

INTERPRETIVE MEMO

3SquaresVT Rule Interpretation

Procedural Instruction

This memo remains effective statewide until it is specifically superseded – either by a subsequent memo or by a contradictory rule with a later date.

Please file in your manual facing the page indicated below.

Facing page 273.8e Effective date of this memo 4/1/2012 Page 1

This memo: is new Replaces one dated _____

The Tax Preferred Retirement Account/Plans listed here are excluded resources for 3SquaresVT.

Retirement Plan or Account Type	What is It?	Authorized by
Pension or traditional defined-benefit plan*	Employer-based retirement plan that promises retirees a certain benefit upon retirement, regardless of investment performance.	Section 401(a) of the Internal Revenue Code
401(k) plan*	Defined-contribution plan that allows employees to contribute to their accounts from their salary or wages on a pre-tax basis (with earnings tax-exempt until withdrawal). Employers may or may not contribute.	Section 401(a) of the Internal Revenue Code
SIMPLE 401(k)*	401(k)-type plan available only to small businesses.	Section 401(a) of the Internal Revenue Code
501(c)(18)*	401(k)-type plan offered mostly by unions. Had to be set up prior to June 1959; now largely obsolete.	Section 501(c)(18) of the Internal Revenue Code
403(b) plan*	Tax-sheltered annuity or custodial account plan offered by certain tax-exempt organizations and public educational institutions. Many are salary reduction plans that look like 401(k)s.	Section 403(b) of the Internal Revenue Code

* Already exempt from the food stamp resource test under existing regulations.

** Keogh plans that involve a contractual obligation with someone who is not a household member were already exempt from the food stamp resource test before the Farm Bill.

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The items listed below are excluded resources for 3SquaresVT.

Tax-Preferred Retirement Accounts/Plans

457 plan*	401(k)-type plan offered by state and local governments and non-profit organizations	Section 457 of the Internal Revenue Code
Federal Employee Thrift Savings plan*	401(k)-type plan offered by the federal government to its employees.	Section 8439 of Title 5 of the US Code
Keogh plan**	Informal term for retirement plans available to self-employed people.	Section 401(a) of the Internal Revenue Code
Individual Retirement Account (IRA)	Vehicle for tax-deferred retirement saving controlled by individuals rather than employers. Many IRAs were previously employer-based accounts that individuals converted into an IRA when they left their job.	Section 408 of the Internal Revenue Code
Roth IRA	Similar to an IRA but with different income limits and tax treatment.	Section 408(A) of the Internal Revenue Code
SIMPLE IRA	Employer-based IRA available only to small businesses.	Section 408 of the Internal Revenue Code
Simplified Employer Plan	Employer-sponsored plan available only to small businesses; allows employers to contribute to employee accounts that essentially function as IRAs.	Section 408 of the Internal Revenue Code
Profit Sharing Plan	Employer-based defined-contribution plan under which employer contributions may (but need not) be linked to profits. May provide 401(k) accounts.	Section 401(a) of the Internal Revenue Code
Cash Balance Plans	Employer-based hybrid plan that combines features of defined benefit and defined-contribution plans.	Section 401(a) of the Internal Revenue Code

* Already exempt from the food stamp resource test under existing regulations.

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These Tax-Preferred Education Savings Account/Plans are excluded resources for 3SquaresVT.

Tax-Preferred Education Savings Accounts

Educational Plan or Account Type	What is It?	Authorized Under
529 savings account plan	A tax-preferred investment plan designed to encourage saving for future higher education expenses of a designated beneficiary, typically one's child or grandchild. In Vermont, called Vermont Higher Education Investment Plan, administered by VSAC.	Section 529 of the Internal Revenue Code
Coverdell Education Savings Account (ESA)	A trust or custodial account set up to pay qualified education expenses for the designated beneficiary of the account as tax free distributions. This benefit applies to elementary and secondary as well as higher education expenses.	Originally known as Education IRAs; available on January 1, 1998. The name was changed to Coverdell "Education Savings Accounts" by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), effective as of January 1, 2002.

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