at [www.law.cornell.edu/cfr/text/26/1.415\(c\)-2](http://www.law.cornell.edu/cfr/text/26/1.415(c)-2).

The following payments may be deferred after separation of employment:

Payments may be deferred after separation as long as the employee had continued employment and the payment would have been paid to the employee prior to separating.

- Regular compensation for services during the employee's regular working hours:
 - Salary
- Compensation for services outside the employee's regular working hours:
 - Overtime
 - Shift differential
 - Commissions
 - Bonuses
 - Other similar payments for work outside regular working hours
- Back pay for lost wages, such as grievance payments
- Unused bona fide sick and vacation or other leave pay if the employee would have been able to use the leave if employment had continued

The following types of payments are not eligible for deferral:

- Early retirement incentives
- Early retirement notification incentives
- Grievance payments that are not back pay for lost wages or salary

Employee Options

Eligible employees may direct their payout payments if allowed by the bargaining agreement or deferred compensation plan. This includes payments processed in Mass Time Entry, Current and Prior Period Adjustments and some grievance settlements.

- For some bargaining agreements and compensation plans, employee “Leave pay” (vacation payoff and severance) is directed to the Health Care Savings Plan (HCSP).
- Employees who are eligible for cash payouts **must** take action to have funds distributed to their deferred compensation plan account. Employees need to act and contact MSRS or TIAA and Agency Payroll staff for deferred compensation plan contributions prior to separation. Both MSRS and Agency Payroll staff may assist in helping the employee calculate amounts to defer.
- Employee Actions:
 - Employees should refer to their bargaining agreement or deferred compensation plan to determine eligibility
 - Contact agency payroll staff to calculate appropriate deduction amounts
 - Contact their retirement plan office for assistance
 - Make the appropriate election in Voya by the pay period end date of the payout
- Agency Actions:
 - Calculate the maximum deferred compensation plan conversion amount
 - Things to consider: payout amount, taxes or other applicable deductions, annual contribution limits, and employee’s year-to-date contribution balance
 - Deferred compensation plan allocation must be made within 2½ months of separation
- This Treasury clarification continues to allow deferred compensation plan deductions to occur for wage related grievance payments. Normal processing of grievance payments **does not** include deferred compensation plan deductions. Special handling by Statewide Payroll Services staff must occur when deferred compensation plan deductions are requested.

The table below includes examples of when the payment must be processed. Be sure to consider the pay date **not** the pay period end date.

Employee’s employment severed/terminated effective	Payment(s) must be processed no later than Pay Period End Date	Pay Date	Rule
7/10/2026	12/15/2026	12/24/2026	End of calendar year in which termination occurs
11/18/2026	1/12/2027	1/22/2027	Paid within 2½ months of employee’s termination

NOTE: Early retirement incentive payments are not eligible to be directed to Deferred Compensation Plans.

Questions?

- If you have questions regarding post-severance compensation contributed to the Minnesota Deferred Compensation 457(b) Plan, please contact:
 - **Minnesota State Retirement System (MSRS) Service Center** at 1-800-657-5757, Monday-Friday, 8:00 a.m. to 4:30 p.m.
 - Employees may also reference the [MMB Labor Relations](#) page to review their bargaining agreement.
- If you have questions regarding post-compensation contributed to TSA 403(b) Plan, please contact:
 - **TIAA Retirement Service Center** at 1-800-682-8969, Monday-Friday, 7:00 a.m. to 9:00 p.m.
 - Your local campus Human Resources office – to complete required form and transactions.
- If you have questions regarding payment processing, please contact: Agency HR, Payroll, and Accounting staff should contact Jennifer Goossen 651-201-8072 or [email](#).

PLEASE SHARE THIS INFORMATION WITH APPROPRIATE AGENCY STAFF