

SECTION 457(b) PUBLIC NONQUALIFIED DEFERRED COMPENSATION PLANS

SUMMARY OF KEY FEATURES

OVERVIEW

A Public Section 457(b) plan (also known as a governmental 457(b) plan) is often termed an “eligible” nonqualified deferred compensation plan because compensation deferred to the plans by governmental employers is eligible for favorable tax treatment if the plan satisfies the limitations imposed by Section 457(b) of the Internal Revenue Code.

A 457(b) plan can be offered to any group of employees and is typically made available to all employees.

A 457(b) plan provides employees an opportunity to reduce taxable income through the deferral of compensation as well as to receive distributions after retirement when they may be in a lower tax bracket.

Although the plans are generally offered to all employees, they are often intended primarily as a supplemental plan for highly compensated employees who wish to defer compensation in addition to the amount Section 402(g) permits to be deferred to 403(b) or 401(k) plans.

A 457(b) plan is relatively easy to establish because the requirements regarding coverage, eligibility, participation, vesting, etc. are typically less burdensome than for 403(b) and 401(a) qualified plans. Further, these plans can be designed in a variety of ways, depending on the features preferred by the institution.

Assets are held in various funding vehicles for the exclusive benefit of plan participants, and invested as determined by the institution and participants.

The following information summarizes public 457(b) plan details. Your Managing Consultant will work with you to ensure you have more complete information, and discuss important considerations related to 457(b) and other deferred compensation arrangements.



FUNDING	Public 457(b) plans are funded and assets are held in a trust, custodial account or 401(f) annuity contract for the exclusive benefit of plan participants.
ELIGIBILITY	EMPLOYER: State and local governments and their agencies. EMPLOYEE: Any group or single employee.
ELECTIONS, CONTRIBUTIONS AND LIMITS	<p>Most plans are designed as elective plans funded exclusively with salary reduction (before-tax) contributions. However, nonelective plans with employer-provided contributions are also permitted.</p> <p>Section 457(b) limits annual contributions in 2009 to the lesser of \$16,500 or 100% of compensation. Additional catch-up amounts for employees age 50 and over (\$5,500 in 2009). These contribution limits may increase for cost-of-living adjustments in future years. A second catch-up rule provides an enhanced contribution limit in each of the three years preceding the plan's normal retirement age equal to the lesser of (1) twice the normal limit or (2) the normal limit plus unused amounts of the limits in prior years.</p> <p>Cannot use the age 50 and enhanced catch-up limits in the same year.</p> <p>Contributions to 457(b) plans are not aggregated with 401(k) or 403(b) contributions for purposes of applying Section 457(b) or 402(g) contribution limits.</p>
VESTING	Delayed vesting is permissible for employer contributions but should generally be avoided since vested contributions are not counted against the contribution limit until vested.
ROLLOVERS IN/OUT	Permitted to or from 403(b), 401(a), 401(k), other public 457(b) plans and IRAs.
DISTRIBUTIONS	Available at separation from service, age 70½ or unforeseeable emergency. Subject to minimum distribution requirements. Deferral possible until age 70½ or separation from service (if later).
LOANS	Loans available.
TAXATION	Taxed as ordinary income when received.
IMPACT OF LEGISLATION	<p>EGTRRA repealed coordination of annual contribution limits with 403(b) and 401(k) plan contributions and also provided higher annual contribution limits.</p> <p>Section 409A, recently added to the Internal Revenue Code and covering many types of nonqualified deferred compensation arrangements, specifically exempts 457(b) plans from its rules.</p>
IRS FORM 5500 FILING (PRIVATE INSTITUTIONS ONLY)	Not applicable to public plans.

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