

# 457 DEFERRED COMPENSATION PLAN CATCH-UP PROVISION PACKET

- Age 50 Catch-Up Contributions
- Pre-Retirement Catch-Up Contributions



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## Introduction

Since 2002, ICMA-RC's governmental 457 deferred compensation plans have permitted two catch-up provisions that allow participants to contribute an amount greater than the normal maximum contribution amount in effect for the year. This packet explains the details of the two catch-up provisions and how they can be used to increase your retirement savings. Please note that the "Age 50" and "Pre-Retirement" catch-up provisions may not both be used in the same calendar year.

**The "Age 50" catch-up provision**, first available to participants in 2002, allows participants reaching age 50 or older during the year to contribute an additional amount annually. The ability to take advantage of the "Age 50" catch-up provision is not dependent on your prior years' deferrals to a deferred compensation plan.

**The "Pre-Retirement" catch-up provision**, available since 1979, allows participants to make up for eligible contributions not deferred in prior years, permitting contributions up to double the normal maximum in effect for the year.

*NOTE: The additional amount that may be contributed under both of the catch-up provisions listed above is announced by the Internal Revenue Service (IRS) annually, in October.*

## "Age 50" Catch-Up Contributions

If you will be 50 years old or older by the end of the year, you are eligible to make additional "Age 50" catch-up contributions to your 457 plan. The additional contribution amounts may exceed the normal maximum contribution limit in effect for the year, but not by more than the additional "Age 50" catch-up dollar limit in effect for the year. The additional amount that may be contributed using the "Age 50" catch-up provision is shown below:

Year	Maximum Contribution Limit	Additional "Age 50" Catch-Up Contribution Limit	Total Contribution Limit (Including "Age 50" Catch-Up)
2005	\$14,000	<b>\$4,000</b>	\$18,000
2006	\$15,000	<b>\$5,000</b>	\$20,000
2007	\$15,500	<b>\$5,000</b>	\$20,500
2008	\$15,500	<b>\$5,000</b>	\$20,500

After 2008, the annual deferral and catch-up limits will increase in \$500 increments to correspond with inflation rate increases (the limits will not necessarily increase every year). The IRS announces the limits for the following year in October.

Contributions to a 457 plan, including "Age 50" catch-up contributions, may not exceed 100% of your gross compensation for the year, reduced by any mandatory

pre-tax ("picked-up") employee 401 plan contributions. However, a vast majority of participants will be limited only by the dollar limit in effect for the year. In order to increase your contribution amount and take advantage of the "Age 50" catch-up provision, you should complete the *457 Deferred Compensation Plan Amount of Deferral Change Form* on page 9 of this packet. The form is also available on ICMA-RC's Web site at [www.icmarc.org/forms](http://www.icmarc.org/forms).

## "Pre-Retirement" Catch-Up Contributions

### What is the "Pre-Retirement" catch-up provision?

The "Pre-Retirement" catch-up provision allows you to make additional contributions to your 457 plan in order to make up for years in which you did not contribute the maximum permissible amount. You may catch up for any year(s) that you were employed by your current employer going back to January 1, 1979. Please see "How do I calculate the amount I may contribute using the 'Pre-Retirement' catch-up provision" on page 4 for information on the historical maximum allowable contribution amounts.

### How It Works

#### How does the "Pre-Retirement" catch-up provision work?

To catch up, you must use the three-year catch-up period immediately preceding the year of your declared normal retirement age to defer additional income through your employer. The amount you are permitted to contribute during this three-year period is determined by subtracting the actual amount you have already contributed to your plan from the maximum allowed by law. (See the "Pre-Retirement" Catch-Up Worksheet on page 5.)

#### Who is eligible to use this provision?

You are eligible to use the "Pre-Retirement" catch-up provision prior to retirement if both of these conditions apply to you:

- You were eligible to participate in your current employer's Section 457 deferred compensation plan, any time from January 1, 1979, to the present, and you are currently participating in the plan.
- You did not defer the maximum amount allowed by law in one or more of the years you were eligible to participate in your current employer's 457 plan since 1979. This includes years when you did not choose to join the plan, although you were eligible.

#### How much may I defer?

The amount you may defer during any year of your "Pre-Retirement" catch-up period is a combination of your normal deferral for that year plus amounts not contributed to your current employer's 457 plan in earlier years since 1979, up to

a maximum of double the normal contribution limit in effect for that calendar year. The maximum "Pre-Retirement" catch-up contribution limit, which is double the normal contribution limit, is provided below:

Year	Maximum Contribution Limit	Additional "Pre-Retirement" Catch-Up Contribution Limit	Total Contribution Limit (Including "Pre-Retirement" Catch-Up)
2005	\$14,000	<b>\$14,000</b>	\$28,000
2006	\$15,000	<b>\$15,000</b>	\$30,000
2007	\$15,500	<b>\$15,500</b>	\$31,000
2008	\$15,500	<b>\$15,500</b>	\$31,000

After 2008, the annual deferral and catch-up limits will increase in \$500 increments to correspond with inflation rate increases (the limits will not necessarily increase every year). The IRS announces the limits for the following year in October.

As an example, participants taking full advantage of the "Pre-Retirement" catch-up provision for 2005 – 2007 may contribute a total of \$89,000 (\$28,000 + \$30,000 + \$31,000) to their 457 plan. In order to be eligible to contribute the full "Pre-Retirement" catch-up contribution amount for those years, participants must have at least \$44,500 (\$14,000 + \$15,000 + \$15,500) in unused deferrals from prior years.

The worksheet on page 5 will help you determine how much you may contribute using the "Pre-Retirement" catch-up provision. Before using the worksheet, you need to know:

- Which years you were eligible to participate in a 457 plan with your current employer.
- Your taxable compensation from your current employer for each of those years since 1979.
- The amount actually contributed each year.

Remember that you are determining your maximum allowance. While taking advantage of the "Pre-Retirement" catch-up, you may contribute any portion of this; you are not required to contribute the full amount, nor are you required to use the provision for all three years.

Will the maximum contribution amount I can defer be affected by contributions to other deferral or cafeteria plans?

Yes. Your maximum contribution amount is impacted by contributions made to your current employer's 401(k) plans, 403(b) tax sheltered annuities, and Section 125 cafeteria plans from 1987 through 2001. In addition, for 2002 and

after, your gross compensation must first be reduced by any mandatory pre-tax ("picked-up") employee 401 plan contributions in calculating your maximum 457 plan contribution amount.

When can I use this provision?

The Internal Revenue Code permits the "Pre-Retirement" catch-up provision to be used at the earliest during the three-year period preceding the year in which you reach "normal retirement age," which is either 70 ½ or an alternate age that you have declared in accordance with the terms of the plan. For example, if you reach normal retirement age in 2012, you may use the "Pre-Retirement" catch-up provision in 2009, 2010, and 2011.

The ICMA-RC plan has named 70 ½ as the plan's official normal retirement age. This allows you to catch up when you are 67, 68, and 69 years of age. However, the plan allows you to select another age (see the next two questions).

What if I want to use the "Pre-Retirement" catch-up provision before the age of 67?

If you wish to use the "Pre-Retirement" catch-up provision earlier than those years when you will be age 67, 68, and 69, you must first declare an alternate normal retirement age using the enclosed form.

Generally, when you declare your normal retirement age, the age you choose must be one in which you are eligible to receive full benefits from your employer's (or state's) normal defined benefit pension plan (police and firefighters should review the special rule relating to the declaration of normal retirement age shown at the top of page 3). For instance, if under the basic defined benefit plan, you can retire at age 55 with benefits not reduced because of your age, you may designate any age between age 55 and 70 ½ as your normal retirement age.

In summary, the normal retirement age you choose:

- Must be a year in which you are eligible for full retirement and unreduced benefits under your employer's normal pension plan.
- Determines the three-year period during which you are eligible to make "Pre-Retirement" catch-up contributions.
- Is irrevocable once you begin to use the "Pre-Retirement" catch-up provision to any extent.

Under a special rule, "qualified police and firefighters"\* can designate a normal retirement age earlier than other plan participants, but not earlier than age 40. These individuals can designate a normal retirement age without regard to the rules under their "basic plan" but not later than age 70 ½.

\* This special rule is available to a "qualified police or firefighter" as defined under section 415(b)(2)(h)(ii)(I) of the Internal Revenue Code as a participant with "... at least 15 years of service... as a full time employee of any police or fire

*department which is organized by the State or political subdivision to provide police protection, firefighting services, or emergency medical services for any area within the jurisdiction of such State or political subdivision. . . .”*

*What if I want to use the catch-up provision later than age 70 ½?*

You may not designate a normal retirement age later than age 70 ½.

*What if I work beyond my normal retirement age?*

If you work beyond your normal retirement age, you may not extend the use of the catch-up provision nor are you required to begin receiving benefit payments.

*Do I have to start taking payments on separation from service if I have reached my alternate normal retirement age?*

In order to avoid substantial penalties, you must begin taking payments from your account no later than April 1 of the year following the calendar year in which you either reach age 70 ½ or separate from service, whichever is later. (Please see the *457 Deferred Compensation Plan Benefit Withdrawal Packet*.)

*Can I use the “Pre-Retirement” catch-up provision more than one time?*

### **Under the Same Employer**

Once you have begun using the “Pre-Retirement” catch-up provision, you may not use it a second time under the **same employer**. You may designate only one period of time (one to three years) under **one employer** as your catch-up period. This period will immediately precede your declared normal retirement age. You cannot use the provision during or following the year of your declared normal retirement age. If you have completed your three-year catch-up period, you may still be eligible for the “Age 50” catch-up provision.

### **Under Different Employers**

You may use the “Pre-Retirement” catch-up provision **under more than one employer** assuming sufficient unused deferrals are available under each employer. You may not catch-up for unused deferrals that were accumulated under a former employer’s 457 plan to make “Pre-Retirement” catch-up contributions under your current employer’s 457 plan.

*Does early retirement affect the catch-up provision?*

Yes. Your employer may offer a provision for early retirement under which you may receive partial benefits from your employer’s normal pension plan. If you are planning to leave employment under early retirement and the age designated by

your employer for full retirement benefits is more than three years away, you may not use the catch-up provision to any extent.

As previously stated, under a special rule, “qualified police and firefighters” can designate a normal retirement age earlier than other plan participants, but not earlier than age 40. These individuals can designate a normal retirement age without regard to the rules under their “basic plan” but not later than age 70 ½.

*May I use the “Pre-Retirement” catch-up provision after I retire?*

No. All contributions to your deferred compensation account, including catch-up contributions, must be made through payroll deduction and submitted through your employer. ICMA-RC cannot accept personal checks.

*May I use the “Pre-Retirement” catch-up provision in the year in which I actually retire?*

You may not use the catch-up provision in the year of your declared normal retirement age. However, on occasion, circumstances may change and your separation from service could take place prior to the year of your declared retirement age. In this situation, you may take advantage of the provision in your year of separation from service as long as it is earlier than the year of your declared normal retirement age.

## **Examples**

### **Not contributing all of the eligible years:**

Mary Smith has been employed by the City of Columbia since 1990, the year the City began offering the ICMA-RC plan to all employees. Mary joined the plan in 1994. If she wishes to use the catch-up provision in 1999, she can catch-up for income not deferred under the City of Columbia 457 Plan in 1990 through 1994, because she was eligible to contribute all of those years.

### **Full benefits and normal retirement age:**

Sam Green will be eligible for full retirement in 2015 at age 60. If he declared age 60 (2015) as his alternate normal retirement age (rather than age 70 ½ as stated in the ICMA-RC plan), he can use the catch-up provision in 2012, 2013, and 2014.

### **Working beyond retirement age after using the catch-up provision:**

Susan Durham planned to retire in 2006 and used the catch-up provision in 2003, 2004, and 2005. When 2006 arrived she decided to continue working. She cannot use the catch-up provision a second time under the same employer.

How do I calculate the amount I may contribute using the "Pre-Retirement" catch-up provision?

**For use with the "Pre-Retirement" Catch-Up Worksheet on the following page.**

1. List all years since 1979 that you have been eligible to contribute to the 457 deferred compensation plan under your current employer.
2. List your salary for those years and determine the maximum you were allowed to defer.

Year(s)	Maximum Deferral Amount (Dollars)	Maximum Deferral Amount (Percentage)
1979 – 1997	\$7,500	25%
1998 – 2000	\$8,000	25%
2001	\$8,500	25%
2002	\$11,000	100%
2003	\$12,000	100%
2004	\$13,000	100%
2005	\$14,000	100%
2006	\$15,000	100%
2007	\$15,500	100%
2008	\$15,500	100%

The maximum annual deferral limit is the lesser of (1) a dollar limit in effect for the year or (2) a percentage of your gross compensation reduced by any mandatory pre-tax ("picked-up") employee 401 plan contributions. The percentage limitation was increased from 25% to 100% in 2002 as shown above.

3. Subtract the amount you contributed each year from the maximum allowable. This gives you the amount of unused deferral you have remaining.

Use this formula and the "Pre-Retirement" Catch-Up Worksheet to determine the amount of your own unused deferral.

How do I begin to use the "Pre-Retirement" catch-up provision?

1. Complete the "Pre-Retirement" Catch-Up Worksheet (p.5) and Declaration of Normal Retirement Age (p.7).
2. Submit these forms to your employer for review.

3. Your employer will adjust your payroll deduction as needed. You may also be required to complete a 457 Deferred Compensation Plan Amount of Deferral Change Form (p.9).

**QUESTIONS?**

**For more specific information about the catch-up provisions or about ICMA-RC, please go to our Web site at [www.icmarc.org](http://www.icmarc.org) or call Investor Services at 800-669-7400. Para asistencia en Español llame al 800-669-8216.**



# "PRE-RETIREMENT" CATCH-UP WORKSHEET

Use this worksheet to determine your eligibility for the "Pre-Retirement" catch-up provision.  
 Note: Unused deferrals and completion of this form are not required for use of the "Age 50" catch-up provision.

*Note to Employer: This worksheet may be retained for your records. It need not be forwarded to ICMA-RC.*

## 1 Participant Information

### Full Name of Participant

Last \_\_\_\_\_ First \_\_\_\_\_ MI \_\_\_\_\_

### Employer Name

### Employer Plan Number

3 0

### Social Security Number

### Daytime Phone Number

\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_- (\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_-) \_\_\_\_\_ - \_\_\_\_\_  
Area Code

Eligible to Participate in Current Employer's Plan Since 1979?  YES  NO - Date Eligible \_\_\_\_\_

Plan's Normal Retirement Age \_\_\_\_\_.

Normal Retirement Age is age 70 1/2 or any alternate age you select for use of the "Pre-Retirement" catch-up provision. The alternate age you select may not be earlier than the age at which you are eligible for full, unreduced retirement benefits from your employer's primary pension plan. This is generally the age at which you may retire without permission from or the consent of your employer and receive benefit payments that are not actuarially reduced because you are "retiring early."

Under a special rule, "qualified police and firefighters" can designate a normal retirement age earlier than other plan participants, but not earlier than age 40. These individuals can designate a normal retirement age without regard to the rules under their "basic plan" but not later than age 70 1/2.

## 2 Account History

Year	Maximum Contribution*	Actual Contribution	Unused Deferral
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
	<b>Total Maximum</b>	<b>Total Actual Contribution</b>	<b>Total Unused Deferral</b>

\* See "How do I calculate the amount I may contribute using the 'Pre-Retirement' catch-up provision?" on page four.

## 3 Catch-Up Contributions

Year	Salary	Normal Deferral	Unused Deferral**	Total Deferral (see page 2 for limits)	Any Remaining Unused Deferral
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

\*\* See Total Unused Deferral amount above in Section 2.





# 457 DEFERRED COMPENSATION PLAN AMOUNT OF DEFERRAL CHANGE FORM

**To the Employer:** ICMA-RC provides this form for your convenience. You do NOT have to use it if you prefer your own internal method for employees to request changes in their payroll deduction amount.

**To the Employee:** Use this form to make changes in the amount of your deferral to your ICMA-RC 457 Deferred Compensation Plan.

Once you have completed this form, please submit it **directly to your employer** for payroll deduction updates.

You should have already established an ICMA-RC deferred compensation plan account. **If not, please be sure to complete the 457 Deferred Compensation Plan Employee Enrollment Form** and promptly return it to your employer. The enrollment form must be completed and submitted **before** deferrals can start.

**Annual Deferral Limit:** IRS regulations allow you to defer the lesser of (1) 100% of your gross compensation less any mandatory pre-tax ("picked-up") employee 401 plan contributions, or (2) a dollar limit in effect for that year. This limit includes any employer contributions made on your behalf. Only future compensation may be deferred.

Year	Annual Deferral Limit
2007	\$15,500
2008*	\$15,500

**Catch-Up Provision:** As you near retirement, you may make additional contributions under the "Pre-Retirement" catch-up provision (up to double the amount of the annual deferral limit in effect for that year) **OR** the "Age-50" catch-up provision. Note: The "Pre-Retirement" catch-up provision and "Age-50" catch-up provision cannot be combined in the same plan year. Please read ICMA-RC's 457 Deferred Compensation Plan Catch-Up Provision Packet for more information.

Year	Additional "Pre-Retirement" Catch-Up Limit
2007	\$15,500
2008*	\$15,500

Year	Additional "Age 50" Catch-Up Limit
2007	\$5,000
2008*	\$5,000

\* After 2008, the annual deferral and catch-up limits will increase in \$500 increments to correspond with inflation rate increases (the limits will not necessarily increase every year).

Employee Name: \_\_\_\_\_ Employee ID or SSN: \_\_\_\_\_

Employer Name: \_\_\_\_\_ State: \_\_\_\_\_

I authorize my employer to defer \_\_\_\_\_% or \$ \_\_\_\_\_ from my pay each pay period to be contributed to my ICMA-RC account. Change to be effective on \_\_\_\_/\_\_\_\_/\_\_\_\_.  
month      day      year

Please indicate which type(s) of deferrals are included in the above amount:

- Normal annual deferral
- Catch-up contributions: Please indicate **ONE** of the following types of catch-up rules you are using:
  - "Pre-Retirement" provision
  - "Age 50" provision

\_\_\_\_\_  
**Employee Signature**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Employee Signature**

\_\_\_\_\_  
**Date**

**Note: Please do not forward a copy of this form to ICMA-RC. This form is for employer use only.**



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