

## The ABCs of 457 Plans

Your district may also offer a 457 plan. A 457 plan is similar to a 403(b) plan, but intended for state and government employees. Established by Congress in 1978, the basic features of a 457 plan are the same as a 403(b) plan:

- Pre-tax contributions.
- Tax-deferred growth.
- Portability if you leave your job.
- The district is required to have a written document governing the program and its features, such as loans and hardship withdrawals.
- The district providing the plan must assume compliance responsibilities.
- Salary reduction agreements are the same.

However, there are some major differences:

- 1) The assets in a 457 plan are held in a contract by the employer rather than the employee. It's important to note that the assets in your 457 plan account are protected from your employer's creditors by law.
- 2) There is no penalty for early distributions from a 457 plan, as there is with a 403(b) plan.
- 3) Roth provisions are not approved for 457 plans.
- 4) There is no requirement that the 457 plan be offered to all employees, as there is with a 403(b) plan.
- 5) There may be some different investment options available in a 457 plan.

Participating in a 457 plan gives you a valuable opportunity to supplement your CalSTRS or CalPERS defined benefit plan, or pension. With your **defined benefit** plan, you and your employer contribute a specified amount from your paycheck to the plan. Currently, your employer contributes 8.25% to CalSTRS and you contribute 8% of your creditable compensation. The plan makes the investment decisions and assumes the investment risk, and your retirement benefit is based on a formula that takes into account your age, years of service and compensation.

Your defined benefit plan gives you the peace of mind of a regular monthly payment, a guaranteed pension benefit, as long as you are "vested" (eligible for retirement benefits, generally with a minimum of

five years of service). However, according to CalSTRS, the median pension benefit replaces 60% to 65% of a member's pre-retirement income, an amount unlikely to be enough to support a comfortable retirement.

### **You Control a 457 Plan**

A defined contribution plan such as a 457 plan gives you the opportunity to supplement your defined benefit plan with your own savings. (Some employers offer a matching contribution or may contribute to your plan, but that is unlikely for California educators at this time.)

With a 457 plan, you (the participant) make contributions to the plan, up to allowable limits, on a pre-tax basis from your paycheck. You choose the investments from among the options offered by your plan, and you assume the investment risk. The amount you accumulate for retirement will depend on the amount you contribute, how long you participate in the plan and the performance of the investment choices you make.

If you leave your job, you can roll over your balance to another employer-sponsored retirement plan, such as another district's 457 plan (as long as it accepts rollovers) or roll it into an **individual retirement account** (IRA).

### **Your Future Is in Your Hands**

You have the power to learn more about investing and the investment options available in your plan. That's one reason CTA has provided this Web site – to give you the tools to make informed decisions that affect your financial future.

\* Source: [www.irs.gov](http://www.irs.gov).