OEA COLLECTIVE BARGAINING & RESEARCH Bulletin

Section 457(b) Plans
2012

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 59½. 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 2012, the elective deferral limit for employees is $17,000 or up to 100 percent of includable compensation. Eligible employees who are 50 or older during 2011 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 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.

A comparison of 403(b) and 457(b) plans can be found on the following page. 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. This publication does not constitute legal, financial, accounting or other advice.

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Comparison of Section 403(b) and Section 457 Plans for 2012

	Section 403(b) Plan	Section 457(b) Plan
Eligibility	Employees of educational institutions and certain public institutions with an employer-sponsored 403(b) plan.	Employees of educational institutions and certain public institutions with an employer-sponsored 457(b) plan.
Contributions	Contributions and earnings are not taxed until withdrawal. Terminal sick leave/annual leave pay can also be used as contribution. Employer contributions are exempt from Social Security and Medicare taxes.	Contributions and earnings are not taxed until withdrawal.
Employee Contribution Limit	$17,000	$17,000
Post Employment Contributions (from Employer only)	Termination pay can be contributed over a period of five years ($49,000 annual).	None
Catch-Up Contributions Age 50+	$5,500	$5,500
Loans	Available	Not available.
Investments	Annuities in a 403(b); annuities and mutual funds in a 403(b)(7).	Annuities and mutual funds.
Distributions	Distributions before age 59½ are subject to a 10% penalty; certain exceptions apply to the penalty.	Distributions before age 59½ are not subject to any penalties.
Ownership of Account	Individual	Employer