457(b) Plan

IIS FINANCIAL SERVICES

Insurance - Investments - Retirement Planning

What Is a 457(b) Plan?

457(b) deferred compensation plans are employer-sponsored retirement savings plans, usually offered by municipalities and governmental entities, which allow employees to defer a portion of their current compensation on a tax-advantaged basis for retirement. This plan is an important supplement to pension plans and/or Social Security.

With a 457(b) plan, employees put a portion of their earnings into an employer-sponsored plan on a tax-advantaged basis. Depending on plan provisions, employees may choose between a traditional pre-tax contribution and a Roth contribution.

- **Traditional pre-tax contributions** - Contributions are made on a pre-tax basis, reducing the employee's taxable income. Earnings accumulate on a tax-deferred basis. All distributions are taxed as ordinary income.
- **Roth contributions** - Contributions are made on a tax-free basis if plans allow. Earnings accumulate on a tax-deferred basis, and distributions are tax-free if made five years after the initial contribution to the plan and the employee is over 59½.

Contributions

457(b) participants may defer a maximum of 100% of their gross compensation or an annual dollar limit, whichever is less. The annual contribution limit for **2024** is **$23,000**. 457(b) plans offer two "catch-up" provisions which allow participants to contribute more than the normal annual contribution amount.

Three Year Catch-Up

If you are in the three years prior to the year in which you reach your normal retirement age and have under-contributed in prior years, you may use the three-year catch-up provision. This allows you to contribute up to an additional **$23,000** in **2024**, amounting to a total possible maximum contribution of **$46,000**. In order to qualify for the three-year catch-up provision, you must have underutilized contributions with the same employer from previous years.

Age 50+ Catch-Up

If a participant is age 50 or older at the end of the calendar year, they also can make elective contributions of up to **$7,500** for **2024**.

2024 Max Contribution Limits

Annual Deferral Limit	$23,000
3-Year Catch-Up Limit	$23,000 ($46,000 total)
Age 50+ Catch-Up Limit	$7,500 ($30,500 total)

Account Access

Participants are eligible to withdraw funds from their 457(b) plan when separating from service (for any reason) or for an approved unforeseeable emergency. After separation from service, a participant may rollover their account into a traditional IRA or an existing qualified retirement plan.

How and when a participant chooses to withdraw assets from their account are important decisions. There are many considerations—the form of payment, the tax consequences, and other forms of retirement income. Participants should review several factors before making a decision about distribution, including:

- Taxes, if applicable, are paid only on withdrawn amounts. Funds that remain in the account, and any future investment earnings, continue to accumulate tax-advantaged until they are withdrawn.
- The participant may continue to direct the investment of the assets that remain in the account as allowed by the employer's plan.
- In the event of the participant's death, any remaining account balance will be available for distribution to designated beneficiaries.
- Withdrawals typically are subject to a 20% mandatory federal tax withholding if the participant elects to directly receive funds eligible for rollover to another employer plan or an IRA.
- Regardless of age, participants are not subject to a 10% early withdrawal penalty on distributions of 457(b) plan contributions and earnings.
- Distribution of assets must begin no later than April 1st of the year following the year the participant reaches age 73.

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The Benefits of Participants Include

- Save for retirement on a tax-advantaged basis.
- Pre-tax contributions are not subject to federal and (in most cases) state income taxes until withdrawn.
- If plans allow, Roth contributions are made on an after-tax basis and are tax-free on withdrawal.
- Additional contributions may be made if a participant is age 50 or older, or within three years of
- normal retirement age (see catch-up provisions on first page).
- Flexibility to consolidate savings in another qualified retirement plan or a Traditional IRA if the participant changes employers.
- Flexible withdrawal options – a participant determines the payment schedule that is right for them.
- If a participant retires or leaves service early, there is no penalty for withdrawals; however, they will pay taxes on the amount withdrawn.
- In the event of a participant's death, their designated beneficiaries are entitled to receive all remaining assets.