Principal®

Get answers to your common questions

Q | What is a nonqualified 457(f) plan?

A | A plan designed for employers to make contributions to **recruit, retain, and reward** highly compensated employees.

Q | Who can contribute to the 457(f) plan?

A | Generally, only employers can make contributions to the 457(f) plan.

Q | Are employee deferrals permitted?

A | Technically, yes. Employees may elect to defer their own salary to a 457(f) plan. There are two important caveats here, though:

- Employee deferrals are subject to the same vesting requirements as employer contributions.
- Employers are required to contribute a match of more than 25% of any employee deferral.
- In practice, we rarely see employee deferrals in a 457(f) plan.
- The vesting date is at least two years from the date of the deferral.

Q | What's the maximum an employer can contribute to the 457(f) plan?

A | There is no annual contribution limit.

Q | Can participants change reference investment elections?

A | Yes, participants can change reference investment elections on a daily basis, if they'd like. Please note that certain reference investment options may have restrictions regarding timing and frequency of trading.

Q | Can participants take a loan from the plan?

A | No, unlike a qualified plan, loans are not allowed with deferred compensation plans.

Q | How does vesting work?

A | Vesting events can be tied to a specific age, service requirement, a combination of the two, or just a service requirement. In practice, this means that plan sponsors generally employ "cliff" vesting schedules exclusively. "Cliff" vesting is when the participant becomes fully vested at specified time rather than becoming partially vested in increasing amounts over an extended period of time.

Because 457(f) plans may allow multiple participant accounts with different triggering events, each account has its own vesting schedule. Once an account has vested, the balance in that account becomes subject to income tax, payable by the participant at that time.

Q | What taxes are owed when the account vests?

A | The vested account balance is subject to income taxes. These taxes include Federal income tax, FICA, FUTA, and if applicable, state and local income tax.

Q | How and when do participants receive distributions?

A | 457(f) plan accounts are taxable to the participant at the **time of vesting,** not when the distribution is actually made. Normally, participants will receive a lump sum distribution from the plan at vesting, since the account is taxable to them at that time.

Q | Can established vesting dates be changed?

A | Yes. Participants are allowed to delay vesting on current balances if they and their plan sponsors meet all three of the following requirements:

- Notification **requirement.** Participants must notify their plan sponsor of their desire to extend their vesting schedule at least 90 days in advance of the originally established vesting date.
- Delay **requirement.** Vesting must be extended for a period of at least two years.
- Contribution **requirement.** The plan sponsor must make an additional contribution of more than 25% of the value of the account delayed.

Q | Can distributions be rolled over onto an IRA, 401(k), or 403(b) plan?

A | No, unlike a qualified plan, rollovers are not allowed with deferred compensation plans.

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