

# 457 Deferred Compensation Plan Catch-Up Provision Packet

- Age 50 Catch-Up Contributions
- Catching Up on Past Contributions Before Your Retirement Age



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**Introduction**

Starting in 2002, the Section 457 deferred compensation plan administered by the ICMA Retirement Corporation (ICMA-RC) offers two provisions which allow participants to contribute greater than the normal maximum contribution amount permitted by law. Authorized by the Internal Revenue Code, these provisions differ substantially and may not 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. This additional contribution is not dependent on your prior years’ deferrals to a deferred compensation plan.

The Normal 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.

**Catching Up After Age 50**

Effective January 1, 2002, if you will be 50 or older by the end of a year, you may make “age 50 catch-up” contributions to your 457 plan. You may make additional contributions above the normal maximum contribution limit in effect for that year, not to exceed the additional age 50 catch-up dollar limit in effect for that year:

<u>Year</u>	<u>Maximum Contribution Limit</u>	<u>Normal Additional Age 50 Catch-Up Contribution</u>	<u>Total Contribution Limit (Including age 50 catch-up)</u>
2002	\$11,000	\$1,000	\$12,000
2003	\$12,000	\$2,000	\$14,000
2004	\$13,000	\$3,000	\$16,000
2005	\$14,000	\$4,000	\$18,000
2006	\$15,000	\$5,000	\$20,000

After 2006, the limits will be indexed to inflation in \$500 increments.

You are also limited to making age 50 catch-up contributions in an amount no greater than your compensation remaining after other contributions you have already made. However, this limitation will apply only in very rare circumstances. The vast majority of participants will be limited only by the dollar limit in effect that year.

You may designate the additional amount for the age 50 catch-up provision on the *457 Deferred Compensation Plan Amount of Deferral Change Form*, available from your employer or from ICMA-RC at 1-800-669-7400. Return this form to your employer for payroll processing.

**Catching Up on Past Contributions Before Your Retirement Age**

What is the normal 457 catch-up provision?

The normal 457 catch-up provision allows you to make up for contributions not deferred to your current employer’s 457 plan in prior years (you may not make up for contributions from a former employer’s 457 plan). You may catch up for any year(s) since January 1, 1979, if you were eligible to contribute to your current employer’s deferred compensation plan but did not contribute the maximum allowed under the Internal Revenue Code to the plan for that year. Please see “How do I calculate the amount I may contribute to the normal catch-up provision” on page four for information on the historical maximum allowable contribution.

**How It Works**

How does the 457 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 *Catch-Up Worksheet* at the back of this packet.)

Who is eligible to use this provision?

You are eligible to use the normal 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 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. Prior to 2002, the normal catch-up maximum was \$15,000 annually. The maximum normal 457 catch-up contribution limit, which is double the normal contribution limit, is provided below:

<u>Year</u>	<u>Normal 457 Catch-Up Contribution Limit</u>
2002	\$22,000
2003	\$24,000
2004	\$26,000
2005	\$28,000
2006	\$30,000

After 2006, the normal maximum contribution limit will be indexed to inflation in \$500 increments, resulting in \$1,000 increases to the catch-up limit.

As an example, if you are eligible to use the normal 457 catch-up provision in 2004, you will be eligible to contribute a maximum of \$26,000, which will be a combination of your current year's eligible deferrals and your prior unused deferrals. By 2006, you are eligible to contribute up to \$30,000 for each of the three years preceding your normal retirement age, assuming you have at least \$45,000 in unused deferrals from prior years which you could have contributed but did not.

The enclosed worksheet will help you determine how much you may contribute during your catch-up period. 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. During the catch-up period, 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 was 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 normal 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 1/2 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 2005, you may use the catch-up provision in 2002, 2003 and 2004.

The ICMA-RC plan has named 70 1/2 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 normal catch-up provision before the age of 67?

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

For non "qualified police and firefighter" employees, when you declare your own 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. 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 1/2 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 catch-up period immediately preceding your named retirement age
- Is irrevocable once you begin to use the 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 1/2.

*\* 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 1/2?

You may not designate a normal retirement age later than age 70 1/2.

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 1/2 or separate from service, whichever is

later. (Please see the *457 Deferred Compensation Plan Benefit Withdrawal Packet*.)

Can I use the normal catch-up provision more than one time?

**Under the Same Employer**

Once you have begun the 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 normal 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 normal 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.

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.

May I use the 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 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 so 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 2008 at age 60. If he declared age 60 (2008) as his alternate normal retirement age (rather than age 70 1/2 as stated in the ICMA-RC plan) he can use the catch-up provision in 2005, 2006, and 2007.

*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 to the normal catch-up provision?

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 .

*For 1979 to 1997, the lesser of 25% of pre-deferral taxable income or \$7,500*

*For 1998 to 2000, the lesser of 25% of pre-deferral taxable income or \$8,000*

*For 2001, the lesser of 25% of pre-deferral taxable income or \$8,500*

*For 2002 and after, the lesser of 100% of gross compensation\* or the amount of the normal maximum contribution limit specified on page 1*

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 Catch-Up Worksheet to determine the amount of your own unused deferral.

How do I begin to use the normal catch-up provision?

1. Complete the worksheet and declaration of normal retirement age.
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*.

\* Gross compensation must first be reduced by any mandatory pre-tax ("picked-up") employee 401 plan contributions.

**QUESTIONS?**

**For more specific information about the catch-up provisions or about ICMA Retirement Corporation, please go to our Web site, VantageLink, at [www.icmarc.org](http://www.icmarc.org) or call Investor Services at 1-800-669-7400. Para asistencia en Español llame al 1-800-669-8216.**



# CATCH-UP WORKSHEET

Use this worksheet to determine your eligibility for the normal 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 M.I.

**Employer Name** \_\_\_\_\_ **Employer Plan Number** 30

**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 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 to the normal 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 No. 2 above.





# DECLARATION OF NORMAL RETIREMENT AGE

Use this declaration in connection with the normal catch-up provision. No declaration is necessary for the Age 50 Catch-Up Provision.

<b>1</b> Participant Information	<p><b>Full Name of Participant</b></p> <p>_____</p> <p style="text-align: center;">Last <span style="margin-left: 150px;">First</span> <span style="margin-left: 150px;">MI</span></p> <p><b>Employer Name</b> _____ <b>Employer Plan Number</b> <u>30</u></p> <p><b>Permanent Address:</b> _____</p> <p>_____</p> <p><b>City</b> _____ <b>State</b> _____ <b>Zip Code</b> _____</p> <p><b>Social Security Number</b> _____ <b>Daytime Phone Number</b> _____</p> <p style="text-align: center;">( _____ ) _____ - _____</p> <p style="text-align: center;">Area Code</p> <p><b>Date of Birth</b></p> <p>____/____/____</p> <p style="text-align: center;">Month Day Year</p>
<b>2</b> Agreement Information	<p>I hereby name age _____, which I will attain in the year _____, as my Normal Retirement Age for the purpose of using the catch-up provision. I understand that:</p> <ul style="list-style-type: none"> <li>• This age immediately follows the three-year catch-up period.</li> <li>• At this age, I must be eligible to receive unreduced benefits under my employer's normal pension.</li> <li>• This election is irrevocable after I begin using the catch-up provision.</li> </ul>
<b>3</b> Signatures	<p><b>Employee Signature</b> _____ <b>Date:</b> _____</p> <p><b>Employer Signature*</b> _____ <b>Date:</b> _____</p> <p><b>* Note to Employer:</b> Signature indicates approval of the Declaration of Normal Retirement Age and the Catch-up worksheet.</p>

**Note to Employer: Please fax a copy of this signed form to ICMA-RC at 202-682-6439.**







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