The fundamentals of 457 plans

Retirement plans for governmental and nongovernmental not-for-profit organizations

A 457 plan is a specific form of nonqualified retirement plan that can be sponsored only by state and local governmental entities and not-for-profit organizations, such as charities, foundations, and associations. Being "nonqualified" means these plans are not subject to the Employee Retirement Income Security Act (ERISA).

There are three types of 457 plans: governmental 457(b), nongovernmental 457(b), and 457(f).

Governmental 457(b) plans

A governmental 457(b) plan allows eligible employees of the sponsoring state, county, or local entity to save for retirement by making tax-deferred contributions from their compensation into the plan. Contributions are limited to $19,500 for 2021 for those younger than age 50. Individuals 50 or older can also make catch-up contributions [see "About 457(b) catch-up contribution rules"].

Contributions to 457(b) governmental plans can grow on a tax-deferred basis until the participant takes a distribution from the plan. To take a distribution, the participant must experience a triggering event outlined in the plan document. These events may include separation from service, having an unforeseeable emergency, reaching age 72, or distribution paid to a beneficiary upon death, although it is a nonqualified plan. Distributions can be rolled over into an IRA for continued tax-free growth potential.

The IRS premature distribution penalty that applies to qualified plans for distributions taken prior to reaching age 59½ does not apply.

Nongovernmental 457(b) plans

Nongovernmental 457(b) plans are similar to governmental plans, except:

- The sponsor must be a nongovernmental not-for-profit organization.
- Only highly compensated or select key-management employees can participate.
- Distributions are taxable when received and cannot be rolled over into an IRA.

About 457(b) catch-up contribution rules

There are two catch-up contribution provisions available to 457(b) participants. They are as follows:

- During the three-year period preceding "normal retirement age," as defined in the plan document, a participant can make catch-up contributions equal to that year's deferral limit. For example, a participant eligible to make a catch-up contribution could defer up to $39,000 for 2021 ($19,500 contribution plus $19,500 catch-up contribution). This strategy may be used by participants in both governmental and nongovernmental 457(b) plans.
- Governmental 457(b) plan participants age 50 or older in 2021 can make catch-up contributions of up to $6,500. Note: This strategy is not available for participants in a nongovernmental 457(b) plan.

About 457(f) plans

These plans are the same as nongovernmental 457(b) plans, except:

- The sponsor can be a governmental entity or a nongovernmental not-for-profit organization.
- Annual contributions are unlimited.
- **Amounts are taxed when vested, not when distributed.**
- Catch-up contributions do not apply.

You can count on us

Although a 457 plan offers many benefits, it may not be right for every situation. Wells Fargo Advisors offers a range of plans and can help you match the right plan with your needs and objectives.

Types of 457 plans

	Governmental 457(b)	Nongovernmental 457(b)	457(f)
Sponsor	State, county, or local government entity	Nongovernmental not-for-profit organization	State, county, or local government entity or nongovernmental not-for-profit organization
Participants	All employees meeting eligibility requirements	Highly compensated employees or select key managers	Highly compensated employees or select key managers
Contribution limits	$19,500 for 2021	$19,500 for 2021	None
Catch-up contributions?	Yes	Yes	NA
Able to roll over distributions to IRA?	Yes	No	No
Pre-59½ early withdrawal penalty?	No	No	No

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