



# Make a difference with a 457(b)

# Supplement your retirement income



Depending on your retirement age, it's not unusual to live another 20 to 30 years.



Many experts say you'll need about 80% of your pre-retirement income in retirement.



Social Security and your State Teachers' Retirement System pension may not replace your pre-retirement income.

# Benefits of a 457(b)

**Contribute to a 457(b)**

Similar to a 403(b) plan, a 457(b) plan is a tax-deferred retirement plan available to employees of governmental employers.

**Tax deferred payroll reduction**

Contributions are tax-deferred through convenient payroll reductions to help you save for retirement (made before you pay income taxes and reduce your current taxable income, except for Roth contributions, which are made after tax).

**Grows tax free**

Any earnings on your contributions are tax-deferred while they are in the plan.

**Employer contributions**

If it is allowed by the employer's plan, employers can also contribute.

**Distributions**

Money saved in a 457(b) plan is designed for retirement. You may be able to take a distribution before age 59½ without the federal 10% penalty tax if you qualify under the restrictions listed on the next page. This is a very important feature that often times goes overlooked.

**Taxes paid when withdrawn**



Taxes are paid when you withdraw the money, normally at retirement, except for Roth account distributions, which may be tax-free if certain conditions are met.\*

**Accumulate more**

If your employer offers both a 403(b) and 457(b) plan and you contribute to the 403(b), you can also use the 457(b) to increase the amount of money you are saving for retirement.

*\*Earnings can be income tax free if you are over age 59½ and have had the Roth 457(b) for at least five years.*

## Paycheck comparison chart

	 No 457(b)	 457(b)
Gross pay	\$1,000	\$1,000
457(b) salary reduction	\$0	\$200
Income subject to federal tax	\$1,000	\$800
Assumed federal tax rate on income	24%	24%
<b>Net pay</b>	<b>\$760</b>	<b>\$608</b>
<b>After-tax difference</b>		<b>\$152</b>

In this example, if you contribute \$200 to a 457(b) plan from your gross pay, your net pay is only reduced by \$152.

*Additional deductions will affect actual take-home pay. This chart is for illustrative purposes only and is based on specific assumptions. This comparison doesn't allow for additional taxes being withheld.*

## How much can you contribute in 2023?

Up to \$22,500 for both you and your employer combined

Additional \$7,500 in age-50-and-older catch-up, if allowed under your employer's plan

Special 457(b) catch-up contributions, if permitted by the plan, allow a participant for 3 years prior to the normal retirement age (as specified in the plan) to contribute the lesser of the following:

- Twice the annual limit (\$45,000 in 2023).
- The annual limit plus the amount of the annual limit not used in prior years (only allowed if not using age-50-or-older catch-up contributions)

*These limits are subject to change each year.*

## Accessing your money

Withdrawals from a 457(b) may begin upon meeting the following criteria.

- Separation of service
- Reaching age 59½
- An unforeseeable emergency (if allowed by your employer's plan)

## Tax type accumulation comparisons

The calculations in this chart assume you invest for 35 years and are in the 24% tax bracket throughout those years. The after-tax withdrawal value assumes the entire account is withdrawn at the end of the 35th year. It assumes withdrawals are made in a manner to avoid any applicable additional 10% federal penalty tax on early distributions and that Roth 457(b)s are qualified for tax-free treatment.

	CDs	Non-qualified annuity	Pre-tax 457(b)	After-tax Roth 457(b)
<b>Monthly contributions</b>	\$200	\$200	\$200	\$200
Assumed current tax rate on contributions	24%	24%	0.00%	24%
<b>Tax-affected contributions at beginning of each month</b>	\$152	\$152	\$200	\$152
Assumed annual earnings rate	6%	6%	6%	6%
Assumed tax rate on earnings	24%	0.00%	0.00%	0.00%
Total contributions	\$63,840	\$63,840	\$84,000	\$63,840
Total earnings after-tax	\$90,334	\$145,964	\$192,058	\$145,964
<b>Accumulation value</b>	<b>\$154,174</b>	<b>\$209,804</b>	<b>\$276,058</b>	<b>\$209,804</b>
Assumed tax rate on contribution withdrawal	0.00%	0.00%	24%	0.00%
Assumed tax rate on earnings withdrawal	0.00%	24%	24%	0.00%
<b>After-tax withdrawal value</b>	<b>\$154,174</b>	<b>\$174,773</b>	<b>\$209,804</b>	<b>\$209,804</b>

*This chart is for illustrative purposes only and does not represent the performance of any specific investment or take into account any investment charges or any other taxes.*

*The information provided here is for general informational purposes only, and should not be considered an individualized recommendation or personalized investment, tax or legal advice.*

*Withdrawals from a 403(b) or 457(b) account are restricted by the Internal Revenue Code and may be further restricted by your employer's plan. Generally, you may make a withdrawal from a 403(b) account only upon reaching age 59½, severance from employment, disability, or certain hardships (if allowed by the plan). Generally, you may make a withdrawal from a 457(b) account only upon reaching age 59½, severance from employment, or an unforeseeable emergency (if allowed by the plan). If you take money out before age 59½ you could be subject to a federal penalty tax of 10% (except for 457(b) accounts) in addition to income taxes. You should consult your tax advisor regarding tax-advantaged products.*

*Horace Mann is not affiliated with state teachers' retirement systems and has not been endorsed or approved by state teachers' retirement systems.*



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