

Top 10 Reasons Schools Should Offer A 457(b) Governmental Plan



Uncomplicate Retirement®

1. Design your own plan

457 plans can cover more than just teachers. Help attract other quality individuals to schools, such as board members and outside contractors by including them in the plan.

2. Hassle-free administration

457(b) Governmental plans are easy to administer because there are no discrimination tests. A plan administrator's main responsibilities are to make sure that plan contribution limits are not exceeded, and to review and approve requests for distribution.

3. Improve your benefit offerings

Employees can transfer their 457(b) Governmental plan funds tax-free for permissive service credit under a state retirement system.

4. Attract & retain quality individuals

It is estimated that 65% of teachers leave the school district during their first five years of teaching. Offer a 457(b) Governmental plan and another retirement plan to keep quality employees on board.

5. No early withdrawal penalty tax

Withdrawals are taxable when made but upon severance from employment, employees can withdraw eligible 457(b) Governmental plan funds without paying the 10% early withdrawal federal penalty tax.¹

6. Reduce taxes

Participating in a 457(b) Governmental plan allows employees to contribute more each year while reducing the compensation that is subject to income taxes.

7. Double the contributions potential

Since 403(b) plan contributions do not reduce 457(b) Governmental plan limits, employees can participate in both plans and contribute to each plans' maximum limit of \$19,500.²

8. Portability

Attract employees with the portability of a 457(b) Governmental plan. New employees can roll over eligible funds from another 457(b) Governmental plan, a 401(a), 401(k) or 403(b) plan or a taxable distribution from a traditional or SEP IRA into a 457(b) Governmental plan.

9. Play "catch-up" with contributions

Employees who are at least 50 years old and have already contributed the maximum amount can contribute an additional catch-up contribution of \$6,500 pre-tax.³

10. Special contributions close to retirement

Employees can take advantage of the "three-year" rule and increase their contribution amount during the three years prior to the normal retirement age (as defined by the plan document).³ This amount cannot exceed the lesser of:

- > Two times the limit for the current year; or
- > The current limit plus that portion of the normal limit not used in prior years.

Schools must adopt a plan document in order to offer a 457(b) Governmental plan. For more information, contact the Direct Connect team at 800-438-3398, ext. 17197.

¹Unless attributable to rollover from another type of retirement plan.

²Figures reflect 2020 contribution limits. Additional amounts may be contributed under the "catch-up" rules that apply to the plans.

³Employees may choose the "three-year" option OR the Catch-up option (both are not permitted).

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