

457

A Section 457(b) plan is a type of non-qualified deferred compensation plan that certain governmental and tax-exempt organizations can establish for their employees.

Like other deferred compensation plans, the purpose of a Section 457(b) plan is to encourage employees to set aside funds for their retirement. Although it is a non-qualified plan, a Section 457(b) plan somewhat mimics a qualified plan in that it offers similar tax benefits for employees. These tax benefits generally include pretax salary-reduction contributions and tax-deferred growth of investment earnings.

By establishing and maintaining a Section 457(b) plan, an employer can often attract and retain quality employees and reap other benefits.

What types of employers can use a Section 457(b) plan?

Only certain governmental and tax-exempt organizations can establish and maintain a Section 457(b) plan. Governmental organizations that qualify include:

1. A state (including the District of Columbia),
2. A political subdivision of a state (e.g., a city or township), and
3. Any agency or instrumentality of a state or of a political subdivision of a state (e.g., a school district or sewage authority).

Tax-exempt organizations that qualify generally include any organization that is exempt from federal income tax, except for:

1. A church or synagogue, or
2. Any organization controlled by a church or synagogue.

Certain organizations may be related to a church but not qualify as church-controlled organizations (e.g., a church hospital). Such organizations may establish 457(b) plans.

How much can employees contribute to a Section 457(b) plan?

An employee may defer the lesser of \$20,500 in 2022 or 100% of his or her gross compensation to a Section 457(b) plan. The dollar limit is indexed for inflation each year. An employer may also make non-elective contributions to a 457(b) plan on an employee's behalf. The total employer non-elective contributions and employee deferrals cannot exceed the limits described above.

For more information on 457(b) plans contact us at 800.747.5164, option 3.

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- [SmartChoice Retirement Program](#)
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