



Section 457(b) Plans 2009

Section 457(b) plans represent a defined contribution approach to retirement funding for employees of state and local governments and non-government organizations exempt from tax under Internal Revenue Code Section 501. In such plans, employer and employee contributions and earnings accumulate tax-free. If the plan is eligible, deferred income and earnings accumulate tax free until the assets are distributed to the employee after separation from service when they are taxed as income. The advantage of a 457(b) plan is that no penalty is applied for withdrawals that occur prior to age 59 ½. Moreover, 457(b) plans are portable, allowing employees to move plan assets into a new employer's 457(b), 403(b) or 401(k) if the plan accepts such transfers, or into an IRA; generally, however, rollovers are not encouraged for a variety of reasons, including the fact that the 10 percent penalty for withdrawals prior to age 59 ½ would be lost.

Contributions flow to section 457(b) plans in one of two ways: through elective deferrals that occur through voluntary salary reductions, and through employer contributions on behalf of employees. In 2009, the elective deferral limit for employees is \$16,500 or up to 100 percent of includable compensation. Eligible employees who are 50 or older during 2009 may contribute an extra \$5,500, though employers are not required to offer this option to employees. As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), 457(b) plan participants can contribute the maximum contribution amount to an employer's 403(b) and 457(b) plan (i.e., \$33,000) plus catch-up amounts to both.

A variety of investments are generally offered in a Section 457 plan: money market funds, mutual funds and annuity contracts. As is the case in 403(b) funds, no-load funds with low fee structures should be preferred by investors; however, many investors are not aware of the impact of fees upon earnings. Distributions are generally governed by law, requiring participants to begin withdrawals in a manner consistent with qualified plans. Generally speaking, withdrawals must begin during the year in which the participant reaches the normal retirement year of the plan or within 60 days of separation of service or by age 70 ½ unless the person is still working, whichever is later. Distributions may be made over a period of years, subject to restrictions on the amount of each disbursement. Benefit elections and payment options are available through the Section 457(b) plan administrator.

Further information about the benefits of section 403(b) and 403(b)(7) plans for education employees can be accessed on the web at <http://www.457bwise.com> and in the 'Tools and Tips' section of the NEA Member Benefits website (<http://www.neamb.com>).

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