What is a 457(b) deferred compensation plan?

A 457(b) plan is an employer-sponsored deferred compensation plan that allows individuals to contribute part of their salary toward their retirement savings, while deferring taxes on that income. In some cases, an employer may also contribute to the plan on an income tax deferred basis. The plan may also be referred to as a Public Employee Deferred Compensation Plan (PEDC), because 457(b) plans are generally established by state and local government employers or other tax-exempt employers. We emphasize that this piece assumes that the employer is a tax-exempt organization (other than a governmental employer) and has some different rules.

What are the benefits of participating in a 457(b) plan?

Pre-tax savings and the power of income tax deferral

By making salary reduction contributions to a 457(b) plan, individuals can reduce their current income taxes. How? The portion of salary that individuals elect to defer is excluded from their gross income when they file their individual tax returns. 457(b) contributions are deducted from an individual’s salary before federal, state and local income taxes are withheld (certain exceptions may apply). This means tax savings are immediate, and reducing taxable income allows individuals to save more for retirement.

Also, tax deferral can help an individual’s money grow. Contributions earn interest and interest earns interest. It all adds up to the compounding strength of tax deferral.

Automatic salary reduction makes saving easier.

It’s easy

Automatic salary reduction makes saving easier. Once individuals decide how much to contribute (subject to IRS limitations), money is automatically deducted from their pay and deposited directly into the 457(b) plan.
A wide array of funding choices
No two investors are the same, so MetLife offers individuals a wide variety of funding choices. Whether an individual is a conservative or an aggressive investor, there are funding choices for individual investing styles.

Professional investment management
MetLife offers individuals funding choices managed by some of the leading financial investment firms in the business. Whether individuals are interested in the guarantee of a fixed interest account or professionally managed stock or bond portfolios, MetLife has a wide selection of funding choices.

How much are individuals and employers allowed to contribute?
In some cases an individual’s state’s contribution limits may be different from those stated below. Individuals should consult their tax advisor and state taxation agency to determine the rules applicable to their state.

<table>
<thead>
<tr>
<th>Maximum Elective Deferral Limits</th>
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<tr>
<td>2017</td>
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<td>$18,000</td>
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<td>2016</td>
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Will an individual’s 457(b) contributions affect their Social Security benefits?
No. Social Security credits are determined from gross salary prior to making contributions.

Can individuals make withdrawals?
Generally speaking, plan rules do not allow distributions unless individuals sever from employment, reach age 70 1/2, or have an unforeseeable emergency as defined by IRS regulations. Check plan guidelines to see rules regarding withdrawals. Keep in mind that limited access to an account can be beneficial, because it eliminates the temptation to use money for purposes other than retirement. Also, if individuals make withdrawals, they will be subject to ordinary income taxes on the withdrawn funds.

Are “catch-up” contributions permitted?
In the three years before an individual reaches the plan’s normal retirement age, the individual may be able to use a catch-up provision to contribute additional amounts to the plan.*

*Consult a tax advisor to calculate the actual three-year limit contribution, as the catch-up is available only to the extent of the unused portions of the limitations for previous years.

How will individuals receive their funds when they retire?
Once individuals retire, the employer’s plan may allow them to select from several payout options. They can include taking a lump sum, receiving regular periodic payments based on the amount saved, or receiving regular payments based on life expectancy. Remember that individuals will pay ordinary income tax on their withdrawals.

Is there a penalty tax for early distributions?
There is no penalty tax for early (before age 59½) distributions upon termination of employment.

Is 457(b) money guaranteed?
457(b) plans offered by tax-exempt employers must be unfunded, meaning any assets the employer sets aside to pay benefits under the plan must remain available to the employer’s creditors. No portion of the plan assets may be formally set aside for the benefit of any participant. However, an individual’s employer’s plan may permit participants to make certain deemed asset allocations and transfers for recordkeeping purposes. Please note, there is no guarantee of return on an individual’s deemed assets.

What if individuals leave their current employer?
If individuals leave their current employer, they can still benefit from the 457(b) plan. Employers can tell individuals about the options available to them. Other options may be available and individuals should carefully consider all their options.

Leave it alone — Leave the account balance in the plan until April 1st of the calendar year following the later of terminating employment or reaching age 70 1/2.

Transfer it — Transfer the account balance to another 457(b) plan that is maintained by another tax-exempt entity (if the plan accepts such transfers).

Withdraw it — Withdraw the account balance under one of the plan’s payout provisions. Because each option comes with specific tax implications, it’s advisable that individuals speak with a tax professional prior to making a decision.

Contact us today for more information about the benefits of participating in a 457(b) plan. When it comes to helping individuals with their deferred compensation plan account, we have the expertise needed to assist.