Colorado **Retirement** Association

Key Features of 457(b) Plans

The 457 (b) deferred compensation plan is an employer-sponsored retirement plan that allows public employees to defer receiving a portion of their current compensation until retirement or separation from service.

The 457(b) plan is voluntary. You can choose to start, stop, increase or decrease contributions at any time. Since investing experts today recommend putting between 15% and 20% of current income toward retirement, the 457(b) plan enables employees to augment the savings they are putting toward retirement beyond their 401(a) plan.

Although some 457(b) plans offer an after-tax option, most are pre-tax. With a pre-tax 457(b) plan, by deferring payment of a portion of your current compensation, you'll pay taxes on this income at a later date – presumably in retirement, when you may be in a lower tax bracket. Conversely, most people will be in the highest income tax bracket during their peak earning years.

Voluntary contributions

The 457(b) plan is completely voluntary. You can choose to participate at any time, and you can decide when you want to increase or decrease your contributions.

Accelerated savings

Participants can contribute up to 100% of their salary, provided it doesn't exceed the IRS stated dollar limit for the year. Read the section below for more details about IRS contribution limits.

Tax benefits

Ability to reduce taxable income – You determine the amount you want to contribute. You can choose either a pre- or after-tax 457(b) plan, if your employer allows both options. If you choose the pre-tax plan, you will inherently reduce your current taxable compensation. In some cases, this might place your income in a lower tax bracket. You may want to consult with a tax advisor before making your decision.

Tax-deferred earnings – When you choose the pre-tax 457(b) plan, your earnings are reinvested and are not subject to taxes during this phase. You will be responsible for paying income taxes on your savings when you make a withdrawal.

Alternatively, if you choose the after-tax 457(b) plan, you will not pay tax penalties when you withdraw your earnings because you have chosen to contribute a portion of your current after-tax compensation toward your 457(b) plan.

Contribution credit – Eligible employee participants may be able to use the IRS Retirement Savings Contribution Credit, a tax credit based on retirement plan contributions designed to encourage low and middle-income taxpayers to save for retirement. The credit amount depends on your filing status and adjusted gross income and changes each year as set by the IRS.

Rollover benefits

You can move other retirement plan savings into your 457(b) plan in order to maximize potential compound earnings, simplify your plan management and get a more complete picture of your total retirement savings.

Access to best-in-class investment funds

CRA has a multitude of investment strategies and fund options to choose from, including the CRA target date portfolios, book value fund and our trusted selection of institutional-class funds.