Frequently Asked Questions About 457 Plans

What is a Section 457(b) Government Deferred Compensation Plan?

- A 457(b) Plan is a retirement plan offered by government employers that allows employees to make contributions on a pre-tax basis through salary reductions. It is the public sector equivalent of the 401(k) plans.

Who is allowed to participate in the Plan?

- Full-time employees and members of the City Council.

How do I establish a Section 457 account?

- You will find an enrollment form in this packet, along with a menu of approved plan investment choices. Our investment professionals/representatives are available to assist you in implementing a suitable investment plan and completing the enrollment form.

How much can I contribute to my 457 account?

- Contribution limits are established by Congress. For 2023 you are allowed to contribute 100% or your compensation up to a maximum of **$22,500**. This limit is indexed to adjust with the cost of living in the future. 457 Plan contribution levels are significantly higher than IRA levels, thereby offering you the potential for greater tax savings

Are there any special rules for participants near retirement age?

- Special rules apply if you are within 3 years of "normal retirement age". This is called your "Catch-Up" period which may commence three years prior to your Normal Retirement (Highest Benefit Formula) Age as specified on your CalPERS Annual Member Statement. If you contributed less than your maximum in one or more of the prior calendar years in which you participated in the Plan, you can elect to make up some or all of those missed contributions up to a maximum of **$45,000** in 2023. For those who are over 50 and do not qualify for this special "Catch-Up" provision, you may contribute up to **$30,000** in 2023, indexed to adjust with the cost of living in the future.

Does the City of Costa Mesa offer an employer contribution to my 457 account?

- Depending on your employee bargaining unit, you may be eligible for an employer matching contribution up to 0.5% of your of annual base salary for the payroll calendar year. The contribution will be calculated by a Payroll Supervisor and made in December. If at the time of the employer contribution, you have already contributed the maximum allowable amount per the IRS limit, the contribution will be issued as earnings. We advise you to contact your Payroll Supervisor for details of eligibility and a precise employer contribution amount.

I heard my employer owns the Plan assets. Is this true?

- Governmental entities are exempt from ERISA, the Department of Labor regulations that prohibit employers from owning or controlling plan assets. The assets in a Section 457 Plan are owned and controlled by your employer; however, employers that are part of state and local governments are required to protect Plan assets in a trust for the exclusive benefit of the Plan's participants. Under this arrangement, the creditors of the City cannot seize Plan assets, should the City experience financial difficulties.

What responsibilities does my employer have toward the Plan?

- Your employer has agreed to sponsor a 457 Plan and adopted a written Plan Document that describes the plan provisions, withdrawal restrictions, normal retirement age, and payout options. This document governs how the Plan will be administered. Your employer has named a Plan Administrator who is responsible for administering the Plan in accordance with IRS regulations and the Plan Document.

What happens if I contribute too much?

- The excess contribution is taxable income in the year it was contributed and must be withdrawn from the Plan.

How often can I change my deferrals?

- Changes are allowed at the beginning of each month. Simply complete a new salary reduction form and submit to CA 457 or the City's Payroll Coordinator prior to the month you wish to contribute.

Can I participate in the Plan again if I stop my deferrals?

- Yes, as long as you are still employed with the City. Simply complete a new salary reduction form with CA 457 or the City's Payroll Coordinator.

Can I access my account in the event of an emergency?

- A withdrawal may be taken only in the event of a death, disability, separation from service, retirement, or an unforeseeable emergency. Your account is intended for retirement purposes, so the IRS imposes regulations to ensure that a true emergency exists before you are allowed withdraw money from your account. This means that it must be a severe financial hardship resulting from a sudden or unexpected illness or accident to you, your spouse or dependent. Loss of your property due to casualty, or other similar extraordinary and unforeseeable circumstance would qualify. Requesting funds to pay off debt, buy property, or pay college tuition will not qualify as an emergency. Also, the amount withdrawn may not exceed the need.

May I take a loan against my account?

- Yes. The 457 Plan Document your employer has adopted allows for plan loans for full-time employees with account balances of $2,000 or more. Loans are funded directly from the cash-out of your pre-tax contributions in your account. Repayments are funded with after-tax dollars and begin approximately one month after the loan is made. Visit www.ca457.com for more information about 457 plan loans.

Do I have to pay taxes on distributions as I take money out of the Plan?

- Amounts received are taxed as ordinary income to you in the year in which you receive them. The annual amount you receive each year will be reported to you on an IRS form 1099-R. The balance of your account remains tax deferred.

When I leave my job, can I begin taking money out?

- Yes. This payout election may be the amount and frequency of payments you wish, or you might choose to defer payments until a later age. The payout choices include lump sum withdrawal or periodic payments. Unlike IRAs, 401(k)s, and 403(b)s, you will not be assessed a 10% early withdrawal penalty if you are under the age of 59 ½.

Is there an age that I must begin taking distributions?

- Yes, you must begin taking mandatory required distributions by April 1st following the later of: the year in which you reach age 73 or the year in which you retire. CA 457 will assist you with your distribution schedule.

Can I transfer my account to another service provider or an IRA?

- You may transfer to another 457(b) Governmental Plan provider only if a written request form with your signature is submitted to CA 457. In addition, all Plan disbursement forms must be signed by the plan administrator, or designated official. Transfers to IRAs, 401(k)s, or 403(b)s are only allowed once you separate from service with your employer. CA 457 Benefits specializes in IRA rollovers to Charles Schwab & Co., Inc. Feel free to contact CA 457 Benefits for updated information on rollovers.

What happens to my account upon my death?

- Designated beneficiaries will be paid survivor benefits due at death. Beneficiaries may be designated on your enrollment form. If you are married, your spouse must be designated as the account's primary beneficiary unless the spouse expressly forgoes this right by written consent.

For clarification on any questions or comments, feel free to call CA 457 at 800-770-0457 or visit www.ca457.com.