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. 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 an after-tax basis. 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 2023 is $22,500. 457(b) plans offer two "catch-up" provisions which allow participants to contribute more than the normal annual contribution amount.

Pre-Retirement Catch-Up

The pre-retirement catch-up provision allows participants to contribute additional dollars to make up for years they were eligible to participate in their current employer's 457(b) plan but did not contribute the maximum. Under the pre-retirement catch-up provision, a participant can double the ordinary maximum contribution for up to three years. For 2023, participants may contribute an additional $22,500, or a total of $45,000.

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 2023.

2023 Limitations

Annual Deferral Limit	$22,500
Pre-Retirement Catch-Up Limit	$22,500 ($45,000 total)
Age 50+ Catch-Up Limit	$7,500 ($30,000 total)

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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. However, participants may be subject to the 10% early withdrawal penalty tax for withdrawals of non-457(b) plan rollover funds that they moved into the plan.
- Distribution of assets must begin no later than April 1st of the year following the year the participant reaches age 72.

The benefits of participation 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.
- 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 above).
- 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.
- **Access to Managed Account Services** – Retirement Plan Advisors' Portfolio*Plus* program is an optional managed account service specifically designed for employer-sponsored defined contribution plans. With Portfolio*Plus*, participants can have increased confidence knowing that they have delegated the fund manager selection and ongoing monitoring of their account to the investment professionals at RPA.

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